

How Financial Performance Influence Stock Return? The Role of Earning Per Share

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Abstract

The purpose of this study was to determine the effect of CR, DER, and ROE on Stock Returns with EPS as an intervening variable in LQ45 companies for the period 2020-2023. Quantitative methods are applied in this study. The population used is companies that have been included in the LQ45 index for the period 2020-2023 so that the sample obtained is 208 sample data processed by purposive sampling technique. The data were analysis using descriptive analysis, classical assumption test, path analysis, and sobel test using SPSS 21 software. Research findings in equation 1 (EPS) show the results that CR has a negative effect on EPS, DER has no effect on EPS, and ROE has a positive effect on EPS. While in equation 2 (Stock Return) shows the results that CR, DER, and EPS have a negative effect on Stock Return and ROE has no effect on Stock Return. The results of path analysis explain that EPS can mediate CR on Stock Returns. Meanwhile, EPS cannot mediate DER and ROE on Stock Returns.

Keywords: CR, DER, ROE, EPS, Stock Return, LQ45 Stocks

INTRODUCTION

Business growth in Indonesia has contributed significantly to the country's economic progress, in order to remain relevant and thrive companies must continue to innovate and compete. The capital market as a financial market instrument with a long term and offers optimal returns. The capital market serves as a venue for capital investments by investors. Investors need to know company information before investing to evaluate stock performance and minimize risk.(Prastyawan et al., 2022)

Shares are a type of security that is generally traded in the capital market. Stock returns are the level of profit obtained in investment high stock returns can attract investors to invest their capital Sethy & Tripathy, (2024). According to Ardiyanto et al., (2020) Fundamental analysis is a method used to evaluate economic conditions to the business environment and is often used to determine the fair price of shares which will affect stock returns.

The LQ45 index is a capitalisation value that includes the 45 most liquid stocks with a large market capitalisation value. So that the stocks in the LQ45 index are quite attractive to investors in investment because of the high transaction value. A company to survive in LQ45 must have a market capitalisation value and liquid stock returns. (Avishadewi et al., 2021)

Stock returns are influenced by a wide range of internal and external factors. Companies that are listed in the LQ45 index are used in this analysis. The stock returns of the LQ45 index businesses fluctuate annually. The average stock return movement from the stock price in the LQ45 index for the years 2020–2023 is shown below.

Graph1. Average stock return of research sample



Source: LQ45 Companies 2020-2023

Based on graph 1, it demonstrates how there have been fluctuations in the LQ45

companies average stock return between 2020-2023. Where the stock return in 2021 is the lowest stock return, while in 2020 it is the highest stock return in LQ45 companies. Companies with volatile stock returns will show poor performance, this can affect investors decisions in investing.

Financial ratio analysis of the company's financial statements reveals the factors impacting stock returns. The discrepancy between the data in the financial statements and the performance and financial status of the organization over a given period of time is known as a financial ratio. The current ratio (CR), which is used in this study, shows how well-positioned the business is to pay down its short-term debt. Businesses with high CR have the capacity to reduce earnings per share, which will also have an impact on the company's stock return. A high CR indicates that there are many funds that are idle so that it can reduce the company's efficiency level in operations. In research Angrawit Kusumawardani, (2023), Hasanudin, (2022), and Sulaiman, (2020) demonstrates the findings that CR significantly increases stock returns, while in research Luh et al., (2020) and Marindra et al., (2021) shows the result that CR has no significant effect on stock returns. The high debt to equity ratio (DER) shows the percentage of debt over capital. The use of debt that is too high, the higher the level of company capital financed by debt, this can provide a large risk of default, However, if the company can effectively manage its debt, using debt will boost investor earnings, which will raise stock returns. In research C.E. Kampongsina., (2020), H. Christian., (2021), and Sinaga et al., (2020) claimed that the impact of DER on stock returns was insignificant., while in research Fitrianiingsih et al., (2021) and Marlindja & Meirisa, (2022) claimed that stock returns are significantly positively impacted by DER.

Return on Equity (ROE) is a ratio that's employed to determine how profitable a company is producing profits. Companies having a high return on equity (ROE) can raise earnings per share, which can boost stock returns. In research Yastami & Dewi, (2022) and Gultom & Lubis, (2021) claims that ROE significantly increases stock return, while in study Hartinah & Lilianti, (2020) and Pambudi et al., (2022) claims that stock returns are not significantly impacted by ROE. In this study, researchers used Earning Per Share as an intervening variable. The indirect impact of independent variables on the dependent variable is clarified and understood with the aid of intervening variables. Earning Per share (EPS) is the amount of profit earned by the owner of the shares in each width of shares owned. Therefore, companies with high EPS values have the ability to raise share demand, which raises stock returns. in research Mustofa & Nurfadillah, (2021), Safira & Budiharjo, (2021), and Pangestu, (2022) claims that stock returns are significantly impacted by EPS, while in research Prastyawan et al., (2022) and Sari & Hermuningsih, (2020) claims that the impact of EPS on stock returns is insignificant.

