CHAPTER II

LITERATURE REVIEW

2.1. Theoretical framework

2.1.1. Fundamental analysis

Fundamental analysis has a strong correlation with what is inside the company. From the company's performance until company's management. fundamental analysis combines economic, industry, and company analysis to derive a stock's fair value called intrinsic value (Suresh, 2013).

2.1.2. Financial Ratio

Financial ratio is the tool of financial analysis to have a better and simpler understanding of the company's current financial performance. It studies various financial factors in business to seek the value of a company and the purpose it after (Babalola & Abiola, 2013).

2.1.3. Return on Asset

Return On Asset is the ratio that analyze how effective a company can turn its asset into a return/earning. The ratio shows how big the asset contribution in creating net income. According to (Subramanyam & Wild, 2010), Return on asset can be calculated by dividing the NOPAT with average asset (if the research is done by only short 2-3 years). More than that, using the total asset.

2.1.4. Return On Equity

Return on Equity is the ratio that analyze how effective a company can convert its equity into a return. It affected the company intrinsic value directly, therefore used by the investors to analyze company's stock price. ROE (Return On Equity) can be calculated by dividing the net income with total equity (Daniswara & Daryanto, 2020).

2.1.5. Debt to Equity Ratio

Debt to Equity is one measure of the leverage ratio that can be defined as the level of use of debt as a source of corporate financing (Utami & Darmawan, 2019). The lower the DER (Debt to Equity Ratio) is, the better a company at paying a long-term debt.

2.1.5. Price to Earning Ratio

Price to earning ratio is the ratio that divides the company stock price with the earning per share. A company with a low PER (Price Earning Ratio), indicate a cheap stock price therefore it is ok to be bought. Meanwhile a higher

PER could be the result of the declining company's average income. (Aji, 2012).

2.1.5. Price to Book Value

Price to book value can be found by dividing the stock price and the book value each share. With this ratio, investors can understand how many times market value of a stock are valued from its book value. It can also give the picture of stock movement potential (Daniswara & Daryanto, 2020). PBV (Price to Book Value is calculated by dividing the stock price with the book value.

2.2. Previous Studies

Table 2. 1. Previous Study

Author	Article Title	Variable	Analysis Tool	Conclusion
(Daniswara & Daryanto, 2020)	Earning Per Share (EPS), Price Book Value (PBV), Return on Asset (ROA), Return On Equity (ROE), And Indeks Harga Saham Gabungan (IHSG) Effect on Stock Return	1. Earning Yield (EY) 2. Price Book Value (PBV) 3. Return on Asset (ROA) 4. Return on Equity (ROE) 5. Market Return 6. Stock Return	Multiple Linear Regression	Earning Yield (EY), Price Book Value (PBV) and Market Return have a positive significant effect on stock return, while Return on Asset has a negative significant effect on stock return, and Return on Equity (ROE) is excluded from the model since it has multicollinearity problem with ROA.

(Utami & Darmawan, 2019)	Effect of DER, ROA, ROE, EPS and MVA on Stock Prices in Sharia Indonesian Stock Index	1. Earning Per Share (EPS) 2. Market Value 3. Debt to Equity Ratio (DER) 4. Return on Asset (ROA) 5. Return on Equity (ROE) 6. Stock price	Descriptive Statistic and t statistical test.	Earning per share and market value added have a positive effect on stock prices, but different results for the variables debt to equity ratio, return on assets and return on equity partially have no effect on stock prices.
(Idawati & Wahyudi, 2015)	Effect of Earning Per Shares (EPS) and Return On Assets (ROA) against Share Price on Coal Mining Company Listed in Indonesia Stock Exchange	1. Earning per Share (EPS) 2. Return on Asset (ROA) 3. Share Price	Descriptive study and regression	EPS Partially have significant effect on stock prices while ROA partially no significant effect on stock prices on the coal mining company listed on the Indonesia Stock Exchange.

(Hadi & Nurhayati, 2018)	Analysis of the effect of Net Profit Margin, Return on Assets and Return on Equity on Stock Price.	1. Net Profit Margin 2. Return on Asset 3. Return on Equity	Descriptive method and multiple regression analysis	It resulted that partially Net Profit Margin (NPM and Return on Asset (ROA) do not affect the stock price, while Return on Equity (ROE) affect the stock price.
(Kamar, 2017)	Analysis of the Effect of Return on Equity (Roe) and Debt to Equity Ratio (Der) On Stock Price on Cement Industry Listed In Indonesia Stock Exchange (Idx) In the Year of 2011-2015	1. Return on Equity 2. Debt to Equity Ratio 3. Stock price	Linear Regression	The Study conclude that the Return on Equity has a significant effect on stock price while Debt to Equity Ratio has effect but nothing significant on the stock price.

