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Pharmaceutical Industry Influencers and Stock Price Analysis on the Indonesia Stock Exchange

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Abstract

This study explains the effect of financial ratios on stock prices in pharmaceutical companies listed on the Indonesia Stock Exchange. This study used panel regression analysis, where time series (2016-2022) and cross-section (8 Pharmaceutical companies). Data analysis techniques using Ordinary Least Squares regression (OLS) and selection of the best model through the Chow test and Hausman test with fixed effect model as the best model. Based on the results of the calcic assumption test, the selected model is appropriate and valid for analysis. The results of the analysis show that Return On Assets, Return On Equity, Net Profit Margin, and Debt to Equity Ratio to Stock Price have a positive and significant effect both simultaneously and partially. The variation in the ability of the independent variable in this study affects the stock price variable by 88.15% and the effect is strong. Recommend to the Board of Directors of Pharmaceutical Companies listed on the Indonesia Stock Exchange to introduce policies that will have a positive impact on return on equity, earnings per asset, and debt to equity that can significantly affect the stock price.

Keywords: Stock Price, Return On Asset (ROA), Return On Equity (ROE), Net Profit Margin (NPM), Debt To Equity Ratio (DER), Panel Data.

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Introduction

The capital market is one of the elements of the economic system that also spurs economic and business growth and development. It is a market of stocks and bonds, which play an important role in economic prosperity for capital formation and sustaining economic growth. (Almumani, 2014) states that the capital market is a facilitator between savers and capital users by raising funds, sharing risks, and transferring wealth. Meanwhile, the capital market is one alternative that companies can use to meet their fund needs (Sugianto, 2021) for the community is one alternative in investing. Investment can be interpreted as a commitment to invest a certain amount of funds at

this time to obtain profits in the future. Investments can generally be made in both financial and real assets. Financial assets can be money market instruments, stocks, mutual funds, and bonds.

One investment field that is quite interesting but has high risk is stocks. Shares are proof of ownership of the assets of the company that issued the shares (Maulida, Samudra Mahardika, &; Putra Bangsa, 2021). Shares of public companies, as investment commodities are classified as high risk because the nature of commodities is very sensitive to changes that occur, both internal and outside the company (political, economic, and monetary changes). As the results of the study (Raehan, Halim, &; Mirwana, 2022), the rise and fall of stock prices is influenced by internal factors and external factors. Internal factors are factors from within the company that are specific to the stock such as sales, financial performance, management performance, company conditions, and industries in which the company moves. External factors are macro factors in influencing stock prices on the stock exchange such as inflation, interest rates, foreign exchange rates, and non-economic factors such as social conditions, political conditions, and other factors.

The share price picture of pharmaceutical companies listed on the IDX as a result of changes that occur from internal and external factors is:

Table 1. Share Price of Pharmaceutical Companies on IDX for the 2016-2022 Period
(Rupiah)

Entity	2016	2017	2018	2019	2020	2021	2022
PT. Kalbe Farma Tbk. (KLBF)	1,332.9	1,505.2	1,381.4	1,500.0	1,390.0	1,552.1	2,052.7
PT. Merck Indonesia Tbk. (MERK)	4,561.7	4,343.1	2,287.5	2,338.5	2,795.1	3,259.5	4,447.5
PT. Tempo Scan Pacific Tbk. (TSPC)	1,583.5	1,484.0	1,175.0	1,209.1	1,258.3	1,403.4	1,384.8
PT. Darya Varia Laboratoria Tbk.(DVLA)	1,357.3	1,591.4	1,665.6	1,964.5	2,211.3	2,628.7	2,370.0
PT. Kimia Farma Tbk. (KAEF)	2,674.1	2,635.8	2,558.7	1,235.7	4,201.4	2,403.7	1,085.0
PT. Pyridam Farma Tbk.(PYFA)	193.15	179.21	185.08	198.00	975.00	1,015.0	865.00
PT. Sido Muncul Tbk.(SIDO)	184.12	202.74	329.62	542.95	712.66	805.85	734.08
PT. Indofarma Tbk. (INAF)	4,680.0	5,900.0	6,500.0	870.0	4,030.0	2,230.0	1,150.0

