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Research Article

The Effect of Return on Asset, Return on Equity, and Net Profit Margin on the Stock Prices of Banking Companies

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Abstract: The COVID-19 pandemic has increased public interest in investing, especially in the banking sector, which is known for its stability. However, many investors still lack an understanding of fundamental analysis. This study aims to examine the effect of Return on Asset (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) on stock prices of banking companies listed on the Indonesia Stock Exchange during the 2011–2023 period. The research used a quantitative approach with purposive sampling and multiple linear regression analysis using SPSS. The results show that ROA has no significant effect on stock prices. In contrast, ROE has a significant negative effect, while NPM has a significant positive effect on stock prices. These findings indicate that investors tend to consider net profit margins more than asset efficiency, and that high ROE may be perceived as a signal of high leverage risk. This research is expected to provide insights for investors in assessing banking performance before making investment decisions.

Keywords: Banking Industry; NPM; ROA; ROE; Stock Prices

1. Introduction

The economic uncertainty during the Covid-19 pandemic has made people more aware of the importance of investing as a way to generate additional income through passive income streams. Based on data from the Single Investor Identification (SID), the number of capital market investors in 2021 experienced a significant increase of 93.74%, rising from 3.9 million to 7.5 million investors (BEI). As of August 2024, the trend of increasing investor numbers has continued. Approximately 1.49 million new investors have been added, with 671 thousand of them being stock investors. Consequently, the total number of stock investors has reached 5.92 million people, while the remaining investors are spread across other investment instruments such as bonds, mutual funds, and government securities (BEI)

According to Donald C. (SBM ITB, 2021), "Since 2020, the number of stock investors in Indonesia has increased by more than 50 percent. However, the growth in the number of investors has not been accompanied by an increase in the public's understanding of investment." Many new investors, particularly millennials often referred to as "corona investors" still lack a basic understanding of the capital market, putting them at risk of financial losses due to insufficient knowledge (SBM ITB, 2021). Virmalasari (SBM ITB, 2021) adds, "Profit or loss does not lie in the hands of securities companies but in the fingers of the investors themselves. Investors are responsible for deciding whether to buy, hold, or sell their shares.

In investing, it is essential to have a strong foundational understanding of the types of investments and how to choose them wisely in other words, the ability to analyze. The most common methods used to analyze stock selection are fundamental analysis and technical analysis. Fundamental analysis involves using financial ratios to assess a company's financial statements and evaluate its overall condition. On the other hand, technical analysis examines patterns formed by prices movements over a certain period.

Fundamental analysis is used as a financial indicator to assess a company's performance, with key indicators including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Through these indicators, prospective investors are expected to invest their money in well-performing companies, thereby achieving their investment goals.

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The banking sector is an example of a sector with strong growth and large market capitalization, particularly banks such as BRI, BCA, Bank Mandiri, and BNI. This growth reflects the solid performance of these companies.

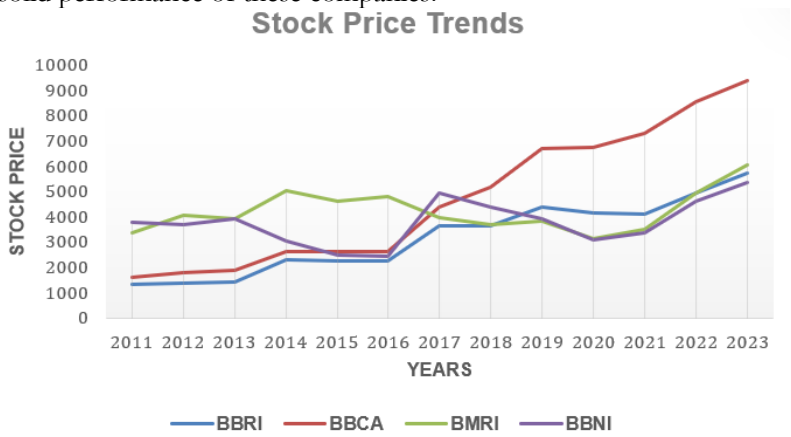

Figure 1. Stock Prices Trends
Source: Company Financial Reports

Based on the data above, it can be seen that companies in the banking sector have demonstrated strong growth despite fluctuations in stock prices. This indicates that these companies are capable of overcoming changes and challenges, both at the national and global levels.