According to the problems that have been revealed, namely the fluctuation in stock returns for companies that have been portion of the LQ45 index contained in the 2020-2023 range and according to previous research, Findings out how CR, DER, and ROE impact LQ45 stock returns with EPS acting as an intervening variable is the aim of this study.

LITERATURE REVIEW

Signalling Theory. Ross at Salim et al., (2024) This theory is based on the idea that when management gets information about something related to the company such as its stock return, the information will be provided to shareholders or investors through management. Investors need signal information to make a decision whether or not to invest in the company. Investors need a signal stating that the company has value, one way the company shows its value is through financial reports that describe and provide information about the company's condition. Investor trust in the company's performance will rise as the stock return of the company increases, as it might serve as a reflection of the signal supplied. According to this CR theory, investors will receive positive signals or good news if the company is able to meet its short-term obligations. The company's high DER value indicates that it has a lot of debt, which may be a clue to investors that profitability is declining. The corporation can earn maximum returns with minimal equity or capital if its ROE is high, so the company will give an upward signal or good news to investors. EPS describes the performance or success of the company Consequently, a higher profit will increase

the company's capacity to pay earnings to shareholders, giving investors a positive signal or encouraging news. (Mangantar et al., 2020) Pecking order theory explains the existence of information asymmetry in the utilization of outside funding sources between investors and company management. In such a situation, only the management of the company has detailed information on the company's current situation and future prospects. (Ahmad et al., 2021)

The profit that investors or shareholders receive from their investment in a company is known as the stock return, and it is determined by the firm's performance. The difference between the purchase price at the start of the period and the selling price, or the current price, is used to calculate the stock return. (Kim et al., 2020). Put differently, stock returns represent the reciprocity of investments made by shareholders or investors in the form of profits from the purchase and sale of shares on the capital market. (Mangantar et al., 2020)

Current Ratio (CR) is a ratio that illustrates the company's strengths and weaknesses in carrying out its short-term responsibilities by utilizing all the assets it has. (Faruq et al., 2021). The following is the formula for measuring CR:

$$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

A ratio that shows how much debt a corporation has in relation to its capital is called the Debt to Equity Ratio (DER). A high DER number indicates that the company's chance of defaulting on its debt is high, which could have an impact on the return on its shares. (Faruq et al., 2021). The DER formula follows:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

The company's net profit after tax is calculated by using Return On Equity (ROE). The ratio shows the efficiency of the company's capital, with a high ROE indicating a stronger position of the company, while a lower level of ROE indicates a weaker position of the company owner. (Faruq et al., 2021). The ROE formula follows:

$$ROE = \frac{\text{Net Profit}}{\text{Total Capital}}$$

The company's earnings per share, or EPS, displays the profit on each share. A high EPS suggests that shareholders receive greater profits, it affects the share price directly. (Aditya et al., 2024). The following formula for measuring EPS is:

$$EPS = \frac{\text{Net Profit}}{\text{Number of shares outstanding}}$$

Stock return is the shareholder's profit on the shares he has bought. With two possibilities from the discrepancy between the purchase and selling prices after dividends are added, namely capital gain, which is indicated by a positive amount, and capital loss, which is indicated by a negative amount. (Sulistiyono et al., 2023). Here's the stock return formula:

$$\text{Stock Return} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

A conceptual framework that is based on the background and problem formulation that have been described is as follows:

