The Effect of ROI and Exchange Rates on LQ45 Share Prices Through Profitability

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Abstract

Today, in our global era, the rate of return on investment is a benchmark for companies in making business decisions, where the rate of return on investment is one of the factors for making these decisions. In addition, the exchange rate is another important factor to analyze in the manufacturing business world, because the exchange rate is closely related to purchase raw materials organizing from exports and imports. In addition, profitability is the company's measuring power in terms of getting profits. Besides that, the manufacturing companies contained in LQ45 are very dependent on the stock price which is the measuring power in making the company's management decisions. For this reason, this study aimed to determine the magnitude of the partial and simultaneous effect of ROI, exchange rate on stock prices including LQ45 in the manufacturing sector through profitability on the Indonesia Stock Exchange, where the level of influence between ROI, exchange rate on profitability is 0.741 or 74.1%, where there is a strong relationship between ROI, exchange rate on profitability. Then, the level of influence between ROI, the exchange rate on stock prices where the calculation results are 3.537 or 35.37%, namely there is a fairly strong relationship between ROI and the exchange rate on stock prices. Then, there is a strong relationship between profitability and stock price of 0.692 or 69.92%. Meanwhile, between ROI on stock prices through profitability where the direct influence of ROI on stock prices is greater than the indirect effect (3.290> 1.564) meaning that profitability is not an intervening variable in this study, as well as for the exchange rate on stock prices through profitability where the value of the direct effect is greater than the indirect effect (3.537> 1.222), which means that profitability is not an intervening variable in this study.

Keywords: Return on Investment, Exchange Rate, Profitability and Stock Price.

INTRODUCTION

Competition in the business and economic world that is happening at this time is a strong trigger for company management to improve its best performance in influencing investors to attract or invest their investment. Various alternative activities for investing in Indonesia have many choices for an investor who has excess funds in channeling funds.
Valuation of stock investment can be done in various ways, such as by using technical analysis or by fundamental analysis. According to Halim (2003:17-25), there are various models of analysis of stock prices, namely fundamental analysis and technical analysis. Fundamental analysis states that stocks have a certain intrinsic value (the value they should be).

In the modern economy, the capital market is one of the economic media that is gaining popularity so that it is experiencing quite rapid development. The Indonesian Stock Exchange (IDX) is the capital market in Indonesia. The Indonesia Stock Exchange has an important role as a means for the public to invest because it plays a role in providing long-term alternative sources of funding to companies.

The share price is the price per share that applies in the capital market. The share price is a very important factor and must be considered by investors in investing because the stock price shows the performance of the issuer. In simple terms, shares can be defined as certificates showing proof of ownership of a company and shareholders have claim rights to the company's income and assets. The reward that will be obtained with share ownership is dividends or capital gains. Every investor or potential investor has certain goals to be achieved through the investment decisions taken. In general, the investment motive is to gain profit, security, and growth of invested funds. To measure the level of success of a company in investment activities, there is an analysis, namely an analysis of profitability ratios. There are several other factors that can affect a country's capital market activities, such as the country's macroeconomic conditions and political stability. Macroeconomic conditions can be explained, among other things, by the exchange rate of the domestic currency against foreign currencies.

LITERATURE REVIEW

Share prices according to Martono (2007:13) are as follows: "Share prices are a reflection of investment decisions, funding (including dividend policy) and asset management."
According to Jogiyanto (2008: 167) "Share price is the price of a share that occurs in a stock market at a certain time determined by market participants and determined by the demand and supply of the relevant shares in the capital market.

Furthermore, the Indonesia Stock Exchange (2010) states that the transaction intensity of each security in the capital market is different. Some securities have a very high frequency and are actively traded on the capital market, but some other securities have relatively few transaction frequencies and tend to be passive. This causes the development and liquidity level of the JCI to not reflect the real conditions that occur on the stock exchange, the problem is solved by using the LQ45 index. (www.idx.co.id)

Meanwhile, foreign exchange rates can also be defined as the amount of domestic money needed, namely the number of rupiah needed to obtain one unit of foreign currency according to (2010) Indonesian Stock Exchange.

ROI is often called Return on Assets used to measure a company's ability to generate profits by using all of its assets. Meanwhile, according to Munawir (2005:89) ROI (Return On Investment) is a form of profitability ratios that are intended to measure a company's ability to operate to generate profits, According to Faisal (2002:49). Meanwhile, according to Sutrisno (2009:16) "profitability is the company's ability to generate profits with all the capital working in it.

Profitability according to Harahap (2009: 304) is "Describing the company's ability to earn profits through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of company branches, and so on."
RESEARCH METHOD

Research Design

This study uses a collaboration between the causality approach and the explanatory analysis approach, meaning that each variable put forward in the hypothesis will be observed through examining the casual relationship of exogenous variables to endogenous variables. The relationship between variables can be described in the form of a path analysis diagram (Path Analysis).

