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# Profitability and Leverage: Key Drivers of Share Prices in Indonesia's Textile and Garment Industry

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**Abstract.** *This study aims to determine whether profits and leverage influence the share prices of textile companies listed on the Indonesia Stock Exchange. The aim of this research is to determine the combined effect of profitability (EPS and ROE) and leverage (DAR and DER) on the share prices of textile companies listed on the Indonesia Stock Exchange. The type of research used is quantitative. This research uses secondary data, secondary data obtained from the official BEI website (www.idx.co.id). The method used in collecting research data is the documentation method. This research uses data analysis in this research, namely quantitative analysis. The analytical tools used are classical hypothesis test (partial) with a significance level of 5%. The research results produced a multiple regression Y=4.066 + 0.463Xi - 0.216X2 + 4.657 DER)Xe on stock prices. The results of the partial t test show that there is a significant influence between share price profitability (EPS and ROE) and there is no significant influence between share price leverage (DAR and DER) in textile subsector companies. Companies operating in the textile sector.*

**Keywords:** *EPS, ROE, DAR, DER, Share Price*

## 1. Introduction

With economic development currently increasingly rapid, investment has become an option to gain profits in the future. Investment is a commitment to spend a certain amount of money or other resources at a certain time with the aim of receiving a profit in the future. One of the most popular investment vehicles in Indonesia is the capital market. This is a meeting place for parties who have excess funds and parties who need funds through buying and selling securities, as well as being a place for trading activities in securities called shares exchange.

The capital market is essentially not much different from traditional markets, where there are buyers and sellers, and price negotiations occur. The capital market can also be understood as a means of bringing together parties who need capital and parties who provide capital according to predetermined rules. It is hoped that the capital market can provide alternative financing solutions for Indonesian companies and can also be used as an alternative means of investment. One of the factors that supports industrial continuity is the availability of the capital.

A cheap source of capital obtained from industry, namely by selling shares to the wider public on the Indonesian capital market, especially the IDX, can be a forum for investors to learn about the industry. This situation directly affects capital market activities, causing fluctuations in supply and demand for shares in the capital market, and ultimately influencing share price movements. Therefore, investors must always pay attention to the current circumstances and situation. Companies that issue shares to the public always aim to maximize the capital, wealth and economic well-being of their shareholders. Achieving this benchmark goal is not easy, as stock indices fluctuate almost

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daily, reflecting stock market movements. The share price is an indicator of the success of company management, and the strength of the stock market is expressed through buying and selling company shares on the capital market. The terms of the transaction are based on investors' observations of the company's track record of profit growth. Shareholders who are dissatisfied with business results can sell and own shares and invest their money in other companies. If that happens, the company's share price will fall.

Earnings per share (EPS) is a financial ratio used by investors to analyze a company's ability to generate profits based on the number of shares it owns. Earnings per share of a company shows the amount of net profit available to be distributed to all company shareholders. This ratio can also be used to estimate the increase or decrease in stock prices. The higher the EPS value, the better the company's ability to generate returns for its shareholders so that it can encourage investors to invest their capital in the company's shares. Investors also hope to achieve high returns with these shares.

Return on equity (ROE) is the ratio of profit after tax to total capital. ROE is a profitability ratio that represents the company's ability to generate profits for shareholders with the capital invested in the company (Tandelilin, 2001). The relationship between ROE and share price provides information to the company regarding the shares distributed to shareholders. Therefore, if a company's ROE is high, the company's share price will indirectly increase. Debt to asset ratio (DAR) is a leverage ratio used to measure the ratio of total debt to total assets. In other words, the leveraged share of a company's assets affects asset management. If this ratio is high, it means you need to take on more debt. This will then make it even more difficult for companies to increase capital due to concerns that their assets will not be able to cover their debts. If this ratio is low then the company's financial condition will be good because the debt ratio will be low.

