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The Effect of Financial Performance Indicators on Stock Prices in the Banking Sector Listed on the IDX

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Abstract: *The stability of the banking sector is a crucial foundation for the resilience of the national financial system, especially in the face of global economic dynamics. This study aims to analyze the effect of Earnings Per Share (EPS), Price to Book Value (PBV), and Market Capitalization (MC) on the stock prices of banks listed on the Indonesia Stock Exchange (IDX). A quantitative approach is employed using multiple linear regression analysis, based on secondary data from financial statements and monthly stock prices of three selected banks during the period from January 2022 to December 2023. The results show that all three independent variables have a significant effect on stock prices, both simultaneously and partially. EPS and PBV have a negative influence, while MC has a positive influence. These findings indicate that while fundamental financial performance is important, market perception of a company's value and size also plays a critical role in determining stock prices. This study recommends that investors consider key financial indicators in their investment decisions and encourages bank management to maintain balanced financial performance. Future research is suggested to include macroeconomic variables such as interest rates, inflation, or monetary policy to provide a more comprehensive analysis of stock price movements in the banking sector.*

Keywords: *Earning Per Share, Market Capitalization, Multiple Linear Regression, Price To Book Value, Stock Prices*

Introduction

The stability of the banking sector is a crucial foundation for the resilience of the national financial system. In facing global uncertainties such as post-pandemic economic turbulence and pressure from global interest rates, the concept of banking sector resilience has become increasingly relevant. Banking sector resilience reflects the ability of banks to maintain operational stability, profitability, and investor confidence in fluctuating economic conditions (World Bank, 2021). One approach to assess this resilience is by examining financial performance and market responses to indicators such as Earnings Per Share (EPS), Price to Book Value (PBV), and Market Capitalization (MC).

Earnings Per Share (EPS) is a profitability indicator that represents the net profit available to each share of stock. A high EPS typically signals good financial performance and positively impacts stock prices by enhancing investor expectations about the bank's prospects (Gunawan et al., 2020). In the context of the banking sector, EPS also reflects efficiency in managing productive assets and risks.

Price to Book Value (PBV) reflects how much the market values a company's net worth compared to its book value. PBV is an important indicator for assessing the valuation

of a bank and the perceived risk from an investor's perspective. A high PBV is often associated with optimism about the bank's growth prospects, good risk management, and confidence in institutional stability (Putra & Asandimitra, 2022).

Market Capitalization (MC) represents the total value of a company's outstanding shares and indicates its scale and strength in the capital market. In the banking sector, market capitalization can reflect the market's perception of a bank's size and resilience to external pressures. Banks with large market capitalization are generally considered more stable and better able to withstand economic shocks (Oktaviani & Prasetiono, 2023).

Indonesia has an active and open banking sector, with many banks listed on the Indonesia Stock Exchange (IDX). In recent years, the movement of stock prices for large banks listed on the IDX has shown sensitivity to changes in financial indicators such as EPS, PBV, and market capitalization, which in turn reflects market confidence in the resilience of the sector (Rahmah et al., 2022).

Based on this, the aim of this research is to analyze the influence of Earnings Per Share, Price to Book Value, and Market Capitalization on stock prices of banks listed on the IDX, and to connect these findings with the level of resilience in Indonesia's banking sector in the face of global economic dynamics.

Research Method

Theoretical Framework and Research Hypothesis

a. Signaling Theory

Signaling theory suggests that financial information, such as earnings per share (EPS), is used by management to send signals to investors about the company's condition and prospects. In the banking industry, a high EPS can reflect healthy and efficient performance, which contributes to investor confidence in the stability of stock prices (Connelly et al., 2019).

b. Stock Valuation Theory

Price to Book Value (PBV) is used to assess the fair price of a stock relative to its book value. This ratio reflects how the market values a company's assets. In the banking context, PBV is used to evaluate the efficiency of asset management by the bank's management and market confidence in the bank's long-term prospects (Putra & Asandimitra, 2022).

c. Firm Size Theory

Market Capitalization reflects the size of a company in the capital market. Companies with larger market capitalization tend to have more stable investor expectations and are considered more resilient to external risks. In the banking sector, the size of the company also reflects the financial institution's resilience in facing economic pressures, which is relevant to the concept of banking sector resilience (Oktaviani & Prasetiono, 2023).

d. Research Hypothesis

Based on the theoretical framework above, the hypotheses proposed for this research are:

i. H1: Earnings Per Share (EPS) affects stock prices in the banking sector listed on the IDX.
ii. H2: Price to Book Value (PBV) affects stock prices in the banking sector listed on the IDX.
iii. H3: Market Capitalization (MC) affects stock prices in the banking sector listed on the IDX.

