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The Impact of Financial Performance on Stock Prices: Evidence from Telecommunications Companies Listed on the Indonesia Stock Exchange, 2018–2022

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Abstract

This study aims to examine the effect of financial performance on stock prices of telecommunications companies listed on the Indonesia Stock Exchange. The objects of this research are Earnings per Share (EPS), Debt to Equity Ratio (DER), and Return on Equity (ROE) as exogenous variables, and Stock Price as the endogenous variable in telecommunications companies listed on the Indonesia Stock Exchange. The research population consists of 19 telecommunications companies listed on the Indonesia Stock Exchange. The sampling technique used is purposive sampling (based on specific criteria). Therefore, the final sample of this study comprises 8 companies. The data collection method employed is documentation. The data were analyzed using panel data regression with EViews v12 software. The results of this study indicate that Earnings per Share (EPS) has a positive effect on stock prices, suggesting that the higher the EPS of a company, the higher its stock price, and vice versa. Debt to Equity Ratio (DER) harms stock prices, indicating that the lower the DER of a company, the higher its stock price, and vice versa. Return on Equity (ROE) has a positive effect on stock prices, meaning that the higher the ROE, the higher the stock price, and vice versa.

Keywords: *Debt to Equity Ratio, Earnings per Share, Financial Performance, Return on Equity, Stock Price.*

INTRODUCTION

The rapid development of the Indonesian Stock Exchange today cannot be separated from prospective investors who conduct transactions on the exchange. One of the ways investors can assess a company's performance is through its stock price. Among the sectors that play an important role in driving the capital market and supporting economic activities in Indonesia is the telecommunications sector. This has contributed to the sharp increase in demand for telecommunication facilities, which are no longer considered merely as a necessity but have become part of the lifestyle of many people, particularly in Indonesia (Ainun, 2019).

With the increasing demand for telecommunication services from year to year, managing telecommunications companies has become crucial in order to maintain optimal corporate performance. Investors can assess part of a company's performance through its stock price per share, and they can also conduct a more comprehensive analysis by examining the company's financial statements for a given period using financial ratios. Through these financial ratios, the financial performance of a company can be evaluated. Moreover, financial performance enables investors to decide whether or not to invest in a particular company (Arifin & Nita Fitriani, 2017; Ristati et al., 2021).

In addition, financial statements can also be used to help forecast future profits and dividends. From the investors' perspective, forecasting a company's future financial performance is the core of financial analysis. Meanwhile, from the management's perspective, financial statement analysis is useful for anticipating future conditions and serves as a starting point for planning actions that can be taken to improve the company's financial performance in the future.

This is what drives every listed company in the capital market to compete by focusing on improving its stock price as a means of attracting more investors to invest in the company. With the steadily increasing demand for telecommunications services over the years, stock prices of several companies in the telecommunications sector have fluctuated due to buying and selling transactions of each share, which form the market price and are presented in the following table.

Table 1. Stock Price Developments of Telecommunications Companies with High Market Capitalization

Company	Code	Stock Price (IDR)				
		2018	2019	2020	2021	2022
PT. Telkom Indonesia (Persero) Tbk	TLKM	5.200	5.000	4.590	5.500	6.800
PT. Indosat, Tbk	ISAT	13.475	8.575	8.900	10.450	11.150
PT. Gihon Telekomunikasi Indonesia,Tbk	GHON	1.300	1.650	1.765	2.390	1.920
PT. Sarana Menara Nusantara	TOWR	1.500	1.645	2.020	2.620	2.050
PT. Tower Bersama Infrastructur, Tbk	TBIG	1.265	1.600	1.275	1.200	1.300
PT. XL Axiata, Tbk	EXCL	370	308	1.100	1.500	1.610
PT. Smartfren Telecom, Tbk	FREN	8.200	11.750	13.675	16.000	15.400
PT. Inti Bangun Sejahtra, Tbk	IBST	1.200	1.300	1.360	1.260	1.320
PT. Link Net, Tbk	LINK	4.900	3.960	2.410	4.000	2.620
PT. Bali Towerindo Sentra, Tbk	BALI	1.560	1.090	800	875	845

Source: www.idx.co.id, 2024.

Reflected in Table 1 is the development of stock prices of telecommunications companies during the period 2018–2022. The table shows a decline in stock prices, which has led to reduced investor confidence in investing in these companies. Table 1.1 presents the stock prices of Telkom Indonesia Tbk (TLKM), Smartfren (FREN), Inti Bangun Sejahtra Tbk (IBST), Link Net Tbk (LINK), and Sarana Menara Nusantara (TOWR), all of which experienced relatively fluctuating stock prices. In comparison, XL Axiata Tbk (EXCL) recorded an upward trend in its stock price from 2018 to 2022, while Bali Towerindo Sentra Tbk (BALI) experienced a consistent decline every year.

