



## THE INFLUENCE OF DER, EPS AND FINANCIAL DISTRESS ON STOCK PRICES

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### ABSTRACT

*The growth of the population in Indonesia has an impact on the increasing needs of the community for food and beverages. This condition has led investors to be interested in investing their capital in companies in the food and beverage sector. This research aims to determine the influence of Debt to Equity Ratio (DER), Earning Per Share (EPS), and Financial Distress on stock prices. The study focuses on manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange from 2020 to 2022. This quantitative research involved a sample of 111 companies selected through purposive sampling. The analysis method used was multiple linear regression analysis with SPSS 26. The partial results indicate that the Debt to Equity Ratio (DER) variable has a significant negative impact on the company's stock prices, while the Earning Per Share (EPS) and Financial Distress variables do not have a significant effect on stock prices. Simultaneously, the Debt to Equity Ratio (DER), Earning Per Share (EPS), and Financial Distress variables in this study collectively influence the stock prices of food and beverage companies.*

*Keywords: Debt to equity ratio, earning per share, financial distress, stock prices*

### INTRODUCTION

The current globalization has caused the Indonesian capital market sector to experience significant growth, as evidenced by an increase in the number of shares traded and higher share trading volumes. Indonesia has an institution that handles capital market activities and stock trading, namely the Indonesian Stock Exchange. The Indonesian Stock Exchange provides a variety of information for investors, including financial reports that show the financial performance of a company over a

period of time (Sania, 2022).

The financial reports of companies that have been listed on the Indonesian Stock Exchange have usually gone through the process of going public as evidenced by issuing shares for company funding on the capital market. Shares are individual or entity ownership rights to a company or limited liability company, which are obtained through purchase or other means. The rise and fall of share values is the main focus for investors in making investments,

rather than just relying on dividend distribution (Pratiwi, 2020).

The value of the company's shares needs to be measured first to determine the true value of the share price (Astikawati & Relita, 2017). The stock price is the closing value recorded from stock trading activities over a certain period of time for each type of stock taken as a sample, and its fluctuations are always monitored by investors (Wehantouw et al., 2017).

The share price offered by the company each year cannot be guaranteed, so share prices increase or decrease every year. This can be seen from the decline in the share price of PT Indofood Sukses Tbk (INDF) and shares of PT Indofood CBP Sukses Makmur (ICBP). ICBP's share price fell by 6.77% to 8,950 per share and INDF shares fell by 6.6% to 6,000 per share. Since the beginning of 2020 ICBP shares have decreased by 19.73%. INDF shares have decreased by 24.29% since the beginning of the year.

Factors that can influence a stock to fluctuate are external factors and internal factors (Fahmi, 2015). External factors that influence share prices include changes in interest rates, exchange rate fluctuations, inflation and others. Internal company factors can be in the form of financial ratios such as Debt to Equity Ratio (DER) and Earning per Share (EPS) (Rudianto, 2020).

Debt to Equity Ratio (DER) is a ratio that shows the relationship between the amount of loans given by creditors and the amount of own capital provided by the company owner (Roni & Dewi, 2015). The higher the DER value, the lower the share price, meaning the company has a relatively high debt burden compared to its equity, and this can affect investors' perceptions of risk, performance and company value, so that share prices tend to fall (Dewi & Suwarno, 2022).

The second factor influencing share prices is Earning per Share (EPS). Earning Per Share (EPS) is a ratio that measures how much dividend per share will be distributed to investors after deducting dividends. If the

Earning Per Share value is in line with investors' expectations, then changes in share prices will increase along with investors' interest in buying these shares (Indah & Parlia, 2017).

Another factor influencing share prices is financial distress. Bankruptcy or Financial Distress is a condition where a company's finances are unhealthy or experiencing a decline before bankruptcy or liquidation occurs (Curry & Banjarnahor, 2018). The worse a company's financial performance will be, the less well it will be responded to, which will influence share prices to fall (Fitriyani, 2016).