Source: IDX

From the table above, it can be seen that based on the company's annual financial statements that have been published by the official website, stock price data for the 2016-2022 period shows that the stock prices of the eight pharmaceutical companies above tend to fluctuate. Meanwhile, during the COVID-19 period (in 2020), the stock price of pharmaceutical companies increased compared to the previous year. The highest increase in share price was PT. Kimia Farma Tbk and followed by PT Indofarma Tbk. This is due to the trend of sales growth of pharmaceutical companies during Covid-19 tend to have good financial performance. This is due to increased sales growth and boosts profitability, ability to pay dividends, and boosts company value. And all of this makes public confidence rise and stock prices rise. However, during the COVID-19 endemic, the stock price of pharmaceutical companies fell again. This is a problem that needs to be examined because stock prices can be influenced by internal company factors and external factors.

Some previous research on stock price determinants was conducted by (Bhattarai, 2016) in commercial banks listed on the Nepal Stock Exchange, (Udoka, Nya, &; Bassey, 2018) about stock price movements in Nigeria, (NGUYEN et al., 2020) at Baja companies listed in Vietnam, (Musah & Aryeetey, 2021) on companies registered in Ghana, (Yussof, Ali, &; Ghani, 2021) on

government-linked companies in Malaysia, (Maskey, 2022) on Life Insurance Companies Listed on the Nepal Stock Exchange, (Alom & Choudhury, 2022) on the National Stock Exchange of India. The determinants of stock prices from the researchers' research above are financial performance and macroeconomic factors. (Darami, Shahidan, &; Romli, 2022) on Commercial Bank in Bursa Malaysia.

Based on the above, this study wants to find out how the influence of the company's financial ratio determines the share price of pharmaceutical companies on the Indonesia Stock Exchange both simultaneously and partially. And how much variation in the ability of these variables affects stock prices.

Literature Review

Share Price

Is an important aspect for investors, producers, and other parties involved in capital markets to consider and (Hermuningsih, 2012) states that shares are one form of securities used in capital market trading that are proprietary. (Hartono, 2017), The price of a stock on the stock exchange at a given moment, set by market players based on supply and demand for the relevant shares in the capital market, is known as the stock price. (Tryfino, 2009) Explains that good company performance will be able to encourage investors to own outstanding shares to increase stock prices. Some factors that affect stock price movements in the market are internal factors and external factors of a company. Internal factors can be announcements made by the company about the company especially concerning financial performance. External factors can be in the form of economic performance where the company is domiciled and government announcements about politics, law, and so on.

Return On Asset

Is to measure the company's ability to utilize its assets to earn profits or often also to measure the level of return on investment that has been made by the company. According to (Yolanda, 2017) states that ROA is a ratio that shows the ratio between profit (before tax) and total assets and ROA can reflect the level of efficiency of managing assets owned. (Yolanda, Nieke, Massora, &; Kurniati, 2020) state that return on assets can estimate the ability of a company to generate profits in the past as well as in the future. While (Harahap, 2015) states that Return On Assets is a profitability ratio and can describe the turnover of assets measured from sales. Ratios of profitability and stock prices are crucial tools used by investors to evaluate a company's future. Researchers who discuss Return On Assets and stock prices are (Qurrota'Ayun, Sudarwati, &; Marwati, 2023), (Obalade, Lawrence, &; Akande, 2021), (Oladutire &; Agbaje, 2019), (Jermsittiparsert, Ambarita, Mihardjo, &; Ghani, 2019), (Milošević-Avdalović, 2018), (Milosevic-Avdalovic & Milenkovic, 2017). Based on the results of research from the researchers above, Return On Assets and stock prices can be significant and nonsignificant.

Return On Equity

According to (Sartono, 2019) is to measure the company's ability to earn profits available to the company's shareholders. (Riyanto, 2016) states that return on equity is a comparison between net income and equity. The ratio value of Return on equity shows the efficiency of using own capital. If this ratio is high, the position of the company owner is stronger, and vice versa.

Researchers who discuss the return on equity to stock prices are: (NGUYEN et al., 2020), (Al-Qudah, 2020), (Silwal &; Napit, 2019), (Aveh & Awunyo-Vitor, 2017), (Bilal & Jamil, 2015) and (Imran, Shahzad, Chani, Hassan, &; Mustafa, 2014) Stating the relationship is positive. And (Jallow, Abiodun, Weke, &; Aidara, 2022) The return on equity has a high correlation with stock prices. While (Musah & Aryeetey, 2021) Stating return on equity has no significant effect on stock prices.