Stock price is one of the criteria that investors must pay attention to when making investment decisions, as it reflects the performance of the issuer. Stock price movements generally align with the issuer's performance: the better the issuer's performance, the greater the potential profit generated. In such cases, the issuer's stock price tends to increase. However, due to stock price fluctuations, the price does not always rise and may instead fall, depending on the volume of demand and supply for the issuer's shares traded on the Indonesia Stock Exchange. Consequently, stock prices are formed and fluctuate through these transactions. A decline in stock price may also occur when there is very little or no trading volume, resulting in illiquidity (Badruzaman & Jajang, 2017).

Given the tendency for stock prices to fluctuate, investors are advised to analyze companies whose shares are to be traded in the capital market. The first approach is fundamental analysis, which involves examining the company's financial statements. If the financial statements indicate positive performance, then the company's stock price is more likely to rise in the future. The second approach is technical analysis, which can be conducted by observing stock price charts over a given period, assisted by technical indicators to facilitate interpretation. Through this analysis, investors can identify whether the stock price is experiencing an upward trend (uptrend) or a downward trend (downtrend). In general, the information required by investors consists of both fundamental and technical information. According to Francis (1988), in Savitri (2012), securities analysis employs two approaches: fundamental information and technical information.

For investors, information about a company's financial performance can be used to determine whether they should maintain their investment in the company or seek alternative options. Investors naturally want to invest their funds in companies with strong financial performance, as this ensures the sustainability of their investment value. A higher firm value tends to attract investors to invest, leading to an increase in stock prices. In other words, stock prices are a function of firm value.

One of the methods that can be used in analyzing financial statements is financial ratio analysis. Financial ratios are useful for measuring a company's performance. Each financial ratio has its own purpose, function, and meaning, with the results interpreted to support decision-making. There are many types of financial ratios, including liquidity ratios, solvency ratios, activity ratios, profitability ratios, and market value ratios (Suhartono, 2009).

Earnings per Share (EPS) is an important component that must be considered in analyzing a company's profitability level. EPS is a ratio used to

indicate the amount of net income generated for each share of common stock (Hanum, 2009). The study by Cahyaningrum & Antikasari (2017) found that EPS has a significant effect on stock prices. In contrast, the study by Devi and Hendaryan (2017) showed that EPS has no significant effect on stock prices.

The higher the Debt to Equity Ratio (DER), the lower the proportion of funding provided by shareholders. This indicates that as the DER increases, stock prices also rise, in line with Modigliani and Miller's theory as cited in Setiawan (2011), which states that as long as interest payments can be used to reduce tax burdens, debt financing provides benefits for company owners. The study by Hendra (2019) demonstrated that DER has a significant effect on stock returns. However, this finding contrasts with Amanda (2013), who reported that DER harms stock prices. Similarly, Wicaksono (2015) also found that DER has no significant effect on stock prices.

A higher Return on Equity (ROE) provides shareholders with an indication of a higher return on investment. In this context, investors also assess the extent to which a company can effectively manage its own capital to generate net income. This result is consistent with the study by Amanda (2013), which showed that ROE has a positive and significant effect on stock prices. Conversely, the study by Murwanti and Mulyono (2015) found that ROE has no significant effect on stock prices.

The purpose of this study is to examine and analyze the effect of financial performance on stock prices of telecommunications companies listed on the Indonesia Stock Exchange during the period 2018–2022.

LITERATURE REVIEW AND HYPOTHESES

Agency theory is a concept that explains the relationship between the principal (contract giver) and the agent (contract receiver). The principal contracts the agent to work for the objectives they have, so that the agent is given authority in decision-making. Agency theory has a relationship with income smoothing, explaining that between agents and principals, there are often differences in interests (Supriyono, 2018).

Signaling theory was first introduced by Spence in 1973. This theory explains how signals indicate certain relevant information, which can be utilized by the receiving party. A signal is an action taken by the company to guide investors regarding the company's prospects. The signal given contains information about the intentions of the company's owners. Investors and business actors greatly need this information for decision-making when deciding to invest. This theory also assumes that dividend policy can be a signal for investors that the company is in good condition (Ainun, 2019).

Trade-off theory discusses the relationship between capital structure and firm value. The essence of trade-off theory in capital structure is balancing the benefits and sacrifices arising from the use of debt. As long as the benefits are greater than the sacrifices, additional debt is still allowed. However, if the sacrifices due to the use of debt are already greater, then additional debt is no longer allowed. Based on this theory, companies seek to maintain a targeted capital structure to maximize market value.