Therefore, it is necessary to conduct research on the factors that influence stock prices in the banking sector. This study focuses on examining the influence of Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) on the stock prices of companies in the banking sector.

Marbun & Yunior (2024) explain that Return on Assets (ROA) measures the efficiency of asset utilization in generating net income. The higher the ratio, the more efficiently a company earns income from its assets. As this ratio increases, the company's ability to convert its assets into income also improves. ROA reflects a company's ability to earn net profit by leveraging its assets. A higher ROA indicates a greater level of profitability, which reflects both the company's efficiency in utilizing its assets and its ability to provide returns to shareholders. A high ROA demonstrates the company's ability to deliver better returns to investors.

Research conducted by Marten et al. (2024), Putri et al. (2022), Sari (2021) and Marbun & Yunior (2024) shows that Return on Assets has a significant influence on stock prices. However, contradictory results were found in the study by (Muzakki et al., 2023).

Return on Equity (ROE) measures a company's effectiveness in generating profit from each unit of equity invested by shareholders (Oktoriza & Puspitasari, n.d.). A higher ROE indicates that the company has greater potential for growth and is more effective in generating profit.

This statement is supported by the findings of Aprilia et al. (2023), Laulita & Yanni (2022), and Dewi et al. (2024), which show that Return on Equity has an influence on stock prices. However, contrary results were found in studies by Putri et al. (2022), Sari (2021), Muzakki et al. (2023), and Rusmana & Yuliani (2024), which indicate no significant influence.

Net Profit Margin (NPM) is a ratio used to measure a company's profit by comparing earnings after tax to revenue (Puspitasari & Oktoriza, 2023). A high NPM indicates the company's efficiency and profitability in generating net income. (Fatah Nur Abdul Aziz et al., 2024) further explain that a high NPM reflects management's efficiency and effectiveness in managing costs, providing an overall picture of sound financial performance.

This view is supported by research from Fransisca & Suselo (2022), Laulita & Yanni (2022), Aprilia et al. (2023), and Rasyid & Munawar (2024), which found that Net Profit Margin has a significant influence on stock prices. However, opposing results were reported by Marbun & Yunior (2024), Nurrahman et al. (2024), and Rusmana & Yuliani (2024) who stated that Net Profit Margin does not have a significant impact on stock prices.

Based on the phenomena identified, this study focuses on banking sector companies listed on the Indonesia Stock Exchange that have published financial reports from 2011 to 2023 and had a market capitalization of over 100 trillion rupiah in 2024. These companies were selected because they have successfully navigated various national and international challenges.

Furthermore, previous research on this topic has shown inconsistent results. Therefore, the research problem and objective of this study are to determine whether Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) have a significant effect on stock prices.

This study is expected to provide insights into the factors that influence stock prices in the banking sector, which can serve as valuable considerations for investors when making investment decisions in the capital market. Hence, this research is titled: "The Influence of ROA, ROE, and NPM on the Stock Prices of Banking Companies."

This study differs from previous research because it focuses on the most stable and prominent sector in the Indonesian capital market, namely the banking sector. In addition, the selection of four banks with the largest market capitalization provides a more reliable picture of fundamental performance. Since these companies dominate the market, their stock prices are less prone to speculative trading or "prices manipulation," which strengthens the validity of the fundamental indicators in influencing stock prices.

2. Literature Review

Signalling Theory

Signaling theory according to Spence (1973) explains how parties with more information give signals to reduce uncertainty caused by information asymmetry. Beaver (1968) also explains that financial reports, especially earnings, can be important signals because they contain information that affects investor decisions.

When financial ratios show strong performance, investors may interpret this as a positive signal, encouraging them to buy shares. Conversely, weak financial ratios are perceived as negative signals (Aryanti et al., 2022). In line with this, Laulita & Yanni (2022)emphasize that strong and positive signals can enhance market confidence and drive stock prices upward, while negative signals may reduce investment interest and lead to a decline in stock prices.

Stock Prices

Stock prices refers to the value formed through the interaction of supply and demand in the capital market. According to Agung & Suarjaya (2024), stock prices tend to increase when a company's profitability is in good condition, leading to higher demand from investors. In this study, stock prices is measured using the closing prices of banking sector shares listed on the Indonesia Stock Exchange (IDX).

