

The Influence of Return on Equity and Earnings Per Share on Price Book Value with Closing Price as a Variable Mediation in Digital Bank Companies Listed on The Indonesian Stock Exchange

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ABSTRACT

The development of digital technology has driven the transformation of the financial sector, including the emergence of digital banks as an adaptation to the needs of modern society. Digital banks offer efficiency and flexibility, but face challenges in increasing company value. This research aims to analyze the influence of ROE and EPS on PBV with CP as a mediating variable in digital banking companies listed on the Indonesia Stock Exchange. The research population includes all digital banking companies listed on the Indonesian Stock Exchange. The sample was selected using a purposive sampling method, with a total of 9 digital banking companies during 2019-2023. Secondary data was obtained from annual financial reports. The data analysis technique uses the Panel Data Method. The research results show that ROE has a negative influence on PBV both directly and through CP as a mediating variable. EPS also has a direct negative influence on PBV. However, CP has a significant positive influence on PBV, this shows that share prices can be an important indicator in increasing company value. However, CP does not significantly mediate the relationship between ROE and EPS on PBV.

Keywords: Return on Equity, Earning per Share, Price to Book Value, Closing Price

1. INTRODUCTION

In the era of the industrial revolution 4.0, rapid technological advances have driven transformation in various sectors, including the financial sector. One of the most obvious manifestations of this change is the emergence of financial technology (fintech) which has disrupted conventional business models in the financial sector, including banking (Tsakila et al, 2024). In Indonesia, the development of fintech has grown rapidly in recent years, along with increasing internet penetration and smartphone use (Wahyudin, 2023). On the other hand, digital banks are a form of banking adaptation to technological changes and increasingly dynamic consumer needs (Manggala et al., 2023). The presence of digital banks as part of the digitalization of financial institutions has also facilitated the process of financial inclusion and supported the development of the financial industry in Indonesia (Desky & Maulina, 2022).

Based on data on the movement of digital bank stock prices listed on the Indonesia Stock Exchange (IDX) in the period 2019–2023, there were significant fluctuations, especially the sharp spike in ARTO and BBHI stock prices in 2021. This trend indicates high investor interest in the digital banking sector along with the acceleration of digital transformation in the financial sector (Rahmasari, 2023). However, after experiencing a drastic increase, stock prices began to show a downward trend and stabilization in 2022 and 2023. This phenomenon indicates a market correction and investor uncertainty regarding the long-term performance of digital banks. This condition raises questions about the fundamental factors that influence company value, such as Return On Equity (ROE) and Earning Per Share (EPS), and how stock prices can mediate the influence of these two variables on company value. Therefore, further research is needed to analyze the relationship between these variables in the context of digital banks, in order to provide a comprehensive understanding to investors and company managers. Company value is a growing value for shareholders, where if the company value increases, the welfare of shareholders also increases automatically, making investors believe in investing their capital in the company is also high. Company value in this study is measured by the Price to Book Value (PBV) ratio. PBV shows the company's ability to create value relative to the amount of capital invested (Bringham and Ehrhardt, 2002). One of the main factors that affects company value is Return On Equity (ROE). ROE has a significant impact on company value by Digital Bank. Return On Equity (ROE) is one of the profitability ratios that can measure the company's ability to generate profits and provide investors with an

overview of the level of return on capital that has been invested in the company (Rahmantio et al., 2018). Several studies have found that Return On Equity (ROE) affects company value (Septian, 2024; Sindita, 2023; Dhae, 2023; Patiku et al, 2023; Firmansyah et al, 2023; Mahayati et al, 2021).