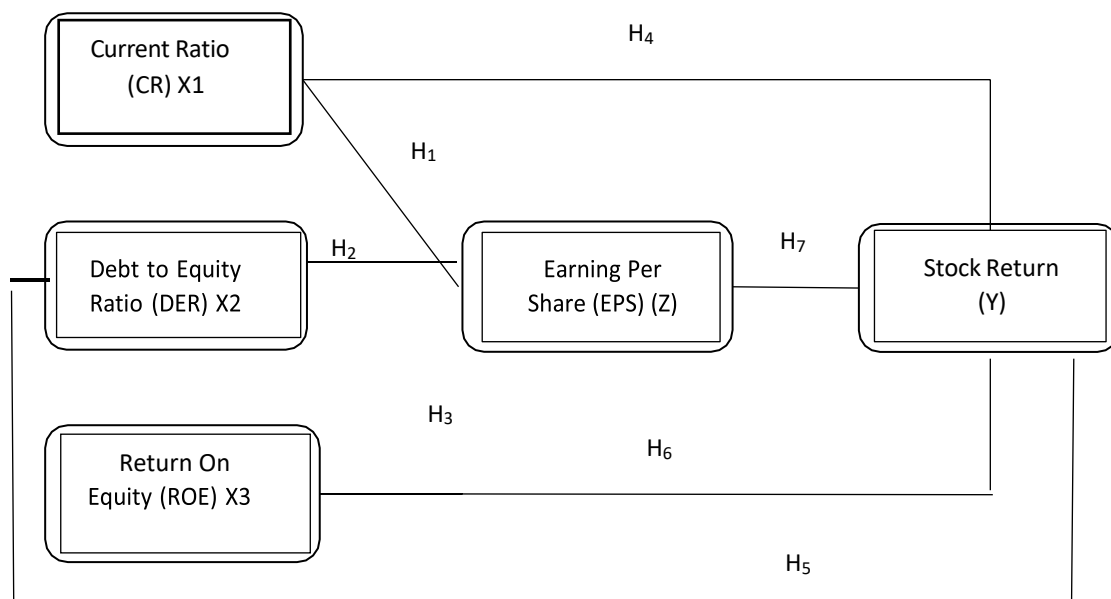


Figure 1. Conceptual Framework
Source: Processed in 2024

METHOD

Current Ratio's Impact on EPS

CR is among the factors influencing the drop in EPS. EPS may serve as a gauge of a company's performance, an increase in CR shows that the company could increase profits while still meeting its short-term obligations. The company will send out a positive message regarding its chances going forward. (Faruq et al., 2021). This research is strengthened by Saiful Anwar, (2022) and Susanti, (2021) It claims that EPS is significantly improved by CR. Based from the preceding description, the research hypothesis is:

H1: EPS are positively impacted by the CR

Debt to Equity Ratio Impact on EPS

DER is a ratio that contributes to a decrease in EPS. The ratio of a company's debt to capital is described by DER. The use of debt that is too high can provide a large risk, However, if a company can effectively manage its debt, using debt will boost investor earnings. (Saiful Anwar, 2022). This research is strengthened by Faruq et al., (2021) and Sriyono et al., (2022) which show that DER has a negative effect on EPS. Based from the preceding description, the research hypothesis is:

H2: EPS is negatively impacted by the DER

Effect of Return On Equity on EPS

ROE is among the elements influencing the decline in EPS. ROE is a metric used to evaluate the profitability and generation efficiency of a company. Besides that ROE is also used to determine the effectiveness and efficiency of managing own capital generated by management. If a corporation can produce profits and has a high return on equity (ROE), then its performance might be considered good (Yanutama et al., 2023). this research is strengthened by Aditya et al., (2023) and Lorensius et al., (2023) which show the results that ROE has a significant positive effect on EPS. Based from the preceding description, the research hypothesis is:

H3: EPS are positively impacted by the ROE

Effect of Current Ratio on Stock Return

CR is a ratio that's arrived at by splitting current assets by current debt. Companies with high CR indicate that the risk of the company experiencing liquidation is lower, so the risk borne

by shareholders is also lower. Thus, a rise in investor interest in purchasing the company's stock may result in a rise in share price, which will affect the stock return of the company. (Luh et al., 2020.). This research is strengthened by Angrawit Kusumawardani, (2023) and Hasanudin, (2022) which show the results that stock returns are positively impacted by CR. Based from the preceding description, the research hypothesis is:

H4: Stock returns are positively impacted by CR

Effect of Debt to Equity Ratio on Stock Returns

DER is a ratio that shows the amount of liabilities relative to capital for the companies. A high DER number indicates a high degree of risk that the business is taking on. The more the DER value, the more the corporation must bear in terms of duties. Reduced investor interest in the company due to a high DER value may result in lower stock prices and a worse stock return for the company. (Marlindja & Meirisa, 2022). This research is strengthened by C.E. Kampongsina, (2020) and Salim et al., (2024) studies demonstrate that DER has a detrimental effect on stock returns. The research hypothesis, derived from the description that came before it, is:

H5: Stock returns are negatively impacted by the DER.

Effect of Return On Equity on Stock Returns

A high ROE demonstrates the company's capacity to use its equity effectively and efficiently and to generate profits for shareholders based on the capital invested. This can maintain and attract investor interest, In addition, it will affect the rising share price of the corporation. Stock returns rise in together with price increases in stocks. (Pangestu et al., 2022). This research is strengthened by Citra et al. (2022), Gultom et al. (2021), and Dawam et al. (2021) which show the results that ROE has a positive effect on stock returns. Based from the preceding description, the research hypothesis is:

H6: Stock returns are positively impacted by ROE

Effect of Earning Per share on Stock Return

A financial measure called earnings per share (EPS) is used to display the profit made from each outstanding share. A high EPS indicates that owners are receiving substantial rewards. As a result, there may be a rise in investor interest in purchasing company stock, which could raise stock prices and boost stock returns (Cheng & Fang, 2022). Mustofa & Nurfadillah, (2021) and Safira & Budiharjo, (2021), which show that EPS has a positive effect on stock returns, support this research. The research hypothesis, derived from the description that came before it, is:

H7: Stock returns are positively impacted by EPS

Between the population and the sample. The enterprises listed on the LQ45 index comprise the study's population, with the exception of banks that submitted detailed financial reports for the study's period of 2020–2023. The technique employed in this study is known as purposive sampling, or sampling based on criteria. Here are a few instances of the criteria.