Operational Variable Definition

In order to provide a common perception of the variables that are the focus of the discussion, the following conceptually describes the variables in question, namely:

Stock prices

Stock prices are a form of securities or securities traded on the capital market (exchange). The share price referred to in this study is the closing price of each company obtained from the stock price at year-end closing as of December 31 with the time period from 2017-2021 in manufacturing companies included in LQ45 on the IDX.

ROI

The size of the ROI calculation results can be seen from: Profit after tax ratio with total assets multiplied by 100%. Or it can be described as follows:

\[
\text{ROI (Return On Investment)} = \frac{\text{Profit after tax}}{\text{Total Assets}} \times 100
\]
Rate Value

The size of the calculation of the exchange rate results can be seen from: The ratio of the middle exchange rate where the selling rate and buying rate are divided by two. Or it can be described as follows:

\[
\text{Exchange rate} = \frac{\text{selling rate amount} + \text{buying rate amount}}{2}
\]

Profitability

The size of the calculation of the results of the profitability ratio can be seen from: Total net profit divided by total Equity. Or it can be described as follows:

\[
\text{ROE (Return on Equity)} = \frac{\text{Total net profit}}{\text{Total Equity}}
\]

Population and Sample of

Population

Sugiyono (2017: 85), Population is a generative area consisting of objects/subjects that have certain qualities and characteristics that are applied by researchers to study and by which conclusions are drawn. Referring to the requirements above, the authors in this study took the entire population of issuers included in LQ45, namely 45 issuers.

Sample

Sugiyono (2017: 116), The sample is part of the number and characteristics possessed by the population. Arikunto (2012: 104), If the research is carried out by a portion of the population, it can be said that the research is a sample study. The sampling technique is based on purposive sampling with the following basis:

1. Companies that are included in the manufacturing sector
2. Companies that are consistent for a period of 5 years are always within the scope of LQ45.

**Source of Data**

To obtain concrete and objective data, research must be carried out on the problem under study, while the research steps involved in data collection are:

**Secondary Data**

Secondary data is data obtained indirectly from the object of research. In this case, secondary data was obtained from Field Research, namely the data collection method by collecting financial report data contained on the Indonesian Stock Exchange (IDX) website, namely www.idx.co.id.

**Data Analysis Technique**

The stages of data processing in this study are classical assumption tests with regression such as heteroscedasticity tests, multicollinearity and autocorrelation tests as well as descriptive statistical searches, namely the mean value, media mode, standard deviation and range.

**RESULT and DISCUSSION**

**Direct Effect and Indirect Effect**

To calculate the direct effect or DE, the following formula is used:

The influence of the ROI variable on Profitability

\[ X_1 \rightarrow X_3 = 2,261 \]

The influence of exchange rate variable on profitability

\[ X_2 \rightarrow X_3 = 1,766 \]

The influence of ROI variable on stock prices

\[ X_1 \rightarrow Y = 3,290 \]

The influence of exchange rate variable on stock prices

\[ X_2 \rightarrow Y = 3,537 \]
The influence of profitability on stock prices

X3 → Y = 0.692

Meanwhile, to calculate the indirect effect or IE, the following formula is used:

The influence of the ROI variable on stock prices through profitability

X1 → Y → X3 = (3.290x0.692=2.277)

The influence of the rate variable on stock prices through profitability

X2 → Y → X3 = (3.537x0.692=2.448)

After that, the total effect calculation is as follows:

The influence of the ROI variable on stock prices through profitability

X1 → Y → X3 = (3.290+0.692= 3.982)

The influence of the rate variable on stock prices through profitability

X2 → Y → X3 = (3.537+0.692= 4.229)

The influence of ROI variable on stock prices

X1 → Y = 3.290

The influence of the exchange rate variable on stock prices

X2 → Y = 3.53

Path diagram for model II, is as follows

**Path Analysis Model**

![Path Analysis Model Diagram](image)
From the structural equation for the model are:

Sub structure 1 : \( X_3 = 2.261X_1 + 1.766X_3 + \epsilon_1 \)

Sub structure 2 : \( Y = 3.290X_1 + 3.537X_2 + 0.692X_3 + \epsilon_2 \)

Based on the results of the above calculation analysis, the following conclusions can be drawn:

1. The direct effect of the ROI variable on stock prices is 3.290
2. The direct effect of exchange rate on stock prices is 3.537
3. The direct effect of profitability on stock prices is 0.692
4. The effect of the ROI, exchange rate and profitability variables on the combined stock price is 0.969
5. The influence of other variables outside the model on loyalty is 0.031
6. The effect of the ROI variable on profitability is 2.261
7. The effect of the exchange rate variable on profitability is 1.766
8. Effect of ROI variable, exchange rate on profitability 0.741
9. The influence of other variables outside the model on profitability is 0.259

**Hypothesis Testing**

Hypothesis testing is used to determine the significance of the exogenous variable (X) to the endogenous variable (Y) both simultaneously (simultaneously) and individually (partially).