Return on Assets (ROA)

Return on Assets (ROA) is used to measure the level of efficiency in utilizing a company's assets to generate profit. The higher the ROA, the more efficiently the company is using its assets (Aryanti et al., 2022).

$$\text{ROA} = \frac{Net\ Income}{Total\ Assets}$$

Return on Equity (ROE)

According to Aryanti et al. (2022), Return on Equity (ROE) is used to measure how efficiently a company utilizes shareholders' equity to generate profit.

$$\text{ROE} = \frac{Net\ Income}{Shareholder's\ Equity}$$

Net Profit Margin (NPM)

Net Profit Margin (NPM) is a ratio that measures the net profit generated from each sale made by the company. NPM reflects the company's efficiency in managing its overall expenses and operational costs. The higher the NPM, the greater the net profit earned from every rupiah of sales (Laulita & Yanni, 2022).

$$\text{NPM} = \frac{Net\ Income}{Net\ Sales}$$

Conceptual Framework

Based on previous research and relevant theories, the relationship between the independent variables and the dependent variable can be formulated as follows:

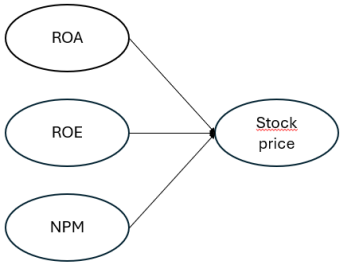

Figure 2. Conceptual Framework
Source: Researcher

Hypothesis Development

Return on Assets (ROA) is a profitability ratio used to measure the amount of profit generated by a company through the utilization of its assets. ROA is expected to influence changes in stock prices because when ROA is high, the potential for dividend income increases. This, in turn, attracts investors to invest their funds, which leads to a rise in stock prices. Conversely, when ROA is low, the potential dividends will be smaller, reducing investor interest and ultimately causing stock prices to decline. This is consistent with the findings of Marten et al. (2024), Sari (2021), and Marbun & Yunior (2024). H1: Return on Assets (X1) has a significant influence on stock prices (Y).

Return on Equity (ROE) is a profitability ratio used to measure the efficiency of a company in generating net profit from its equity. A higher ROE indicates that the company is highly effective in generating net income from the utilization of its shareholders' equity. As a result, this increases the likelihood of higher dividend payments, attracting investor interest and ultimately leading to an increase in the company's stock prices.

Conversely, a lower ROE indicates that the company is inefficient in generating net profit from its equity, which negatively impacts investor interest and may result in a decline in stock prices. This explanation is supported by the findings of Aprilia et al. (2023), Laulita & Yanni (2022), and Dewi et al. (2024), which show similar results. H2: Return on Equity (X2) has a significant influence on stock prices (Y).

Net Profit Margin (NPM) is a profitability ratio used to measure the company's efficiency in generating net profit from its total revenue. A higher NPM indicates that the company is more effective in controlling costs and maximizing profit from each unit of sales. This higher level of profitability increases the likelihood of greater dividend distribution, attracting investor interest and ultimately leading to a rise in stock prices.

Conversely, a low NPM suggests that the company is less efficient in managing its costs and generating profit, reducing investor interest and potentially leading to a decline in stock prices. This is in line with the findings of Fransisca & Suselo (2022) and Rasyid & Munawar (2024), which support this relationship. H3: Net Profit Margin (X3) has a significant influence on stock prices (Y).

3. Research Method

This study uses secondary data consisting of company financial statements and stock closing prices data. Data were collected using the documentation method, where the researcher gathered and downloaded data from the official website www.idx.co.id and the respective company websites.

This research focuses on banking sector companies listed on the Indonesia Stock Exchange (IDX) within the period from 2011 to 2023. The sampling technique applied in this study is purposive sampling. purposive sampling is used to select respondents or cases that are most likely to provide appropriate and useful information, so that the chosen sample better fits the research objectives and enhances the credibility and dependability of the findings (Campbell et al., 2020).