The problem formulation in this research is as follows:

1. Does the debt to equity ratio have an effect on stock prices?
2. Does earnings per share affect share prices?
3. Does financial distress affect stock prices?

## **LITERATURE REVIEW**

### **Signalling Theory**

Signaling theory or signal theory was first put forward by Spence (1973) as a perspective of company shareholders regarding the company's opportunities to increase company value in the future, based on information provided by company management. Houston & Brigham (2019) stated that the information in signaling theory is conveyed to provide signals to shareholders or investors regarding company management in looking at the company's prospects in the future so that they can differentiate between good quality companies and companies that are considered bad. This information becomes an indicator for investors in making investment decisions.

### **Stock Price**

Share prices are used to assess the wealth of shareholders (Brigham & Houston, 2019). According to Munggaran (2017) the share price is the price of a single share that can be sold from a company and

which represents the strength of the company.

Initially, share prices were a benchmark for investors to make investment decisions. It is not uncommon for share prices to change depending on the level of supply and demand. Share prices will reflect the wealth and strength of a company on the stock exchange (Sagala & Sudjiman, 2022). A high share price reflects good management performance and provides a high level of return for shareholders. Stock price fluctuations are caused by many variables that influence them both internally and externally. (Nur Anisa et al., 2022).

#### Analysis of Financial Statements

According to Kasmir (2019) Financial reports are reports that show the company's financial condition at the moment or in a certain period. Financial reports usually show the company's condition on a certain date (for the balance sheet) and a certain period (for the income statement). Financial reports are prepared per period, for example three months or six months for internal company purposes. In order for financial reports to become more meaningful so that they can be understood and understood by various parties, it is necessary to analyze financial reports. For owners and management, the main objective of financial report analysis is to be able to understand the financial position.

#### Debt to Equity Ratio (DER)

Debt to Equity Ratio is the ratio of debt to capital used in determining the value of debt. All debt, including current debt, is equalized by all equity. On this scale, the value of the money obtained from the borrower to the company owner can be determined. Apart from that, this benefit can determine the amount of capital each individual uses as debt collateral (Octovian & Sahrnisa, 2020).

#### Earning Per Share (EPS)

Earning Per Share (EPS) is the ratio between net profit after tax and the number of shares. A company's Earning Per Share (EPS) reflects how much capital the company has that is distributed to investors. An increase in EPS has an effect on increasing demand for shares, which results in prices soaring (Almira & Wiagustini, 2020).

#### Financial Distress

Edi & Tania (2018) state that financial distress means a situation where a company is categorized as facing a financial crisis that is decreasing in fulfilling its responsibilities to creditors. When a company can no longer bear the burden of obligations that should be paid to operate its business, the company can be said to be facing financial distress. This condition occurs because the company is unable to make bill payments on time.

### **RESEARCH METHODS**

The type of research used is quantitative research. Quantitative research is a research method based on the philosophy of positivism which is used to research certain populations or samples (Sugiyono, 2019). The population in this study are food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange with an observation period of 3 years, namely 2020 to 2022, totaling 81 companies. So the total population in this study was 243. The sample selection in this research used the purposive sampling method. Purposive sampling is sampling based on certain considerations where conditions are made as criteria that must be met by the sample, with the aim of obtaining a representative sample in accordance with the research objectives (Sugiyono, 2019). Research data analysis methods use the Classic Assumption Test, Multiple Linear Regression Analysis, t test, F test and coefficient of determination.

## RESULTS AND DISCUSSION

### Descriptive Statistics

**Table 1**  
**Results of Descriptive Statistical Analysis**

|                    | N   | Minimum | Maximum   | Mean    | Std. Deviation |
|--------------------|-----|---------|-----------|---------|----------------|
| DER                | 111 | -2,66   | 29,32     | 1,46    | 3,38           |
| EPS                | 111 | -381,62 | 194028,24 | 3933,01 | 24376,03       |
| Financial Distress | 111 | -2,83   | 12,16     | 2,44    | 1,642          |
| Harga Saham        | 111 | 0,65    | 12325,00  | 2411,84 | 2838,87        |
| Valid N (listwise) | 111 |         |           |         |                |

Based on table 1, it can be seen that descriptive statistical testing shows that the data (N) used to analyze each variable amounted to 111 samples.