Net Profit Margin

is a comparison between net profit and sales (Eugene F. Brigham and J.F. Houston, 2010). If the comparison value that occurs between net profit and sales is high, the company's performance is very productive. This condition can increase investor confidence to invest their capital in the company. The ratio of Net Profit Margin for an operational manager is very important because it can reflect what sales strategy and operational cost control is appropriate or not. Researchers who discuss the relationship between Net Profit Margin and Stock Price.

Debt Equity Ratio

According to (Kasmir, 2018) is a ratio used to assess debt with equity and the comparative value can determine the company's ability to pay off short-term and long-term debt with its capital. If the DER value is small, it means that the company's debt is below the equity owned by the company. In this case, what investors should pay attention to in assessing DER is if the total amount of debt exceeds its equity. Research that discusses the effect of the debt-equity ratio on stock prices is (Thim, Choong, Qasrina, &; Asri, 2012), (Dhakal, 2019) and (Rao &; Babu.S., 2021).

Methodology

The population of this study is Pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange during the period 2016 –2022. The criteria in this study are (1) Statistics on the company's annual financial statements taken from 2016 to 2022. (2) Data for the factors studied are complete, namely Return On Asset (ROA), Return On Equity (ROE), Net Profit Margin (NPM), Debt to Equity Ratio (DER), and Stock Price. (3) General Financial Statements for the period 2016-2022. (4) Complete Financial Statements that have been published on the official website of the Indonesia Stock Exchange, namely; www.idx.co.id, and the company's official website. (5) With these criteria, 8 pharmaceutical companies are the object of research. Analytical techniques used to answer problems that occur between the company's financial performance and stock prices through several stages including:

Descriptive Statistics. This method is carried out to obtain a clear picture of the data used. Table 2 describes the data in this study:

Table 2. Descriptive Statistics

	ROA	ROE	NPM	DER
Mean	0.106192	0.064574	0.116925	0.973476
Median	0.111528	0.128113	0.080711	0.467879
Maximum	0.303609	2.244585	1.900987	16.76304
Minimum	-0.337391	-4.961409	-0.374495	0.070878
Std. Dev.	0.101025	0.748345	0.263341	2.288443
Skewness	-1.325073	-5.094953	5.588794	6.075648
Kurtosis	7.927355	39.00451	39.25669	42.03126
Jarque-Bera	73.03822	3267.037	3358.800	3899.217
Probability	0.000000	0.000000	0.000000	0.000000
Sum	5.946735	3.616120	6.547802	54.51463
Sum Sq. Dev.	0.561334	30.80113	3.814175	288.0335
Observations	56	56	56	56

Source: processed data

Based on table 2 above, it is seen that the mean is far adrift compared to standard deviation, this explains that the data used has high variation, except for the ROA variable. The standard deviation values are in the range of -2 and 2, this reflects that the data used is already represented. The skewness value is in the range between -2 and 2 (Ghozali, 2016) This means that the data is normal, while the results in Table 2 state that the data is not normal. Jarque-Bera and Probability statistical values are smaller than α = 5%, revealing that the data is not normally distributed.

Panel Data Model Estimation. The three-panel data estimation models in this study are (1) Fixed Coefficient between Time and Individual (Common Effect/Ordinary Least Square), (2) Fixed Effect Model, and (3) Random Effect Model described in Table 3 below:

Table 3. Common Effect Models, Fixed Effect Models, Random Effect Models

Variable	Common Effects Model			Fixed Effects Model			Random Effects Model		
	Coeff	Std. Error	Prob.	Coeff	Std. Error	Prob.	Coeff	Std. Error	Prob.
C				6.6336	0.0850	0.0000	6.5993	0.2296	0.0000
LnROA?	7.1992	2.0280	0.0008	0.4266	0.1358	0.0030	0.3956	0.1354	0.0052
LnROE?	1.7036	0.6256	0.0088	0.6066	0.0682	0.0000	0.6358	0.0663	0.0000
LnNPM?	3.6967	0.9349	0.0002	0.3658	0.1319	0.0081	0.3992	0.1289	0.0032
LnDER?	2.7680	0.4271	0.0000	-0.2978	0.0631	0.0000	-0.2681	0.0613	0.0001
R-squared			-7.684461			0.885200			0.877125
Adjusted R-Squared			-8.185488			**0.881499**			0.861409
F-statistic						266.2616			162.2068
Prob(F-statistic)						**0.000000**			0.000000
Durbin-Watson			0.425351			1.900346			1.852295
_KLBF--C						0.394975			0.416184
_MERK--C						0.781819			0.745620
_TSPC--C						0.503409			0.508437
_DVLA--C						0.490733			0.507862
_KAEF--C						-0.127186			-0.146755
_PYFA--C						-1.256527			-1.229714
_SIDO--C						-1.809908			-1.768457
_INAF--C						1.022686			0.966822

Source: processed by Eviewss

The above three-panel model estimates cannot be analyzed because the Chow, Hausman, and Lagrange Multiplier tests must be used to maintain the best model.

Selection of the Best Mode. To determine the most appropriate method: the Chow Test (Common Effect Model VS Fixed Effect Model), Hausman Test (Fixed effect model VS Random Effect), and *Lagrange Multiplier Test (common effect* VS *random effect*). The results of the best model determination test are shown in table 4 below:

Table 4. Election Results Panel Data Regression Model

Selection Test Method	Model Result Testing	Model Used
Chow test, selection :	Common Effect vs Fixed Effect, F Prob = 0.000 < α = 0.05	Fixed Effect Model (FEM)
Hausman test, selection:	Fixed Effect vs Random Effect, F Prob. 0.029< α = 0.05	Fixed Effect Model (FEM)

Source: processed by Eviews

Based on Table 4 above, the best model is the fixed effect model.

Classic Assumption Test

This test is carried out to obtain valid, reliable, and unbiased parameters, The Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test are needed. The test results obtained are as follows:

Table 5.Classic assumption test

No	Problem	Result	Information
1	Normalicity	Jarque Berra= 4.277882 Probability = 0.117780	Normality Exists
2	Multicollinearity	Below 0.80	No Correlation
3	Heterokedacity	Prob. Chi-Square(4) = 0.2512 > α = 5 %	No Heteroskedastcity
4	Autocorrelation	Prob. Chi-Square(2) =0.6336> α = 5 %	No Autocorrelation

Source: Processed Eviews

The test results illustrate that the data is normal, there is no multicolonicity, heteroscedasticity, or autocorrelation. These results illustrate the results of regression equation predictions that are valid, reliable, and unbiased.

The multiple linear regression equation from the research carried out is:

$$Y = f(X1, X2, X3, X4)$$

$$LnY = \beta\_0 + \beta\_1\ LnX1 + \beta\_2\ LnX2 + \beta\_3\ LnX3 + \beta\_4\ LnX4 + \varepsilon\_1$$

$$Ln(Y1)¨ = \beta\_0 + \beta\_1\ LnROA + \beta\_2\ LnROE + \beta\_3\ LnNPM + \beta\_4\ LnDER + \varepsilon\_1$$

Hypothesis Testing. Statistical test F shows whether all independent variables in the model have a simultaneous influence on the dependent variable (Ghozali, 2013). The F statistical test can

be seen from the F-statistic probability value. The t-test determines how far the influence of the independent variable on the dependent variable is partially by assuming the other independent variable is constant.

Results and Discussion

Profile of the object of study

PT. Kalbe Farma Tbk. Kalbe Farma (Kalbe) was established in Jakarta, Indonesia in 1966 with a vision to become the best Indonesian health product company on an international scale. Kalbe has expanded its business activities to become an integrated health solution provider, which is managed through its four business division groups: prescription drug division, health products division, nutrition division, and distribution & logistics division. These four business divisions manage a comprehensive portfolio of prescription drugs and OTC drugs, energy drinks, nutritional products, and medical devices, with the support of a distribution network that reaches more than one million outlets throughout the Indonesian archipelago and in international markets present in ASEAN countries. Kalbe's achievements place it as the largest public health product company in Southeast Asia, with a market capitalization value of IDR 76 trillion and a sales value of IDR 26,261 billion as of the end of 2021.