Table 1. Research Sampling Criteria

No.	Research Criteria	Number of Companies
1	Banking companies that conducted an IPO starting from 2010	31
2	Banking sector companies with a market capitalization exceeding IDR 100 trillion as of 2023.	4
	Final Sample	4

Source: Researcher

The sample consists of four banks with the largest market capitalization in Indonesia. These banks were chosen because they not only dominate the sector, but also represent companies with strong fundamentals that have consistently operated for a long time. Outside of these four banks, the gap in market capitalization and operational maturity is very wide, making them less comparable. Therefore, the selected sample is considered representative of the fundamental performance of the Indonesian banking sector and even of the broader capital market. However, this limitation also means that the findings cannot be generalized to all banks or other industries.

In this study, the data will be processed and analyzed using IBM SPSS Statistics 27 with various analytical tools. These tools include descriptive statistical analysis, classical assumption tests (normality test using the Kolmogorov-Smirnov method, with the Monte Carlo method as an alternative option), multicollinearity test, heteroscedasticity test, and autocorrelation test. Furthermore, multiple linear regression analysis, F-test, t-test, and the coefficient of determination test will be conducted. This multiple regression analysis aims to identify whether the independent variables have a significant influence on the dependent variable.

$Y = a + \beta1X1 + \beta2X2 + \beta3X3 + e$

Notes:

Y = Stock prices

α = Constant value

β1, β2, β3 = Regression coefficient of X1, X2, X3

X1, X2, X3= ROA, ROE dan NPM

4. Results and Discussion

Table 2. Descriptive Statistics Results

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROA	52	,39	8,64	2,5348	1,33954
ROE	52	2,94	67,37	17,9813	9,22750
NPM	52	5,91	61,27	34,9912	9,62426
Stock Prices	52	1350	9400	3989,25	1715,341
Valid N (listwise)			52		

Source: Researcher

The mean value of the ROA variable is 2.5348 with a standard deviation of 1.33954, indicating that the average ROA of banking companies is 2.53%, with the data distribution concentrated around the mean. In addition, the test results show that the minimum ROA value is 0.39% and the maximum is 8.64%.

The mean value of the ROE variable is 17.9813 with a standard deviation of 9.22750, indicating that the average ROE of banking companies is 17.98%, with the data distribution concentrated around the mean. Furthermore, the test results show that the minimum ROE value is 2.94% and the maximum is 67.37%.

The mean value of the NPM variable is 34.9912 with a standard deviation of 9.62426, indicating that the average NPM of banking companies is 34.99%, with the data distribution concentrated around the mean. Additionally, the test results show that the minimum NPM value is 5.91% and the maximum is 61.27%.

The mean value of the stock prices variable is 3989.25 with a standard deviation of 1715.341, indicating that the average stock prices of banking companies is 3989.25 IDR, with the data distribution centered around the mean. Moreover, the test results show that the minimum stock prices is 1350 IDR and the maximum is 9400 IDR.

Classical Assumption Test

Table 3. Test of Normality

				N
Normal Parameters[a,b]	Mean			,0000000
	Std. Deviation			1433,495342 51
Most Extreme Differences	Absolute			,098
	Positive			,098
	Negative			-,076
Test Statistic				,098
Asymp. Sig. (2-tailed)[c]				,200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.			,238
	99% Confidence Interval		Lower Bound	,227
			Upper Bound	,249

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 624387341

Source: Researcher

Based on the results of the normality test using the Kolmogorov-Smirnov method in Table 3 above, the Asymp. Sig value was 0.002 < 0.05, indicating that the data did not conform to the characteristics of a normal distribution. Therefore, this study applied an alternative option, namely the Monte Carlo method. After conducting the test, the Monte Carlo Sig. value was 0.133 > 0.05, indicating that the data can be categorized as normally distributed.

Table 4. Multicollinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	ROE	,325	3,080
	ROE	,328	3,051
	NPM	,972	1,028

a. Dependent Variable: Stock prices

Source: Researcher

Based on the results of the multicollinearity test (Table 4), all independent variables (ROA, ROE, and NPM) have Tolerance values greater than 0.10 and VIF values less than 10. Therefore, it can be concluded that the regression model does not exhibit any indication of multicollinearity.