### Classic Assumption Test

#### Normality Test

**Table 2**  
**Normality Test Results**

|                                  |                | Unstandardized Residual |
|----------------------------------|----------------|-------------------------|
| N                                |                | 111                     |
| Normal Parameters <sup>a,b</sup> | Mean           | 0,0000000               |
|                                  | Std. Deviation | 1,57078552              |
| Most Extreme Differences         | Absolute       | 0,074                   |
|                                  | Positive       | 0,052                   |
|                                  | Negative       | -0,074                  |
| Test Statistic                   |                | 0,074                   |
| Asymp. Sig. (2-tailed)           |                | 0,169 <sup>c</sup>      |

The results of SPSS data processing in table 2 show that the value of Asymp. Sig. (2-tailed) with the one sample Kolmogrove Smirnov test above of 0.169 > 0.05. This can be said to be normally distributed data so that it avoids bias. In this test, testing the data for normality is carried out together with one sample.

#### Multicollinearity Test

**Table 3**  
**Multicollinearity Test Results**

| Model | Collinearity Statistics |       | Keterangan |                                 |
|-------|-------------------------|-------|------------|---------------------------------|
|       | Tolerance               | VIF   |            |                                 |
| 1     | DER                     | 0,539 | 1,854      | Tidak Terjadi Multikolinearitas |
|       | EPS                     | 0,992 | 1,008      | Tidak Terjadi Multikolinearitas |
|       | Financial Distress      | 0,537 | 1,864      | Tidak Terjadi Multikolinearitas |

a. Dependent Variable: Harga Saham

The results of the multicollinearity test in table 3 show the tolerance value of each variable. From

these results it can be seen that the research variables have tolerance values > 0.10 and < 10, which means that all variables are free from the classical assumption of multicollinearity and can be used for further analysis.

#### Heteroscedasticity Test

**Table 4**  
**Heteroscedasticity Test Results**

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.   |       |
|-------|-----------------------------|------------|---------------------------|--------|--------|-------|
|       | B                           | Std. Error | Beta                      |        |        |       |
| 1     | (Constant)                  | 2081,389   | 325,604                   |        | 6,392  | 0,000 |
|       | DER                         | -117,825   | 66,408                    | -0,227 | -1,774 | 0,079 |
|       | EPS                         | -0,011     | 0,007                     | -0,149 | -1,577 | 0,118 |
|       | Financial Distress          | 112,497    | 137,070                   | 0,105  | 0,821  | 0,414 |

a. Dependent Variable: ABRESID

The results of the heteroscedasticity test in table 4 show that the Sig. of each variable is > 0.05. From these results it can be concluded that the regression equation model does not experience heteroscedasticity.

#### Autocorrelation Test

**Table 5**  
**Autocorrelation Test Results**

| Model | Durbin-Watson |
|-------|---------------|
| 1     | 1,886         |

Based on table 5 above, the Durbin Watson value is 1.886, compared using a significance value of 5%, a sample size of 111 (n), and a number of independent variables of 3 (k=3), then in the DurbinWatson table you will get a du value of 1.7463. Because the DW value of 1.886 is greater than the upper limit (du) of 1.7463 and less than 4 - 1.743 (2.25), it can be concluded that there is no autocorrelation.