Based on the research results regarding the effect of ROI and exchange rates on profitability
from the research results, it can be seen that from the research results, the research F number is $7.298 > F$ table of 4.76. So that $H_0$ is rejected and $H_I$ is accepted. This means that the hypothesis regarding ROI and the value of the exchange rate on stock prices is proven.

Then the results of testing the hypothesis regarding the effect of ROI and exchange rates on stock prices based on the calculation results can be seen that the $F$ research number is $20.646 > F$ table, namely 4.76 so that it can be concluded that $H_0$ is rejected and $H_I$ is accepted which means there is an influence between ROI and exchange rates on stock prices. Thus, the hypothesis regarding ROI and the value of the exchange rate against shares is proven.

Then the results of the hypothesis test regarding the effect of profitability on stock prices based on the calculation results can be seen that the $t$ research number is $2.814 > F$ table, namely 2.776 so that it can be concluded that $H_0$ is rejected and $H_I$ is accepted which means there is an influence between profitability on stock prices. Thus, the hypothesis regarding the profitability of the stock is proven.

Then the results of hypothesis testing regarding the effect of ROI on stock prices through profitability based on the calculation results can be seen that the direct effect obtained between ROI on stock prices is 3.290 while the indirect effect between ROI on stocks through profitability is 1.564612 where the direct effect is greater than the indirect effect. This shows that ROI dominates the influence on stock prices and profitability is not proven as an intervening variable.

Then the results of hypothesis testing regarding the effect of the exchange rate on stock prices through profitability based on the calculation results can be seen that the direct effect obtained between the exchange rate on stock prices is 3.537 while the indirect effect between the exchange rate on stocks through profitability is 1.222072 where the direct effect is greater than the indirect effect. This shows that exchange rates affect stock prices, and profitability is not proven as an intervening variable.
Discussion

This study aims to determine the effect of ROI, Exchange Rate on Stock Prices Including LQ45 in the Manufacturing Sector on the Stock Exchange through Profitability on the Indonesia Stock Exchange. The results obtained from the hypothesis test show that there is a strong correlation between ROI and Exchange Rate on Profitability as has been done with a good correlation significance level. The test results show that the ROI and exchange rate variables have a positive and very strong and significant influence. It can be seen from the absence of a negative sign; it means that the combined ROI and exchange rates have an influence on stock prices. In this study, the results of the analysis of the profitability variable on stock prices have a positive influence with the results of a strong correlation test, which means there is a relationship between profitability and stock prices. The magnitude of the influence is included in the strong category where in this case profitability has a positive effect on stock prices. In this study the results of the analysis based on path analysis testing concluded that profitability persistence is not an intervening variable for ROI on stock prices. This can be used as empirical evidence that ROI is used as a benchmark for decision making in the company's operational activities besides profitability. Based on the results of the path analysis test, it can be concluded that the persistence of profitability is not an intervening variable for exchange rates on stock prices. This can be used as the value of the exchange rate can be used as a benchmark in the company's operational actions.

CONCLUSION AND SUGGESTION

Conclusion

Based on the results of the research and discussion of the research that has been done, the following conclusions can be drawn:
1. There is an influence between ROI and the exchange rate on stock prices which are included in the LQ45 in the manufacturing sector, so there is a strong and significant relationship between these variables.

2. There is a very strong and significant influence between ROI and exchange rates on stock prices which are included in LQ45 in the manufacturing sector for the period 2016 to 2021.

3. There is a strong and significant influence between profitability on stock prices including LQ45 in the manufacturing sector.

4. There is a positive and significant influence on the persistence of profitability where ROI has a positive effect on stock prices through the intervening variable, namely profitability.

5. There is a positive and significant influence on the persistence of profitability where the exchange rate has a positive effect on stock prices through the intervening variable, namely profitability.

Suggestion

Based on the limitations of the research, the improvements suggested for further research are:

1. It is suggested to future researchers to add other component variables besides ROI, exchange rates and profitability so as to add new findings that are even better which are thought to influence stock prices.

2. For future researchers who wish to conduct research on stock prices, it is suggested that they add to the types of companies listed on the Indonesia Stock Exchange such as service companies or other trades.
3. For future researchers who wish to conduct research on stock prices, it is recommended that they use a time span of more than 5 years to find a regression equation that provides a better picture of the problems under study.

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