Table 5. Heteroscedasticity Test (Glejser)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	346,542	222,233		1,559	,125
	ROA	-77,957	71,910	-,270	-1,084	,284
	ROE	6,229	10,390	,148	,600	,552
	NPM	4,643	5,784	,115	,803	,426

a. Dependent Variable: Abs_Res

Source: Researcher

Based on the results of the heteroskedasticity test using the Glejser method (Table 5), the significance values of all independent variables are greater than 0.05. Therefore, it can be concluded that the regression model does not suffer from heteroskedasticity.

Table 6. Autocorrelation Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,000[a]	,000	-,062	10367,9215300	1,560

a. Predictors: (Constant), NPM, ROE, ROA

b. Dependent Variable: Unstandardized Residual

Source: Researcher

Based on the results of the autocorrelation test using the Durbin-Watson (DW) method, the DW value obtained is 1.560. The criterion for the absence of autocorrelation is satisfied if dU < DW < 4 – dU, namely 1.439 < 1.560 < 1.6796. Therefore, it can be concluded that the regression model does not exhibit autocorrelation.

Table 7. Multiple Linear Regression

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3215,916	837,698		3,839	,000
	ROA	407,198	271,060	,318	1,502	,140
	ROE	-128,822	39,166	-,693	-3,289	,002
	NPM	58,802	21,801	,330	2,697	,010

a. Dependent Variable: Stock prices

Source: Researcher

Based on the results of the heteroskedasticity test using the Glejser method (Table 5), the significance values of all independent variables are greater than 0.05. Therefore, it can be concluded that the regression model does not suffer from heteroskedasticity.

$Y = 3215,916 + 407,198X_1 - 128,822X_2 + 58,802X_3$

Notes:

X1 = Return on Assets (ROA)

X2 = Return on Equity (ROE)

X3 = Net Profit Margin (NPM)

Y = Stock Prices

Based on the results of the multiple linear regression analysis presented in Table 7, the following interpretations can be made:

a. The constant (α) is 3215.916, indicating that if all independent variables (ROA, ROE, and NPM) are equal to zero, the dependent variable (stock prices) will be 3215.916.
b. The regression coefficient of Return on Assets (ROA) is 407.198, meaning that a 1% increase in ROA will increase the stock prices by 407.198, assuming the other independent variables remain constant.
c. The regression coefficient of Return on Equity (ROE) is –128.822, meaning that a 1% increase in ROE will decrease the stock prices by 128.822, assuming the other independent variables remain constant.
d. The regression coefficient of Net Profit Margin (NPM) is 58.802, meaning that a 1% increase in NPM will increase the stock prices by 58.802, assuming the other independent variables remain constant.

Coefficient of Determination Test (R^2)

Table 8. Coefficient of Determination Test

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	,549[a]	,302	,258	1477,613

a. Predictors: (Constant), NPM, ROE, ROA

Based on the results of the R^2 test, the adjusted R-squared value is 0.258. This indicates that approximately 25.8% of the variation in stock prices can be jointly explained by the independent variables (ROA, ROE, and NPM). Meanwhile, the remaining 74.2% is influenced by other factors that are not included in this research model.

F-test (Model Feasibility Test)

Table 9. F-test

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	45261770,003	3	15087256,668	6,910	,001[b]
	Residual	104800353,747	48	2183340,703		
	Total	150062123,750	51			

a. Dependent Variable: Stock prices
b. Predictors: (Constant), NPM, ROE, ROA

Based on the results of the F-test in Table 9, the significance value is 0.001 < 0.05. This indicates that the regression model is appropriate to be used in predicting stock prices, as there is a significant simultaneous influence of the independent variables (ROA, ROE, and NPM) on the dependent variable (stock prices).

T-test

Table 10. T-test

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	3215,916	837,698		3,839	,000
	ROA	407,198	271,060	,318	1,502	,140
	ROE	-128,822	39,166	-,693	-3,289	,002
	NPM	58,802	21,801	,330	2,697	,010

a. Dependent Variable: Stock prices

Based on the results of the t-test in Table 10, the significance values for each variable are as follows:

a. The variable Return on Assets (ROA/X1) has a significance value of 0.140 > 0.05. Therefore, H_1 is rejected and H_0 is accepted, indicating that ROA has no significant effect on stock prices.
b. The variable Return on Equity (ROE/X2) has a significance value of 0.002 < 0.05. Therefore, H_2 is accepted, indicating that ROE has a significant effect on stock prices.
c. The variable Net Profit Margin (NPM/X3) has a significance value of 0.010 < 0.05. Therefore, H_3 is accepted, indicating that NPM has a significant effect on stock prices.