PT Merck Tbk was established on October 14, 1970, and on July 23, 1981, it officially became a public company by releasing 30% of its shares for Rp 1,900/share on the Indonesia Stock Exchange. As one of the pharmaceutical companies, the products produced serve prescription drugs and over-the-counter drug products.

PT Tempo Scan Pacific Tbk (the "Company") in 1994 became a public company and listed 75,000,000 shares on the Indonesia Stock Exchange. By 1995 the number of shares had increased to 150,000,000 with a stock split. Furthermore, in 1998, as many as 300,000,000 and in 2006 the number of recorded shares increased to 4,500,000,000 shares with the change in the nominal value of each share of the Company from Rp 500 to Rp 50 per share (stock split).

PT. Darya Varia Laboratoria Tb is a pharmaceutical industry company PMDN (Domestic Investment), in November 1994 listed its shares on the Indonesia Stock Exchange (IDX) with the stock code DVLA. Currently, Darya-Varia operates two factories that have met international standards and implemented an Integrated Management System and obtained ISO 9001: 2015, ISO 14001: 2015, ISO 45001: 2018 and ISO 22000: 2018, and SNI ISO / IEC 17025: 2017 certificates with a commitment to provide a variety of quality products with the right strategy for the health of the Indonesian people.

PT. Kimia Farma Tbk was listed on the Jakarta Stock Exchange and Surabaya Stock Exchange on July 4, 2001, as PT Kimia Farma (Persero). On February 28, 2020, it became PT Kimia Farma Tbk based on approval from the Minister of Law and Human Rights of the Republic of Indonesia with its Decree Number: AHU-0017895. AH.01.02. Now PT. Kimia Farma Tbk has developed into a company with integrated health services in Indonesia.

PT. Pyridam Farma Tbk was listed on the Jakarta Stock Exchange on October 16, 2001, with an Initial Public Offering (IPO) of 120,000,000 ordinary shares. In 2005, PT Pyridam Farma, Tbk. obtained ISO 9001: 2000 certificate through SGS for all its business sectors, which was later upgraded with ISO 9001: 2008, in 2014 obtained GMP certification by the Food and Drug Supervisory Agency (BPOM), and in 2018, obtained a "halal certificate". On July 20, 2020, the sale of the Company's shares from PT Pyridam Internasional to Rejuve Global Investment Pte Ltd

amounted to 254,736,579 shares or around 47.61%. and in 2021, the Company successfully issued Pyridam Farma 2020 Bond I worth IDR 300 billion and opened a representative office in South Korea located in Seocho-gu.

PT. Sido Muncul Tbk is a traditional herbal and pharmaceutical company using state-of-the-art machinery. In 1984, PT. Sido Muncul began the modernization of its factory, by relocating its simple factory to a representative factory with modern machinery and on November 11, 2000, inaugurated a new factory in Ungaran. PT. Sido Muncul received 2 awards, namely Good Traditional Medicine Manufacturing Practices (CPOTB) and Good Drug Making Practices (CPOB) equivalent to pharmacy, and this certificate is what makes PT. SidoMuncul is one of the pharmaceutical standard herbal medicine factories. In December 2013 the company was listed on the Indonesia Stock Exchange to become PT. Sido Muncul Tbk.

PT. Indofarma Tbk is a subsidiary of Bio Farma which does business in the pharmaceutical and medical device sector. In 2000, the company expanded into the pharmaceutical distribution and trading business by establishing PT Indofarma Global Medika (IGM) and on April 17, 2001, listed on the Jakarta and Surabaya Stock Exchanges. On January 31, 2020, the government officially handed over the majority of the company's shares to Bio Farma as part of efforts to form a state-owned holding engaged in the pharmaceutical sector.