The higher the ROE, generally the better the bank's financial performance, which has an impact on company value. Darmawan & Megawati (2022) discuss how ROE is used to measure the profits generated from shareholder equity. ROE shows an effect on stock prices because it is an indicator of investor confidence in the efficiency of equity management. A high Return On Equity (ROE) indicates that the company is able to generate large profits from shareholder equity. Several studies have concluded that Return on Equity (ROE) has a significant effect on stock prices (Ardiyanto et al, 2020; Lusiana, 2020; Andira & Suwarno, 2021; Caronge, 2022; Rubianto & Wartayana, 2023; Handoyo et al, 2023; Larung et al, 2023; Anggita and Irwansyah, 2023; Putri et al, 2023; Purwanto & Perkasa, 2024; Ananta et al, 2024). In a competitive industry such as digital banking, high Return on Equity (ROE) can increase investor confidence and the company's market value. Jogiyanto (2003) stated that Earning per Share (EPS) shows the company's ability to make a profit. Earning per Share (EPS) can be used as an indicator of the company's value level. Earning per Share (EPS) is one way to measure success in achieving profits for shareholders in a company. Several studies have found that Earning per Share (EPS) can influence stock prices (Dhae, 2023; Larung, 2023; Nuraeni et al, 2024). Earning Per Share (EPS) describes net income per share and is one indicator of profitability. EPS is the main indicator used by investors to see the attractiveness of a stock. In general, investors look at a company's Earning Per Share to determine investment decisions. (Amri 2020). Several studies have found that Earning Per Share (EPS) has a significant effect on stock prices (Ardiyanto et al, 2020; Andira & Suwarno, 2021; Sari et al, 2022; Caronge, 2022; Gharaibeh et al, 2022; Rubianto & Wartayana, 2023; Larung, 2023; Anggita & Irwansyah, 2023; Jeynes & Budiman, 2024; Alma & Rachmawaty, 2024; Pratama & Nugroho, 2024; Maringka, 2024; Ananta et al, 2024). Saputra & Martha (2019) explained that company value affects stock prices, with an increase in company value having implications for an increase in stock prices.

This increase in stock prices then increases the value of the company and investor prosperity. Price book value can provide an overview of the potential movement of stock prices so that from this overview, the company's value also indirectly influences the stock price. Several studies have found that stock prices have a significant influence on company value. Company value reflects market perceptions of the company's performance and prospects in the future (Idris, 2021; Setiabudhi, 2022; Caronge, 2022; Firmansyah et al, 2023; Patiku et al, 2023; Fitri et al, 2023; Putri et al, 2023). Many studies have discussed the effect of Return On Equity (ROE) and Earning Per Share (EPS) on company value, but the results found still show inconsistencies. On the other hand, studies that specifically place stock prices as a mediating variable in the relationship between ROE and EPS on company value, especially in the context of digital banks, are still relatively rare. In addition, digital banks now play an important role in the national financial system, along with the high adoption of technology and investor expectations for transparency and efficiency of company performance. Through the use of financial data, strengthening market signals through stock prices, and the support of rapidly developing digital technology, it is hoped that this research can provide an important contribution in understanding how to create sustainable corporate value in the digital banking sector.

2. RESEARCH METHOD

This research will be conducted on digital banking companies listed on the Indonesia Stock Exchange (IDX). The selection of this object is based on the rapid growth of the digital banking industry in Indonesia, which is an important part of the national digital economic transformation. Digital banks are considered capable of providing financial services that are faster, more efficient, and more inclusive. The population in this study includes all digital banking companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research sample consists of 9 digital banks selected using a purposive sampling technique based on the following criteria: (1) Digital banking companies listed on the Indonesia Stock Exchange from 2019 to 2023. (2) Digital banking companies that consistently publish annual financial statements from 2019 to 2023 and whose data can be accessed through the official IDX website. The type of data used in this study is secondary data in the form of panel data, which is a combination of time series data (from 2019 to 2023) and cross-sectional data (9 companies). The data is obtained from the companies' annual financial statements and stock price data available on the official website of the Indonesia Stock Exchange. The data collection technique is carried out through documentation. The data analysis method used is panel data regression with the help of EViews statistical software. This analysis aims to determine the effect of Return On Equity (ROE) and Earning Per Share (EPS) on firm value as measured by the Price to Book Value (PBV), with stock price as the mediating variable. This analytical technique does not require classical assumption tests on the independent variables.

3. RESEARCH RESULTS

The Stock Price (LM) variable has a probability value of 0.0001, which is smaller than the 0.05 significance level. Therefore, H_0 is rejected and H_1 is accepted, indicating that Stock Price has a significant effect on Price to Book Value (PBV) in digital banks listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The regression coefficient is -0.245024, showing a negative relationship, meaning that an increase in stock price tends to decrease the PBV. This may be due to a mismatch between the market price and the company's book value, or external factors influencing investor perception of the company's intrinsic value.