Table 1. Population and Sample Descriptive

No	Criteria	Amount
1.	Company LQ45	55
2.	LQ45 companies that do not publish financial reports	(3)
	Number of samples	52
	Research period 2020-2023	4
	Total sample	208

Source: Primary data, 2024

Technique for Gathering Data. The research data for this study is gathered using the documentation approach. Using multiple linear regression techniques using SPSS 21, the research questions in this study are addressed and the research hypothesis is tested. The investigations carried out for this study are:

The regression equation derived is subjected to the standard assumption tests, which include the autocorrelation, heteroscedasticity, multicollinearity, and normality tests, to guarantee its accuracy in estimate, impartiality, and consistency.

The purpose of the sobel test, a t-test, is to ascertain whether the inclusion of intervening variables in the model has a substantial impact on the outcome. An important mediating influence of the intervening variable on the model is indicated if the t test result is greater than the crisis distribution value.

Path analysis is a method for assessing the effect of intervening factors on certain causal models, path analysis which usually involves creating a conceptual model that shows the relationship between variables.

The formulated equation is used to express the regression equation:

$$Z = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_1 \dots\dots\dots (1)$$

$$Y = \alpha_2 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Y_1 + e_2 \dots\dots\dots (2)$$

(Hidayati et al., 2022) Description:

X1 = Current Ratio

X2 = Debt to Equity Ratio

X3 = Return On Equity

Z = Earning Per Share

Y = Stock Return

α = Constituency (TA)

β = Regression coefficient

e = Residual or Error

RESULTS AND DISCUSSION

Descriptive Statistics Test

Table 2. Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
CR	196	,23	10,07	2,2907	1,66637
DER	196	,07	12,00	1,1676	1,26411
ROE	196	-9,01	145,09	14,9294	20,98665
EPS	196	-64,06	1911,00	184,0776	271,39874
Stock Return	196	-,86	10,34	,2151	1,12371
Valid N (listwise)	196				

Source: Primary data, 2024

CR (X1) as the first independent variable in the 2020-2023 research period has a maximum value of 10.07, a minimum value of 0.23 with a mean of 2.2907 and a Std. deviation value of 1.66637 which indicates that the mean > Std. deviation, meaning that CR has an even distribution of data. DER (X2) as the second independent variable in the 2020-2023 research period shows the results of a maximum value of 12.00, a minimum value of 0.07, with a mean of 1.1676 and a Std. deviation value of 1.26411 which indicates that the mean < Std. deviation, which means that DER does not have an even distribution of data. ROE (X3) as the third independent variable in the 2020-2023 research period with a maximum value of 145.09, a minimum value of -9.01, with a mean value of 14.9294 and a Std. deviation value of 20.98665, it shows that the mean < Std. deviation, which means that ROE has an uneven distribution of data.

EPS (Z) as an intervening variable in the 2020-2023 research period shows that the maximum value is 1911.00, the minimum value is -64.06, with a mean of 184.0776 and a Std. deviation of 271.39874, indicating that the mean value < Std. deviation, which means that EPS has an uneven distribution of data. Stock return (Y) as the research dependent variable for the 2020-2023 period shows that the maximum value is 10.34, the minimum value is -0.86, with a mean

value of 0.2151 and a Std. deviation value of 1.12371 indicating that the mean value < Std. deviation which means that stock returns have an uneven distribution of data.

Classical Assumption Test Equation 1 (EPS)

Table 3. Classical Assumption Test (EPS)

A. Normality Test (<i>Kolmogorov Smirnov</i>)			
N	Asymp. Sig	Description	
208	0.393	Normal Distribution	
B. Multicollinearity Test			
Variable	Tolerance	VIF	Description
Current Ratio (X1)	0.487	2.052	No multicollinearity occurred
Debt to Equity Ratio (X2)	0.508	1.970	No multicollinearity occurred
Return On Equity (X3)	0.797	1.255	No multicollinearity occurred
C. Heteroskedasticity Test (<i>Glejser Test</i>)			
Variable	Sig.	Description	
Current Ratio (X1)	0.715	No heteroskedasticity occurred	
Debt to Equity Ratio (X2)	0.244	No heteroskedasticity occurred	
Return On Equity (X3)	0.793	No heteroskedasticity occurred	
D. Autocorrelation Test			
dU	dW	4-dU	Description
1.799	1.864	2.201	No autocorrelation occurred

Source: Primary data, 2024

Based on table 3, researchers test the Kolmogorov-Smirnov value's normality using the Asymptotic Only test; data is considered normal if the Asymp. Sig > 0.05. The test findings indicate that the Asymp. Sig (2-tailed) from the Kolmogorov-Smirnov normalcy test is 0.000 before to the natural logarithm data transformation on variable Z. The regression model data in the normality test is normally distributed, though, because the Asymp. Sig (2-tailed) from the Kolmogorov-Smirnov normality test is 0.393 after the natural logarithm data on the Z variable has been transformed. This is because the Asymp. Sig value $0.393 > 0.05$.