## Multiple Linear Regression Analysis

**Table 6**  
**Multiple Linear Regression Results**

| Model              | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  |
|--------------------|-----------------------------|------------|---------------------------|--------|-------|
|                    | B                           | Std. Error | Beta                      |        |       |
| 1 (Constant)       | 1806.034                    | 529.864    |                           | 3.408  | 0.001 |
| DER                | -228.154                    | 108.068    | -0.272                    | -2.111 | 0.037 |
| EPS                | -0.005                      | 0.011      | -0.042                    | -0.438 | 0.662 |
| Financial Distress | 393.151                     | 223.057    | 0.227                     | 1.763  | 0.081 |

a. Dependent Variable: Harga Saham

The explanation of the regression equation can be concluded that:

- 1) The regression equation shows that the constant coefficient is 1806.034, which indicates that if the independent variable is considered non-existent, it will increase the share price by 1806.034.
- 2) DER regression coefficient ( $\beta_1$ ), the value of DER is - 228.154 which indicates a negative relationship direction.
- 3) EPS regression coefficient ( $\beta_2$ ), the EPS value is -0.005, which indicates a negative relationship direction.
- 4) Financial Distress regression coefficient ( $\beta_3$ ), the value of Financial Distress is 393.151 which shows a positive relationship direction.

### T Test

The results of hypothesis testing show that the DER variable has an effect on stock prices. Meanwhile, the EPS and Financial Distress variables have no influence and are not significant on share prices.

### The Effect Of Debt To Equity Ratio On Stock Prices

Debt To Equity Ratio (DER), in testing the influence of DER on stock prices has a sig value of  $0.037 < 0.05$ , so this result shows that the Debt To Equity Ratio has a negative and significant effect on stock prices or in other words H1 is accepted. The higher the DER value, the lower the share price, meaning the company has a relatively high debt burden compared to its equity, and this can affect investors' perceptions of risk, performance and company value, so

that share prices tend to fall (Dewi & Suwarno, 2022 ).

### The Effect Of Earnings Per Share On Share Prices

Earning Per Share (EPS), in testing the influence of EPS on share prices has a sig value of  $0.662 > 0.05$ , so this result shows that partial Earning Per Share does not have a significant influence on share prices or in other words H2 is rejected. This shows that the EPS variable cannot be used to predict share prices in food and beverage companies.

### The Effect Of Financial Distress On Stock Prices

Financial Distress, in testing the influence of Financial Distress on stock prices, it has a sig value of  $0.081 > 0.05$ , so this result shows that Financial Distress partially does not have a significant influence on stock prices or in other words, H3 is rejected. Financial Distress does not have a significant impact on share prices because there are factors that can influence investors' perceptions of the company.

### F Test

**Table 7**  
**F Test Results**

| Model        | Sum of Squares | df  | Mean Square | F     | Sig.               |
|--------------|----------------|-----|-------------|-------|--------------------|
| 1 Regression | 40,582         | 3   | 13,527      | 5,333 | 0,002 <sup>b</sup> |
| Residual     | 271,410        | 107 | 2,537       |       |                    |
| Total        | 311,992        | 110 |             |       |                    |

a. Dependent Variable: Harga Saham  
b. Predictors: (Constant), DER, EPS, Financial Distress

The F test results based on table 7 show a value of 5.333 with a significant value of 0.002. Thus it can be concluded that  $0.002 < 0.05$  so that DER, EPS and Financial Distress have a simultaneous and significant effect on stock prices.

**Coefficient of Determination Test**  
**Table 7**  
**Coefficient of Determination Test**  
**Results**

| Model | R      | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|--------|----------|-------------------|----------------------------|
| 1     | 0,361* | 0,130    | 0,106             | 1,59265                    |

The results from table 8 can be seen that the regression test obtained a coefficient of determination (R<sup>2</sup>) of 0.130, which means that statistically the independent variables namely DER, EPS and Financial Distress are able to explain the dependent variable of stock prices by 13%, thus 87% are influenced by other variables. not included in this study.

## CONCLUSIONS AND SUGGESTIONS

This research aims to analyze the respective relationships between debt to equity ratio (DER), earnings per share (EPS) and financial distress on stock prices. After conducting research and testing the hypothesis, the following conclusions can be obtained:

1. DER has a negative and significant effect on stock prices.
2. EPS has no effect and is not significant on share prices.
3. Financial Distress has no effect and is not significant on stock prices.

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