Debt to equity ratio (DER) is a leverage ratio analysis tool that measures how well a company's ability to pay its debt in accordance with its equity. A relatively high debt ratio indicates the company's performance is getting worse due to increased dependence on external parties for the company's capital. Therefore, if a company has a high debt to equity ratio (DER), then it is likely that the company has a high debt to equity ratio. When a company makes a profit, the company's share price is low because it tends to use its profits to pay debts rather than paying dividends.

## 2. Method

This research is quantitative research and it is classified as descriptive research. Research that seeks to explain the influence of the variables studied through hypothesis testing (Anshori, 2009). According to Sugiyono (2013), quantitative research is a research method used to study a particular population or sample, where the sampling technique is usually carried out randomly and data collection uses sampling instruments to explore and analyze quantitative/statistical data. The test used is the hypothesis created by.

Population is a general area that contains objects/subjects with certain traits and characteristics that can be identified by researchers to study and draw conclusions (Sugiono, 2010). This survey targets 17 companies related to textiles and apparel in Indonesia from 2019 to 2023. According to Sugiyono (2010), a sample is part of the set and characteristics of a population. This research sample is purposive sampling, meaning that the sample was initially selected based on certain criteria. In this research, six semi-textile industrial companies in Indonesia were sampled from 2019 to 2023. This research uses secondary data. Secondary data is a data source that does not provide data directly to those conducting research, collecting data (Sugiyono, 2010). The secondary data used

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is panel data, namely a combination of time series and cross-sectional data. Research data was obtained from limited company financial reports for the period 2019 to 2023. The data analysis method used in this research is quantitative analysis which includes product prices and financial reports for the textile industry on the Indonesia Stock Exchange from 2019 to 2023.

## 3. Results and Discussion

Here some results which includes product prices and financial reports for the textile industry on the Indonesia Stock Exchange from 2019 to 2023.

*Multiple Linear Regression Analysis*

Multiple Linear Regression Data processing uses several stages to determine the effect of the independent variable on the dependent variable so that the results of the regression equation can be determined.

**Table 1**. Coefficients

| Model | | Unstandardized B | Unstandardized Std. Error | Standardized Coefficients Beta |
|---|---|---|---|---|
| 1 | (Constant) | 4,066 | ,886 | |
| | EPS | ,463 | ,095 | 1,157 |
| | ROE | -,216 | ,097 | -,447 |
| | DAR | 4,657 | 2,661 | 1,411 |
| | DER | -2,091 | 1.130 | -1,424 |

a. Variable Dividend: Stock Price
Source: Data processed 2023

For the results of multiple linear regression, Earning Per Share (X1), Return on Equity (X2), Debt to Asset ratio (X3), Debt to Equity ratio (X4) on share prices (Y), using multiple linear regression as follows can be depicted:

Y= 4.066 + 0.463Xi - 0.216X2 + 4.657 X3 - 2.091X4

Based on the calculation of the multiple linear regression equation above, the constant value is 4.066, which means that if the variables Earning Per Share (X1) Return on Equity (X2), Debt to Asset ratio (X3), Debt to Equity ratio (X4) are equal to 0 then the share price (Y) experienced an increase of 4.066. From the calculation results of the coefficient value of 0.463 for the variable "earnings per share" it is known that there is a positive influence between earnings per share-on-share prices, and it is known that when earnings per share increase, share prices also increase. of 0.463 Entry up to 100%.

The coefficient value of the return on equity variable is -0.216, indicating that there is a negative influence between return on equity on share prices. If ownership increases by 100%, the share price will decrease by -0.216 because the profits are used to pay debts. The calculation results of the coefficient of variation of the debt-asset ratio of 4.657 show that the debt-asset ratio has a positive effect on stock prices, this can be understood by increasing the debt-asset ratio by 100%. share price rose 4,657. The calculated coefficient value for the debt-to-equity ratio variable above is -2.091, indicating that there is a negative influence between the debt-to-equity ratio on share prices. If the equity ratio falls by 100%, the share price will fall by -2,091 points.