If the data in the Multicollinearity Test has a toleration value of > 0.100 and a VIF value of < 10.00 , it is considered to have no multicollinearity symptoms. Based on the research findings, which indicate that CR has a VIF value of $2.052 < 10.00$ and a toleration of $0.487 > 0.100$, it is determined that CR does not exhibit multicollinearity symptoms. Given that DER's tolerance is $0.508 \geq 0.100$ and its VIF value is $1.970 \leq 10.00$, it can be said that DER does not exhibit symptoms of multicollinearity. Given that ROE has a tolerance of $0.797 \geq 0.100$ and a VIF value of $1.255 < 10.00$, it can be said that multicollinearity symptoms are not present in ROE.

Data can be said not to occur symptoms of heteroscedasticity if the Sig value > 0.05. In this study CR obtained a sig value of $0.715 > 0.05$, it was concluded that CR did not occur symptoms of heteroscedasticity. DER obtained a sig value of $0.244 > 0.05$, it is concluded that DER does not occur symptoms of heteroscedasticity. ROE obtained a sig value of $0.793 > 0.05$, it is concluded that ROE does not occur heteroscedasticity symptoms.

The autocorrelation test in this study shows the results that the Durbin Watson value is 1.864, in the study there were three independent variables ($k = 3$) with the number of samples ($n = 208$). In the significance level of 0.05, the value of $dL = 1.7382$ and $dU = 1.7990$ is obtained. So, $dU < dW < 4-dU$ ($1.7990 < 1.864 < 2.201$) indicates the result that the regression model does not experience autocorrelation.

Equation 2 (Stock return)

Table 4. Classical Assumption Test (Stock Return)

A. Normality Test (<i>Kolmogorov Smirnov</i>)		
N	Asymp. Sig	Description
208	0.713	Normal Distribution

B. Multicollinearity Test			
Variable	Tolerance	VIF	Description
Current Ratio (X1)	0.560	1.786	No multicollinearity occurred
Debt to Equity Ratio (X2)	0.560	1.787	No multicollinearity occurred
Return On Equity (X3)	0.803	1.245	No multicollinearity occurred
Earning Per Share (Z)	0.788	1.269	No multicollinearity occurred
C. Heteroskedasticity Test (<i>Glejser Test</i>)			
Variable	Sig	Description	
Current Ratio (X1)	0.151	No heteroskedasticity occurred	
Debt to Equity Ratio (X2)	0.121	No heteroskedasticity occurred	
Return On Equity (X3)	0.713	No heteroskedasticity occurred	
Earning Per Share (Z)	0.867	No heteroskedasticity occurred	
D. Autocorrelation Test			
dU	dW	4-dU	Description
1.809	2.097	2.190	No autocorrelation occurred

Source: Primary data, 2024

Based on table 4, researchers test the Kolmogorov-Smirnov value's normality using the Asymptotic Only test; data is considered normal if the Asymp. Sig > 0.05. The test findings indicate that the Asymp. Sig (2-tailed) from the Kolmogorov-Smirnov normalcy test is 0.000 before to the natural logarithm data transformation on variable Z. The regression model data in the normality test is normally distributed, nevertheless, because the Asymp. Sig (2-tailed) from the Kolmogorov-Smirnov normality test is 0.713 after transforming the natural logarithm data on the Z variable. This is because the Asymp. Sig value $0.713 > 0.05$.

When a data set has a toleration value of 0.100 and a VIF value of less than 10.00, it is considered to be free of multicollinearity symptoms according to the Multicollinearity Test. Based on the findings, which indicated that CR had a VIF value of $1.786 < 10.00$ and a toleration of $0.560 > 0.100$, it is determined that CR did not exhibit multicollinearity symptoms. Given that DER's tolerance is $0.560 \geq 0.100$ and its VIF value is $1.787 \leq 10.00$, it can be said that DER does not exhibit symptoms of multicollinearity. With a VIF value of $1.245 \leq 10.00$ and a tolerance of $0.803 \geq 0.100$, it is determined that ROE does not exhibit multicollinearity symptoms. With a VIF score of $1.269 \leq 10.00$ and a tolerance of $0.788 > 0.100$, it can be said that EPS does not have multicollinearity symptoms.

If the Sig value is greater than 0.05, the data are said to not show heteroscedasticity symptoms. Given that CR in this study had a sig value of $0.151 > 0.05$, it can be said that CR does not exhibit heteroscedasticity symptoms. Given that DER's sig value was $0.121 > 0.05$, it can be said that the disorder does not exhibit heteroscedasticity symptoms. With a sig value of $0.713 > 0.05$ for ROE, it can be said that there are no signs of heteroscedasticity for ROE. Since EPS found a sig value of $0.867 > 0.05$, heteroscedasticity symptoms are not present in ROE.