The Return on Equity (ROE/ X_1) variable has a probability value of 0.5011, which is greater than 0.05. Thus, H_0 is accepted and H_1 is rejected, indicating that ROE does not have a significant effect on PBV during the observation period. Partially, the return on equity generated by digital banks is not strong enough to influence market perception of firm value.

The Earnings per Share (EPS/ X_2) variable has a probability value of 0.8954, which is also greater than 0.05. Hence, H_0 is accepted and H_1 is rejected, indicating that EPS does not have a significant effect on PBV. In other words, fluctuations in EPS among digital banks do not have a strong enough influence on firm value.

The interaction variable between ROE and Stock Price (X_1*LM) has a probability value of 0.2413, which is greater than 0.05, so H_0 is accepted and H_1 is rejected. This implies that the interaction between ROE and Stock Price does not have a significant effect on PBV, indicating that stock price does not strengthen or weaken the effect of ROE on firm value.

The interaction variable between EPS and Stock Price (X_2*LM) has a probability value of 0.6112, which is also greater than 0.05. Therefore, H_0 is accepted and H_1 is rejected, indicating that the interaction between EPS and Stock Price does not significantly affect PBV in digital banks listed on the IDX during the 2019–2023 period. This supports the previous finding that neither EPS nor its interaction with stock price contributes significantly to explaining variations in firm value

Construct	Path Coefficient	P value	Information
CP -> PBV	0,245024	0,0001	Significant
ROE -> PBV	0,028377	0,5011	Not Significant
EPS -> PBV	-0,004949	0,8954	Not Significant
ROE -> CP -> PBV	-0,049994	0,2413	No Mediation
EPS -> CP -> PBV	-0,007831	0,6112	No Mediation
R ² Closing Price : 0.409503; R ² Price to Book Value: 0.333798			

4. DISCUSSION

4.1. The Effect of ROE on Company Value

Return On Equity (ROE) does not have a significant effect on Price to Book Value (PBV), indicating that profitability as measured by ROE is not always the main factor influencing company value, especially in the context of developing digital banks. In the digital banking industry, investors tend to focus more on business growth, innovation strategies, and future performance expectations compared to historical profitability levels. Sari & Wijaya (2020) also showed that in the banking sector experiencing digital disruption, company value is more influenced by external factors such as regulatory policies, technological innovation, and growth potential compared to profitability. This is in line with the finding that ROE does not have a significant direct relationship with PBV. These results support the research of Septian (2024), Erawati et al (2023), Sugiyanto et al (2023), Vito & Soenarno (2023) which states that Return On Equity (ROE) does not significantly affect the value of the company.

4.2. The Effect of EPS on Company Value

Earning Per Share (EPS) does not have a significant effect on company value (PBV), which indicates that an increase in EPS does not necessarily increase company value. This finding shows that in the context of digital banks listed on the Indonesia Stock Exchange, earnings per share generated by the company are not the main factor in determining the company's market valuation. This is in line with the findings of Septian (2024) that EPS has no effect on company value. These results support the research of Firmansyah et al. (2023), Yulianti et al. (2023), Fitri et al. (2023), and Sindita (2023). This suggests that the value of companies in the digital banking industry is more

influenced by other factors, such as growth strategies and innovation, than simply earnings per share, in addition, market volatility or investors' focus on other indicators, such as efficiency ratios or business expansion potential, can also cause the effect of EPS on PBV to be insignificant.

4.3. The Effect of Closing Price on Company Value

Stock price has a significant effect on company value, which indicates that an increase in stock price directly contributes to an increase in company value, because stock price reflects investor confidence and market expectations of the company's performance and prospects. This is in line with the findings of Firmansyah et al. (2023) that stock price has a significant effect on company value. These results support the research of Patiku et al. (2023), Fitri et al. (2023), Putri et al. (2023), Hatta Setiabudhi (2022), Caronge (2022), and Idris (2021), which state that stock price has a significant effect on company value. This study confirms that stock prices not only represent a company's financial performance but also reflect investors' expectations of future business prospects.