Research Methodology

This research adopts a quantitative method utilizing multiple linear regression analysis to investigate the impact of EPS, PBV, and MC on stock prices in the banking sector listed on the IDX. The study examines three banks chosen purposively based on their substantial market capitalization and consistent financial reporting. The data analyzed are secondary in nature, obtained from monthly stock prices and financial reports available on the official IDX platform and each bank's website. The study covers a two-year period, from January 2022 to December 2023, with monthly observations, yielding a total of 72 data points (3 banks × 24 months). EPS, PBV, and MC serve as the independent variables, while stock price is the dependent variable. The data analysis is carried out using SPSS version 26, and classical assumption tests are conducted to validate the regression model applied.

Result and Discussion

Classical Assumption Testing

a. Normality Test

The normality test was conducted using the One-Sample Kolmogorov-Smirnov method on the unstandardized residual values.

Table 1. Result of Normality Test

Residual	Sig.
Kolmogorov Smirnov Test	0.017

The test results indicate that the Sig. value stands at 0.017, which is less than the commonly accepted significance level of 0.05. This outcome implies that the residuals deviate from a normal distribution. However, according to the Central Limit Theorem, if the sample size is large enough (greater than 30), the sampling distribution of the mean will approximate a normal distribution even if the underlying population is not normally distributed (Ghasemi & Zahediasl, 2012). Since the sample size in this study is 72 data points, the regression model can still be used for further analysis. Therefore, the violation of normality in the residuals can be tolerated and does not affect the validity of the regression model.

b. Heteroscedasticity Test

The heteroscedasticity assessment was conducted using the Glejser method, in which the absolute values of the residuals (abs.res) were utilized as the dependent variable.

Table 2. Result of Heteroscedasticity Test

Model		t	Sig.
1	(Constant)	3.105	0.003
	EPS	0.823	0.414
	PBV	1.277	0.206
	MC	1.703	0.093

The output results show that the three independent variables, namely EPS, PBV, and MC have significance values of 0.414, 0.206, and 0.093. Each of these significance values exceeds 0.05, suggesting the absence of heteroscedasticity in the regression model. In other words, the variance of the residuals remains consistent, indicating homoscedasticity, so the regression coefficient estimates can be considered efficient and unbiased.

c. Multicollinearity Test

Table 3. Result of Multicollinearity Test

Variable	**VIF**
EPS	1.270
PBV	1.739
MC	1.427

The results indicate that all independent variables EPS, PBV, and MC have Variance Inflation Factor (VIF) values below 10, specifically 1.270, 1.739, and 1.427, respectively. These values fall within the acceptable threshold, suggesting that there is no indication of multicollinearity among the independent variables.

d. Multiple Linear Regression Analysis

Coefficient Determination

Table 4. Result of Coefficient of Determination

Model	R	R Square
1	0.907	0.823

A multiple linear regression analysis was conducted to examine the influence of EPS, PBV, and MC on stock prices within the banking sector listed on the IDX. The results from the Model Summary indicate that the coefficient of determination (R^2) is 0.823. This suggests that 82.3% of the changes in stock prices can be attributed to the combined effect of EPS, PBV, and MC, while the remaining 17.7% is influenced by other variables not included in the model.

Simultaneous Significance Tests (F-test)

Table 5. Result of F-test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66,242,227.32	3	22,208,075.77	105.172	0.000
	Residual	14,358,857.96	68	211,159.68		
	Total	80,983,085.28	71			

Based on the ANOVA test results, the F value is 105.172 with a significance level of 0.000 (**p < 0.05). This indicates that, simultaneously, the variables EPS, PBV, and KP have a significant effect on stock prices. Therefore, the regression model used is suitable for this research.