The autocorrelation test in this study shows the results that the Durbin Watson value is 2,097, in the study there are four independent variables ($k = 4$) with the number of samples ($n = 208$). In the significance level of 0.05, the value of $dL = 1.7279$ and $dU = 1.809$ is obtained. So, $dU < dW < 4-dU$ ($1.809 < 2.097 < 2.1906$) indicates the result that the regression model does not experience autocorrelation.

Path Analysis

In this study, path analysis involves two equations, namely equation 1 (EPS) and equation 2 (stock return). This method allows researchers to identify how much influence the independent variable has on the dependent variable, either directly or through intervening (indirect) variables.

T Hypothesis Test Results

Direct Effect of CR, DER, ROE on EPS

Table 5. Direct Path Analysis Equation 1 (EPS)

Variable	Koefisien Beta	Sig.	Decisions
CR	-0,157	0,001	H1 accepted

DER	-0,057	0,189	H2 rejected
ROE	0,369	0,00	H3 accepted

Source: Primary data, 2024

Direct Effect of CR, DER, ROE, EPS, on Stock Return

Table 6. Direct Path Analysis Equation 2 (Stock Return)

Variable	Koefisiensi Beta	Sig.	Decision
CR	-0,424	0,003	H4 accepted
DER	-0,36	0,008	H5 accepted
ROE	0,167	0,538	H6 rejected
EPS	-0,776	0,005	H7 accepted

Source: Primary data, 2024

Based on the above results in equation 1 (EPS) and equation 2 (Stock Return), it can be concluded that:

Effect of CR on EPS

The results of the t test in Table 8 show that the significance value (p) is $0.001 < 0.05$ and the coefficient value (β) is -0.157 . Therefore, it can be argued that CR has a negative impact on EPS.

Effect of DER on EPS

Table 8, t test findings indicate that the coefficient value (β) is -0.057 and the significance value (p) is $0.189 > 0.05$. Thus, it may be said that DER has no effect on EPS.

Effect of ROE on EPS

Table 8, t test findings indicate that the coefficient value (β) is 0.369 and the significance value (p) is $0.000 < 0.05$. Thus, it can be claimed that ROE has a positive impact on EPS.

Effect of CR on Stock Return

Table 9, t test findings indicate that the coefficient value (β) is -0.424 and the significance value (p) is $0.003 < 0.05$. Thus, it may be claimed that CR has a negative impact on stock returns.

Effect of DER on Stock Return

Table 9, t test findings indicate that the coefficient value (β) is -0.360 and the significance value (p) is $0.008 < 0.05$. Thus, it may be said that DER has a negative impact on stock returns.

Effect of ROE on Stock Return

Table 9 t test findings indicate that the coefficient value (β) is 0.167 and the significance value (p) is $0.538 > 0.05$. Thus, it may be claimed that ROE has no bearing on stock returns.

Effect of EPS on Stock Return

Table 9's t test findings indicate that the coefficient value (β) is -0.776 and the significance value (p) is $0.005 < 0.05$. Thus, it may be said that EPS has a negative impact on stock returns.

Determination Coefficient Test (R^2)

Table 12. Test Coefficient of Equation 1 (EPS)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.485 ^a	.236	.215	.29067

Source: Primary data, 2024

The adjusted R square, or coefficient of determination, is 0.215 , according to Table 12. This suggests that the independent variables, CR, DER, and ROE, may account for 21.5% of the variance in the dependent variable (EPS), with variables outside the regression model accounting for the remaining 78.5% . First regression is:

$$\text{EPS} = 1.132 - 0.157 \text{ CR} - 0.057 \text{ DER} + 0.369 \text{ ROE} + e1$$

$$\text{Value } e1 = \sqrt{1 - R^2} = \sqrt{1 - 0.236} = 0.87$$

Then the result obtained through regression 1 (EPS) is:

$$\text{EPS} = 1.132 - 0.157 \text{ CR} - 0.057 \text{ DER} + 0.369 \text{ ROE} + 0.87$$

Table 13: Coefficient Test of Equation 2 (Stock Return)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525 ^a	.276	.207	.56869

Source: Primary data, 2024

The adjusted R square, or coefficient of determination, is 0.207, according to Table 13. This suggests that the independent variables, CR, DER, ROE, and EPS, may account for 20.7% of the variance in the dependent variable (stock return), with variables not included in the regression model influencing the remaining 79.3%. The second regression is:

$$\text{Stock Return} = 1.408 - 0.424 \text{ CR} - 0.369 \text{ DER} + 0.167 \text{ ROE} - 0.776 \text{ EPS} + e_2$$

$$\text{Value } e_1 = \sqrt{1 - R^2} = \sqrt{1 - 0.276} = 0.85$$

Then the result obtained through regression 2 (Stock return) is:

$$\text{Stock Return} = 1.408 - 0.424 \text{ CR} - 0.369 \text{ DER} + 0.167 \text{ ROE} - 0.776 \text{ EPS} + 0.85$$

Table 7. Indirect Path Analysis

Model	Path Coefficient (Indirect Influence)	Total Direct and Indirect Influences
CR – EPS – Stock Return	(-0.157) x (-0.776)	-0.0516
DER – EPS – Stock Return	(-0.057) x (-0.776)	-0.0159
ROE – EPS – Stock Return	(0.369) x (-0.776)	-47.819

After calculating and analyzing the paths through Equations 1 and 2, the sobrel test shows the indirect relationship between the dependent variable (Stock Return) and the independent variable (CR, DER, and ROE) through EPS as the intervening variable.