Multiple Linear Regression Equation:

Based on Table 3 above, namely the Fixed Effect Model, the regression equation can be obtained from this study:

$$LnSharePrice = 6.633599 + 0.426628LnROA + 0.606596LnROE + 0.365841LnNPM - 0.297835LnDER$$

The interpretation of the multiple linear regression equation above is the value of Constant = 6.633599 This means that statistically if all independent variables are ceteris paribus / fixed (not changed), then the stock price index of the pharmaceutical sector will increase by 6.633599 percent. While partially, each variable has a small regression coefficient value of one, this explains that the increase in one unit independent variable provided that the criteria paribus of the other independent variable, the stock price will rise smaller than one. In addition, the value states that the relationship of the independent variable (ROA, ROE, NPM, DER) with the stock price is elastic. The value of the regression coefficient of each variable above explains that changes from independent variables do not greatly affect changes in stock prices. This certainly explains that in addition to internal company factors (financial performance), there are external factors that affect stock prices more. This can be seen from the results of research from: (1) (Sindhu, Bukhari, &; Hussain, 2014) describes 8 external factors that determine stock prices, where rumors occupy the top position and are followed by analysis reports, Growth of the industry, Closing month of the accounting period and so on. (2) (Ullah, Islam, Alam, &; Khan, 2017) stated that macroeconomic variables (exchange rates, foreign currency reserves, and interest rates) have a statistically significant effect in influencing the stock market performance of SAARC countries. (3) (Kuntamalla &; Maguluri, 2022) In his research stated that short-term periods, inflation, and foreign portfolio investment have a positive impact on stock prices.

Table 6. Prediction of the Company's Stock Price Potential

Province	Coefficient	Constant	Potential
KLBF	0.3950	6.6336	7.0286
BRAND	0.7819	6.6336	7.4155
TSPC	0.5035	6.6336	7.1371
DVLA	0.4907	6.6336	7.1243
KAEF	-0.1272	6.6336	6.5064
PYFA	-1.2566	6.6336	5.3770
SIDO	-1.8099	6.6336	4.8237
INAF	1.0227	6.6336	7.6563

Source: Processed Data, 2023

The high potential stock price prediction is INAF followed by MERK, TSPC, DVLA, and KLBF. INAF companies have a high share price potential compared to similar companies in this study because PT. Indofarma Tbk is a subsidiary of Bio Farma, where Bio Farma is a state-owned holding engaged in pharmaceuticals. With this condition, investor confidence in the company's shares is positive and the stock price has the potential to increase.

Test Hypothesis

A simultaneous F test is performed to see the effect of all independent variables together (ROA, ROE, NPM, DER) on the dependent variable (stock price). Based on the calculation results in Table 4 above, the significance value of 0.00000 < 0.05 which means a significant effect. This shows that the variables Return On Asset (ROA), Return On Equity (ROE), Net Profit Margin (NPM), and Debt to Equity Ratio (DER) simultaneously have a significant effect on Stock Price.

Test t This is done by looking at the level of significance of each independent variable against the dependent variable. The results of Table 4 above show that each independent variable (ROA, ROE, NPM, DER) has a significant effect on the dependent variable (Stock Price) indicated by a probability value (P-value) smaller than $\alpha = 0.05$. For ROA and stock price according to research (Hidayat Ihsan Abditama and Sylviana Maya Damayanti, 2015) and (Yolanda et al., 2020) positive and significant.

The coefficient of determination test states the Adjusted R-squared value of 0.881499 (88.15%). This means that the ability of the ROA, ROE, NPM, and DER variables in this study affects the Stock Price variable by 88.15%, while the remaining 11.85% is explained by variables other than the independent variable in this study.

Conclusion

In conclusion, this study examines the influence of four factors of a company's financial performance, namely Return On Asset (ROA), Return On Equity (ROE), Net Profit Margin (NPM), and Debt to Equity Ratio (DER) on the company's Stock Price. Research findings show that ROA, ROE, and NPM have a significant and positive impact on a company's stock price unless DER has a significant and negative effect.

Apart from the above findings from this study, there are things of concern, one of which is the regression coefficient produced from each variable used in this study is below one (1). This leads to the analysis that ROA, ROE, NPM, and DER influence on stock prices is inelastic.

Furthermore, this study only focuses on the company's financial performance and does not consider the influence of external/macroeconomic variables on Stock Price.

From the results of the discussion above, several suggestions can be conveyed (1) Companies with Tbk status should improve their financial performance, especially those related to ROE, ROA, NPM, and Reduce the ratio of debt and equity of the company. Meanwhile, stock prices are not only influenced by the above financial performance and other factors are factors outside financial performance (macro factors). For further research refinement, it is necessary to further investigate the factors that affect stock prices by adding other variables in the context of research enrichment.

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