4.4. The Effect of Return on Equity (ROE) on Closing Price (CP)

Return on Equity (ROE) does not have a significant effect on Closing Price (CP), indicating that the level of profitability measured by ROE does not directly determine changes in stock prices in the context of digital banking companies. The results of this study reveal that digital banks listed on the Indonesia Stock Exchange have different characteristics from conventional banks, especially in investment strategies and profitability management. This is in line with the findings of Ananta et al. (2024) that Return on Equity (ROE) does not have a significant effect on Closing Price (CP). These results support the research of Jeynes (2024), Alma & Rachmawaty (2024), Pratama & Nugroho (2024), Elizabet (2023), and Sari et al. (2022) which found that ROE has a negative effect on stock prices, indicating that high profitability does not always increase stock prices in the market.

4.5. The Effect of Earning Per Share (EPS) on Closing Price (CP)

Earning Per Share (EPS) does not have a significant effect on Closing Price (CP), indicating that EPS is not the main factor influencing stock price changes in the context of digital banks. The results of this study indicate that digital banks listed on the Indonesia Stock Exchange have different investment and decision-making patterns compared to conventional banks. This is in line with the findings of Jeynes & Budiman (2024) that Earning Per Share (EPS) does not have a significant effect on Closing Price (CP). These results support the research of Alma & Rachmawaty (2024), Pratama & Nugroho (2024), Maringka (2024), Ananta et al. (2024), Rubianto & Wartayana (2023), Larung (2023), Anggita & Irwansyah (2023), Sari et al. (2022), Caronge (2022), Gharaibeh et al. (2022), Andira & Suwarno (2021), and Ardiyanto et al. (2020) who stated that EPS has a significant effect on stock prices.

4.6. The Effect of Return on Equity (ROE) on Company Value through Closing Price (CP)

Closing Price (CP) does not act as a mediating variable in the relationship between Return on Equity (ROE) and Price to Book Value (PBV), indicating that stock prices cannot mediate the relationship between ROE and company value. This is in line with the findings of Larung et al. (2023) that Closing Price (CP) does not act as a mediating variable in the relationship between Return on Equity (ROE) and Price to Book Value (PBV). These results support the research of Patiku et al. (2023), Alsyadilla Anggita & Irwansyah (2023), Putri et al. (2023), Setiabudhi (2022), and Hamidah & Umdiana (2017) which state that stock price can act as a mediating variable with a negative influence on the relationship between ROE and PBV.

4.7. The Effect of Earning Per Share (EPS) on Company Value through Closing Price (CP)

Closing Price (CP) does not act as a mediating variable in the relationship between Earning Per Share (EPS) and Price to Book Value (PBV) which indicates that stock prices cannot be a mediator in the relationship between EPS and company value. This is in line with the findings of Ananta et al. (2024) which states that Closing Price (CP) does not act as a mediating variable in the relationship between Earning Per Share (EPS) and Price to Book Value (PBV). These results support research by Rinjani (2022), and Christiana (2021), which states that stock prices can mediate the effect of Earning Per Share (EPS) on company value

5. CONCLUSION

The results of this study indicate that ROE has no significant effect on company value (PBV) in digital banking companies listed on the Indonesia Stock Exchange. EPS has no significant effect on company value (PBV) in digital

banking companies listed on the Indonesia Stock Exchange. Return on Equity (ROE) has a negative but insignificant effect on stock prices (CP) in digital banking companies listed on the Indonesia Stock Exchange. Earning Per Share (EPS) has a negative but insignificant effect on stock prices (CP) in digital banking companies listed on the Indonesia Stock Exchange. These results contribute to the understanding related to optimizing the management of Return on Equity (ROE) and Earning Per Share (EPS) in order to increase company value. Although the results of the study indicate that ROE and EPS do not have a significant effect on stock prices and company value, banks still need to ensure an effective financial strategy so that these financial indicators can attract investors. In addition, digital banks also need to strengthen their stock price increase strategy as a reflection of investor confidence in the company's performance and prospects.

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