Sobel Test

The effect of CR on Stock Return through EPS

The following is the calculation of the indirect effect of CR on Stock Returns through EPS

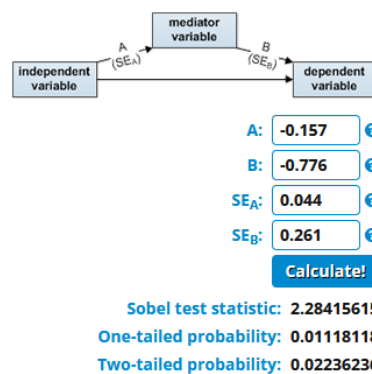


Figure 2. Sobel Test

Source: Primary data, 2024

To determine the program's level of importance, the Sobel test is used. A two-tailed probability significance of $0.022 < 0.05$ is shown by the sobel test statistic value of 2.28415615, which is the outcome of the sobel test computation on CR on stock returns through EPS. We conclude that CR on stock returns can be mediated via EPS.

The effect of DER on Stock Return through EPS

The following is the calculation of the indirect effect of DER on Stock Returns through Eps

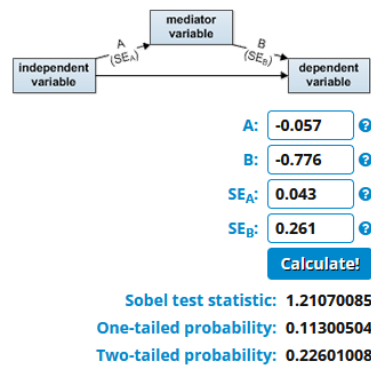


Figure 3. *Sobel Test*

Source: Primary data, 2024

To determine the program's level of importance, the Sobel test is used. The sobel test statistic value, as determined by the sobel test calculation on DER on stock returns through EPS, is 1.21070085, with a two-tailed probability significance of $0.226 > 0.05$. We conclude that DER on stock returns cannot be mediated by EPS.

The Effect of ROE on Stock Returns through EPS

The following is the calculation of the indirect effect of ROE on Stock Returns through EPS

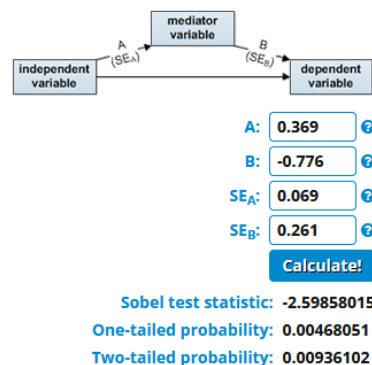


Figure 4. *Sobel Test*

Source: Primary data, 2024

To determine the program's level of importance, the Sobel test is used. The sobel test statistic value, as determined by calculating the sobel test on ROE on stock returns using EPS, is -2.59858015, with a two-tailed probability significance of $0.009 < 0.05$. We can deduce that ROE on stock returns can be mediated by EPS.

F Test (Simultaneous)

Table 10. Test F Equation 1 (EPS)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2,916	3	,972	11,505	.000 ^b
Residual	9,463	112	,084		
Total	12,379	115			

Source: Primary data, 2024

The results of the computations indicate that the independent factors together have an effect on Earning Per Share (EPS) overall. with a significance value of $0.000 < 0.05$ and a computed

F value of 11,505. Thus, it can be said that CR, DER, and ROE all have an impact on EPS simultaneously.

Table 11. Test F Equation 2 (Stock Return)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5,169	4	1,292	3,996	.008 ^b
Residual	13,583	42	,323		
Total	18,752	46			

Source: Primary data, 2024

The results of the computations indicate that all of the independent factors collectively have an effect on the total return on the stock. with a significance value of 0.008 <0.05 and a computed F value of 3,996. Thus, it may be said that Stock Returns are simultaneously impacted by the variables CR, DER, ROE, and EPS.

Discussion

Effect of CR on EPS

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that EPS is negatively affected by CR. With a beta coefficient (β) value of -0.157 and a significance value of 0.001 <0.05. This research is strengthened by the research of Suryanto et al., (2019) and Sriyono et al., (2022) which states that CR has a negative effect on EPS. Companies with negative CR show higher financial risk and can affect and impact the company's EPS. Negative CR illustrates that the company is experiencing difficulties in fulfilling its short term, this could be the result of insufficient fund management, which could lower net profit for the business. This may make investors less interested in funding the company.