The first hypothesis in this study examines the effect of Return on Assets (ROA) on stock prices. The t-test results show that ROA has no significant effect on stock prices (sig. 0.140 > 0.05), even though the regression coefficient is positive (407.198). This indicates that, although mathematically an increase in ROA tends to increase stock prices, the relationship is not statistically significant. This is consistent with the studies of (Ismaya Putri et al., 2022) and (Muzakki et al., 2023), which also found that ROA is not always the main indicator in determining stock prices, especially in the banking sector. This insignificance may be due to investors' perceptions that focus more on market indicators such as EPS rather than asset efficiency. This also reinforces the view of (Laulita & Yanni, 2022) that although profitability

is important, external factors such as market sentiment and macroeconomic conditions also influence stock prices. Another possible explanation is that the banking sector relies heavily on leverage and financial intermediation, so asset-based efficiency ratios such as ROA may not fully capture the drivers of stock prices. Investors may consider that profitability in banks is more strongly reflected through equity returns and net margins rather than through asset utilization.

The second hypothesis, the t-test results show that ROE has a significant negative effect on stock prices (sig. 0.002 < 0.05) with a regression coefficient of –128.822. In many industries, a high ROE is considered a positive signal of efficiency; however, in the banking sector, equity is not the primary source of funds. Banks rely more on third-party funds (deposits) and asset utilization to generate income. When ROE becomes excessively high, it may indicate that the bank depends too heavily on shareholders' equity to finance operations. Investors can interpret this as a sign of higher risk and weaker efficiency, because a sound bank is expected to maximize asset management rather than rely mainly on equity. As a result, the market reacts negatively to increases in ROE, which explains the negative relationship found in this study.

The third hypothesis, the t-test results show that NPM has a significant positive effect on stock prices (sig. 0.010 < 0.05) with a regression coefficient of 58.802. This means that an increase in NPM is associated with a higher stock prices, showing that investors value operational efficiency and profitability after expenses. This is consistent with the findings of (Dwi Fransisca & Suselo, 2022) as well as (Salman Rasyid & Munawar, 2024), who emphasized that net profit margin is an indicator that reflects operational efficiency and the company's ability to generate profit after all expenses.

5. Conclusion

The COVID-19 pandemic became a turning point that encouraged Indonesian society to become more aware of the importance of investment. Many people began to seek instruments that could preserve wealth and provide growth potential, especially after experiencing economic fluctuations during the crisis. Along with this trend, financial influencers such as Raymond Chin, Felicia Putri Tjiasaka, Ryan Filbert, and Yuda Keling played a major role in increasing public interest in stock investment, particularly among the younger generation through social media.

However, this enthusiasm has not always been accompanied by an improvement in financial literacy. Many novice investors entered the capital market with a get-rich-quick mindset through trading, rather than adopting a long-term strategy based on analysis. In fact, banking sector stocks, which have large market capitalization and have proven resilient in weathering economic crises, should be viewed as rational long-term investment options grounded in fundamental analysis.

This study was conducted to examine the effect of ROA, ROE, and NPM on stock prices in the banking sector. The results show that ROA has no significant effect, while ROE and NPM have significant effects on stock prices. This implies that investors are more responsive to net profit compared to asset efficiency and may perceive high ROE as an indication of riskier leverage.

This study has the advantage of focusing on large-cap companies that are relatively less prone to prices manipulation. However, it is limited to a small sample size and only the banking sector, with the model contributing 25.8%. Therefore, future studies are recommended to include additional variables such as EPS, DER, dividends, as well as external factors such as interest rates or the IHSG, and to broaden the sample to other sectors in order to obtain more comprehensive results.

For investors, the findings of this study are expected to serve as a consideration when selecting banking stocks that align with long-term investment objectives. It is important for investors to rely on financial data as the basis for decision-making rather than merely following trends or public opinion, in order to minimize risks and maximize investment outcomes.

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