(Pražák & Stavárek, 2017)	The Effect of Financial Ratios on the Stock Price Development	1. Debt to Equity Ratio 2. Liquidity Ratio 3. Financial Leverage Ratio 4. Return on Equity Ratio 5. Return on Investment Ratio 6. Stock price	Generalized Methods of Moment	The study resulted in the negative significant effect of Liquidity ratio on stock price, while the debt to equity ratio, ROE and ROI whose effect on stock price wasn't clear.
(Sukmawati & Garsela, 2016)	The Effect of Return on Assets and Return on Equity to the Stock Price	1. Return on Asset 2. Return on Equity 3. Stock Price	Descriptive-quantitative analysis and Multiple Linear Regression	Both Return on Asset and Return on Equity has an effect on stock price, when ROA increases, the stock price tend to rise, while ROE increases, the resulting share price decline.

(Manoppo, 2015)	The Influence of ROA, ROE, ROS, and EPS on Stock Price	1. ROA 2. ROE 3. ROS 4. EPS 5. Stock Price	Multiple Linear	The research shows that ROA, ROE, ROS, and EPS have significant influence on Stock Price, simultaneously and partially
(Mogonta & Pandowo, 2016)	Analyzing the Effect of Return on Assets, Return on Equity and Earning Per Share on Market Share Price : A Study of LQ-45 Mining Companies Listed on Indonesia Stock Exchange	1. Return on Asset 2. Return on Equity 3. Earning Per Share 4. Market Share Price	Multiple Regression Analysis	This study found that the ROA, ROE and EPS simultaneously have positive significant effect on Market Share Price. While partially, ROA has positive significant effect on market share price, ROE has negative effect on market share price and EPS does not have significant effect on

				market share price. Investors should use ROA as the financial performance indicator since it shows a significant effect on stock price
(Talamati & Pangemanan, 2015)	The effect of Earning Per Share (EPS) & Return on Equity (ROE) on Stock Price of Banking Company Listed in Indonesia Stock Exchange (IDX) 2010-2014	1. Earning Per Share 2. Return on Equity 3. Stock Price	Multiple Regression Analysis	The study found that simultaneously, EPS and ROE affect the stock price. Partially, EPS has a significant effect on stock price while ROE does not have an effect on the stock price.

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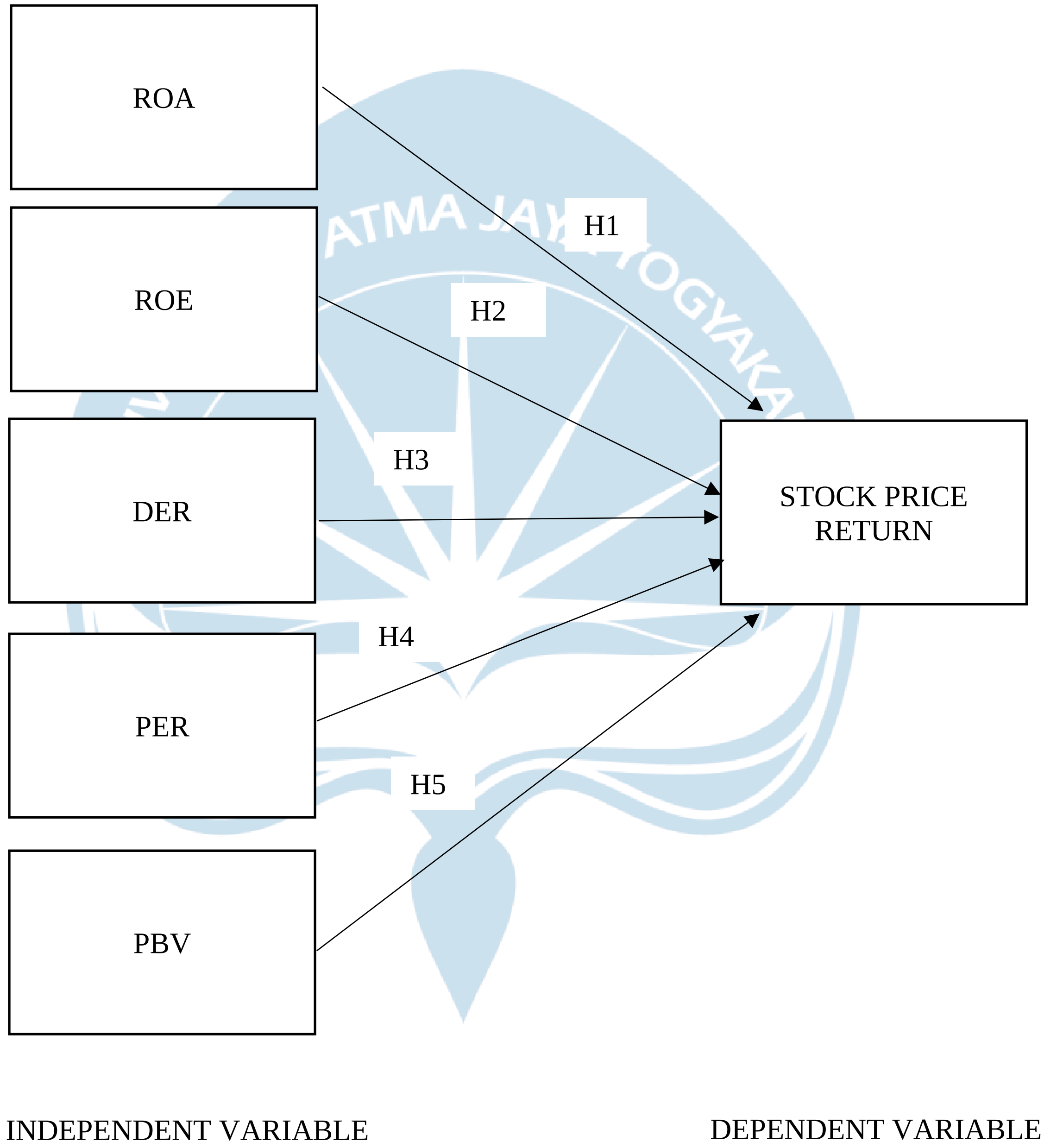
2.3. Research Model