Effect of DER on EPS

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that EPS is not influenced by DER. With a beta coefficient (β) value of -0.057 and a significance value of 0.189 > 0.05. This research is strengthened by the research of Faruq et al., (2021) and Sriyono et al., (2022) This indicates that DER has a negative impact on EPS, demonstrating that a high DER value does not imply bad company conditions or an inability of the signal to indicate changes in EPS value. If a company can effectively manage debt and strike a balance between earnings and expenses, it can boost investor profits. this research is in accordance with the pecking order theory which explains that companies prefer funding from internal sources rather than external, because the decision to increase debt will have a negative impact. The more debt, the greater the costs incurred from debt, so that having to pay the loan interest causes the company's profits to decline consistently. (Aini et al., 2020)

Effect of ROE on EPS

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that EPS is positively influenced by ROE. With a beta coefficient (β) value of 0.369 and a significance value of 0.000 <0.05. This research is strengthened by the research of Aditya et al., (2024) and Lorensius, (2023) which state that ROE has a positive effect on EPS, this shows that high and low ROE does not affect EPS. Companies with high ROE tend to be more concerned with the profits generated for retained earnings than for investors.

Effect of CR on Stock Returns

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that Stock Returns are negatively affected by CR. With a beta coefficient (β) value of -0.424 and a significance value of 0.003 <0.05. This research is strengthened by the research of Luh et al., (2020) and Wahyulita et al., (2023) which states that CR has a positive effect on stock returns. Companies with negative CR indicate high financial risk because the company may have difficulty

meeting its short-term obligations, which is due to the company's poor operational problems. A negative CR will send a bad signal to investors, which can reduce investor interest in investing in the company's shares and have an impact on stock returns. Investors tend to look for companies with a healthy financial structure and are able to generate stable profits.

Effect of DER on Stock Return

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that Stock Returns are negatively affected by DER. With a beta coefficient (β) value of -0.360 and a significance value of $0.008 < 0.05$. This research is strengthened by the results of other similar studies, namely research by C.E. Kampongsina, (2020) and Laulita & Yanni, (2022) which state that DER has a negative effect on stock returns. A company with a high DER means that the higher the level of company capital financed by debt, this can lead to a high risk of default that the company will face. As well as resulting in less investor confidence to invest their capital, resulting in a decrease in demand for shares which will have an impact on decreasing stock returns.

Effect of ROE on Stock Returns

Based on research that has been conducted on LQ45 companies in the period 2020 to 2023, it shows that Stock Returns are not influenced by ROE. With a beta coefficient (β) value of 0.167 and a significance value of $0.538 > 0.05$. This research is strengthened by the research of Suci et al., (2022), Hartinah & Lilianti, (2020) and Fikri et al., (2022) which states that ROE has no effect on stock returns. Companies with a lower proportion of profit to equity will have a smaller share price. This is because LQ45 companies have a better level of trust in the community. The higher proportion of profit to equity will actually increase the share price, which will reduce investor interest due to the share price being too high, this will have an impact on decreasing stock returns.

Effect of EPS on Stock Return

Based on research that has been conducted on LQ45 companies for the period 2020 to 2023, based on the significance results, EPS has an effect on stock returns. With a beta coefficient (β) value of -0.776 and a significance value of $0.005 < 0.05$. This research is strengthened by the research of Sari et al., (2020) and Supriantikasari et al., (2020) which states that EPS has a negative effect on stock returns. Companies with negative CR indicate that the company has suffered losses in a certain period. Stocks with negative EPS will experience a decrease in stock prices which will affect stock returns. This can reduce investor interest in company shares and show poor financial performance in company operations. Investors are more interested in finding companies with stable or increasing financial performance, to get better stock returns.

CONCLUSION

With EPS acting as an intervening variable, this study attempts to analyze the impact of CR, DER, and ROE on stock return volatility in companies that have been incorporated in LQ45 for the years 2020–2023. It is possible to draw the conclusion from the research that CR has a negative impact on EPS, DER has no effect on EPS, and ROE has a positive influence on EPS, as shown by equation 1 (EPS). While ROE has no effect on stock return, equation 2 (stock return) demonstrates the results that CR, DER, and EPS have a negative impact on stock return. Three factors simultaneously affect equation 1 (EPS): CR, DER, and ROE. In contrast, CR, DER, ROE, and EPS all have an impact on stock return concurrently, as shown in equation 2 (stock return). EPS can act as a mediator between the CR variable and stock returns in path analysis results. While EPS is unable to mediate stock returns in the DER and ROE factors. There are some limitations to this study, including a 4-year research timeframe and the use of solely CR, DER, ROE, and EPS as research variables. Stock returns are still influenced by a wide range of other factors, though.

Suggestions for future researchers are that it is advisable to use intervening variables other than EPS, namely dividend policy. Dividend policy according to Nurdiana (2020) is the company's net profit distributed to shareholders with a certain amount according to company

policy. The higher the dividend policy, the higher the company's stock return. In addition, it is hoped that researchers will use different samples to get the right results. The implication is that this research is expected to help investors when making investment decisions and can improve previous research on similar topics.

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