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*Multicollinearity Test*

**Table 2.** Coefficients

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | EPS | ,812 | 1.231 |
| | ROE | ,713 | 1,402 |
| | DAR | ,126 | 7,910 |
| | DER | ,119 | 8,384 |

a. Dependent Variable: Stock Price
Source: Processed data 2023

Based on the results of data processing in the table above, the permitted coefficients for each variable are determined. This is greater than the tolerance value of 0.1 and the VIF is less than 10. This value shows that there is no sign of multicollinearity in the regression model, so this model can and is suitable for use.

*Autocorrelation Test*

**Table 3**. Model Summary b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin Watson |
|---|---|---|---|---|---|
| 1 | ,927[a] | ,859 | ,816 | ,1787082 | 1,541 |

a. Predictors: (Constant), DER, Roe, EPS, DAR
b. Dependent Variable: Stock Price
Source: Data Processed 2023

From the Autocorrelation test results above, it can be seen that the Durbin-Watson value is 1.541. The Durbin-Watson value based on the 5% confidence table is df 0.82 and 1.87, so the Durbin-Watson number is between -2 and +2, this is caused by the natural correlation phenomenon, namely the existence of Durbin-Watson. Watson's number means no. This value shows there is no autocorrelation and is suitable for use.

## 4. Conclusions

From the results of the regression calculations, the regression coefficient value for the earnings per share variable (X1) is 0.463. This shows that an increase in earnings per share of 100% will increase the share price (Y). Equivalent to 0.463. A 100% decrease in earnings per share reduces the share price by 0.463. Based on EPS, the t-count value is 4.876 and the t-table value is 1.746. This proves that Ha is accepted because t-count 4.876 > t-table 1.746. This shows that the earnings per share variable (X1) has an effect on the share price (Y). In this case, the higher the value of earnings per share, the better the company's ability to generate returns for its shareholders, thereby attracting investors' interest in investing.

The results of the calculation of the regression coefficient value for the return on equity variable of -0.216 show that when return on equity increases by 100%, the share price decreases by -0.216. In fact, the profits obtained are used to pay off the company's debts. Judging from the importance of ROE to share prices, it is 0.044. This means that if 0.044 < 0.05 then Ha is accepted. This shows that the return on equity variable (X2) has an effect on share prices (Y). In this case, the company receives return on equity from

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its shareholders in the form of dividends to shareholders, so that the higher the return on equity, the higher the share price will indirectly be.

From the results of the regression test, the debt to assets ratio (X3) regression coefficient value is 4.657, which shows that when the debt to assets ratio (X3) increases by 100%, the share price also increases by the equivalent of 4,657. Conversely, if the debt to asset ratio (X3) falls by 100% then the share price (Y) falls by 4,657. Judging from the t-count value of DAR, it is 1.740, while the t-table value is 1.746. This shows a t-count of 1,740.

Based on the results of the regression test, the regression coefficient value for the debt-equity ratio (X4) is -2.091, which means that share prices will increase if the debt-equity ratio (X4) increases by 100%. The price is (Y) 2,091. On the other hand, if the debt ratio (X4) falls by 100%, the share price (Y) will fall by -2.091. If you pay attention to the significance of the debt to equity ratio on share prices, namely 0.087, namely 0.087 > 0.05, then Ho is accepted. This means that there is no influence of various debt to equity ratios (X4) on share prices (Y).

Based on the ANOVA table, F-count measures profitability variables (earnings per share (X1) and return on equity QG) and debt-to-assets leverage (X3) and debt-to-equity ratio (X4) compared to equity. Price (Y) or 19,877. F-table, on the other hand, is 3.41.66. Ha is accepted if F-count (19.877) > F-table (3.41). This means that there is an influence between earnings per share (X1), profit margin and return on equity (X2). Debt-asset ratio (X3) and debt ratio (X4) to share price (Y).

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