Figure 2. 1. Research Model Framework



2.4. Hypothesis

Based on the objective of the research that was mentioned above, hence the hypothesis:

2.4.1. The effect of Return on Asset towards the return of stock price

Return on Asset (ROA) could be defined as a tool to analyze or measure the efficiency of business and profitability of a company (Daniswara & Daryanto, 2020). With the formula defined as Net income added with interest expense, times 1 minus tax rate, divided by total asset (Subramanyam & Wild, 2010). The use of Return on Asset (ROA) is to measure the company's effectiveness on turning their asset into the income. The Return on Asset is also included as the ratio analysis that can be used to help analyzing the company's financial statement (Manoppo, 2015).

H1: The Return on Asset has an effect on the return of stock price in LQ-45 stock index.

2.4.2. The effect of Return on Equity towards the return of stock price

Return on Equity or can be shortened as ROE, is the tool to measure the return on shareholders in the company (Daniswara & Daryanto, 2020). In the research by Daniswara and Daryanto in 2020, it was also stated that the return on equity has become one of the ratios that is used to analyze company's intrinsic value since it has a direct affect to it. In the recent study by (Manoppo, 2015), it was stated that the higher the ROE, the higher the stock price is going to be since it attracts investor, thus the hypothesis.

H2: The Return on Equity has an effect on the return of stock price in LQ-45 stock index.

2.4.3. The effect of Debt to Equity Ratio towards the return of stock price

The Debt to Equity Ratio (DER) is a ratio that expresses the relationship between debt and the equity, computed also by dividing total liability with total equity (Babalola & Abiola, 2013). It measures the company's risk of financial position. Higher ratio of DER indicates risky financial position while the lower ratio indicates more safety financial position of the company, thus used by the analyst to assess company's financial position.

H3: The Debt to Earning Ratio has an effect on the return of stock price in LQ-45 stock index.

2.4.4. The effect of Price to Earning Ratio towards the return of stock price

Price to Earning Ratio (PER) is a ratio that measures the price with the earning ratio hence the formula defined as price divided by earning per share. In the previous study by (Aji, 2012), generally speaking, a company with the low PER, indicates it's low stock price that is worth to buy. It was also stated that PER could easily help investors to analyze and judge the company's stock price.

H4: The Price to Earning Ratio has an effect on the return of stock price in LQ-45 stock index.

2.4.5. The effect of Price to Book Value towards the return of stock price

With the Price to Book Value, it can give a picture of stock movement potential, it can helps investor to understand how many times market value of a stock valued from its book value (Daniswara & Daryanto, 2020). When the PBV of a company is lower than the actual market price, it shows how much the company should be valued by its market. It can be calculated by dividing the market price with the book value. As it can helps the investor, thus the hypothesis.

H5: The Price to Book Value has an effect on the return of stock price in LQ-45 stock index.