Partial Significance Test (t-test)

Table 6. Result of t-test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1889.773	141.654		13.341	0.000**
	EPS	-7.998	1.062	-0.433	-7.532	0.000**
	PBV	-553.438	88.542	-0.421	-6.251	0.000**
	MC	0.00003306	0.000	0.930	15.252	0.000**

The t-test results show that all three independent variables have a significant partial effect on stock prices:

a. EPS variable shows a significance level of 0.000 and a regression coefficient of -7.998, indicating that EPS has a statistically significant influence on stock prices.
b. PBV also demonstrates statistical significance with a p-value of 0.000 and a coefficient of -553.438, suggesting a notable impact on stock price movements.
c. MC presents a significance value of 0.000 and a coefficient of 0.00003306. Although the coefficient appears minimal due to the scale of market capitalization, its influence on stock prices is statistically confirmed.

Since all significance values are < 0.05, all hypotheses are accepted (significant effect).

Regression Equation

Based on the unstandardized coefficients, the obtained multiple linear regression model is as follows:

$$\text{Stock Price} = 1889.773 - 7.998(\text{EPS}) - 553.438(\text{PBV}) + 0.00003306(\text{MC})$$

This model shows that:

a. Each increase of 1 unit in EPS will decrease the stock price by 7.998 (in the corresponding units), assuming other variables remain constant.
b. Each increase of 1 unit in PBV will decrease the stock price by 553.438.
c. Each increase of 1 unit in market capitalization will increase the stock price by 0.00003306.

Discussion

a. Earnings Per Share (EPS) Affects Stock Prices

The study results show that EPS significantly affects stock prices, although the direction of the coefficient is negative. This indicates that changes in EPS in this context are followed by opposite changes in stock prices, which may occur if investors perceive factors such as risk or uncertainty in the reported earnings.This finding is supported by signaling theory, where EPS is used as a financial performance indicator to signal to investors about the company's condition (Connelly et al., 2019). When EPS increases or decreases, investors adjust their perception of the fair value of the stock. Empirically, research by Gunawan, Effendi, & Santosa (2020) also shows that EPS significantly affects stock prices in the banking industry. Rahmah, Yuliana, & Kurniawan (2022) reinforce this by stating that EPS is one of the most important financial ratios for investors when making investment decisions.

b. Price to Book Value (PBV) Affects Stock Prices

PBV was also found to have a significant effect on stock prices, with a negative coefficient direction. This suggests that when PBV increases excessively, the market may perceive the stock as overvalued, reducing investor interest. According to fundamental valuation theory, PBV reflects market perception of a company's book value. A high PBV may signal excessive market expectations, and in some cases, may reduce stock appeal (Brigham & Houston, 2019). Research by Putra & Asandimitra (2022) shows that PBV affects stock prices of banks in Indonesia. They note that investors use PBV as an evaluation tool to assess whether the stock price is reasonable relative to the book value per share.

c. Market Capitalization (MC) Affects Stock Prices

Market capitalization significantly affects stock prices in a positive direction. This aligns with the expectation that the larger the market value of a bank, the stronger the investor perception of the bank's stability and resilience. In the context of banking sector resilience, banks with large market capitalization are typically more resilient to external shocks, as they are considered to have more diversified assets and a stronger capital structure (World Bank, 2021). Research by Oktaviani & Prasetiono (2023) supports this by stating that market capitalization is an indicator of a company's strength in the eyes of investors and has a significant effect on stock prices in the banking sector.

Conclusion

This research aims to examine the influence of Earnings Per Share (EPS), Price to Book Value (PBV), and Market Capitalization (MC) on the stock prices of selected banks listed on the Indonesia Stock Exchange during the 2022–2023 timeframe. The regression analysis indicates that the three independent variables collectively have a significant impact on stock prices. Individually, each variable also exerts a significant effect, with EPS and PBV showing a negative relationship and MC demonstrating a positive one. These findings

highlight that both company fundamentals and market size continue to play a crucial role for investors in evaluating the stability of the banking sector, particularly in the context of evolving macroeconomic conditions.

Recommendations

For investors, the results of this study can serve as a reference in considering EPS, PBV, and market capitalization before making investment decisions in banking stocks. For banking management, it is crucial to maintain balanced fundamental performance to uphold a healthy market perception of the company's stock. Future researchers are encouraged to add macroeconomic variables such as interest rates, inflation, or monetary policies to gain a more comprehensive view.

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