The capital market is often defined as a market for various long-term financial instruments (securities) (with maturities of more than 1 year). In addition, the capital market is also often defined as a place for transactions between parties that need funds (companies) and parties that have excess funds (investors) (Susilo, 2009).

Stock is a sign of ownership participation of an individual or business entity in a company or limited liability company. Owning stock means owning the company. Generally, investors buy stocks because of the company's prospects; if the company's prospects improve, then the stock price will also increase (Suhartono & Fadlilah, 2009). According to Rusdin (2009), stock is a certificate that shows proof of ownership of a company, and shareholders have claim rights over the company's income and assets. It can be concluded that the stock price is proof that a person has a share in the ownership of the company. Stock also becomes one of the indicators of the company's prospects. If the company's prospects improve and its stock price increases, then this will make it easier for investors to decide to buy the offered stock.

Stock price is the price of a stock in the ongoing market on the Stock Exchange. Stock price can be influenced by market conditions. Among others, the stock price in the primary market is determined by the underwriter and the company that will go public (issuer), based on the fundamental analysis of the company. The role of the underwriter in the primary market, in addition to determining the stock price, is

also to carry out the sale of stock to the public as potential investors. Stock price is the prevailing buying and selling price in the stock market, which is determined by market forces in the sense that it depends on the strength of demand (supply) and supply (sale demand). The stock market price also shows the value of the company itself. The higher the value of the stock market price of a company, the more investors will be interested in selling its stock.

According to Aziz (2015), stock price is defined as the real market price, and is the most easily determined price because it is the price of a stock in the ongoing market, or if the market closes, then the market price is its closing price. The stock price is a reflection of the value of a company for investors. The better a company manages its business in generating profits, the higher the value of the company in the eyes of investors.

Financial statements provide information about the company's condition and results of operations, which are essentially the final result of the accounting activities of the company concerned (Ratri, 2015, in Megawati, 2018). Financial statements used by companies are generally detailed over time. Financial statements can be prepared daily, weekly, monthly, quarterly, or prepared at certain times when the report is required by the company (Megawati, 2018).

Financial performance is the determination of certain measures that can assess the success of an organization or company in generating profit (Sucipto, 2003, in Fatika, 2019). The assessment of financial performance is one way carried out by management in order to fulfill its obligations to the company owners. In the evaluation of financial performance, of course, certain standards are needed, both external and internal. External standards refer to competitive benchmarking, which is the comparison of the company with its main competitors or industry (Wright et al., 1996, in Purwati, 2019).

Financial ratios are figures obtained from the results of comparing one financial statement item with another item that has a relevant and significant relationship (meaningful). These financial ratios simplify information that describes the relationship between certain items and other items. With this simplification, we can quickly assess the relationship between those items and compare it with other ratios so that we can obtain information and make an assessment (Kasmir, 2009).

Research Hypotheses:

H1: Earnings per Share ratio has a positive and significant effect on stock price.

H2: Debt-to-Equity Ratio has a positive and significant effect on stock price.

H3: Return on Equity ratio has a positive and significant effect on stock price.

METHODS

The object of this study is the effect of financial performance on stock prices. The research location is telecommunications companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. The research population consists of all telecommunications companies listed on the IDX, totaling 19 companies. The sample was selected using the purposive sampling method, which is a sampling technique based on specific criteria, to obtain a representative sample period in accordance with the predetermined performance measures.

Table 2. List of Telecommunications Companies that Meet the Sample Criteria

No.	Code	Company
1	TLKM	PT Telkom Indonesia (Persero) Tbk
2	ISAT	PT Indosat Tbk
3	SUPR	PT Solusi Tunas Pratama Tbk
4	TOWR	PT Sarana Menara Nusantara Tbk
5	TBIG	PT Tower Bersama Infrastructur Tbk
6	EXCL	PT XL Axiata Tbk
7	FREN	PT Smartfren Tbk
8	IBST	PT Inti Bangun Sejahtra Tbk

Source: www.idx.co.id, 2024.

The type of data used in this study is quantitative data. Quantitative data is research data based on a positivistic approach (concrete data), presented in numerical form and analyzed using statistical methods as a testing tool to address the research problem and draw conclusions (Sugiyono, 2020). The numerical data used in this study are derived from financial statements, specifically Earnings per Share (EPS), Debt to Equity Ratio (DER), and Return on Equity (ROE).

The source of data in this study is secondary data. Secondary data refers to information that does not directly provide data to the researcher but is obtained from existing sources (Sugiyono, 2019). In this case, the secondary data consists of annual financial reports

of telecommunications companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. The data were officially obtained from the IDX website (https://www.idx.co.id) and the "Kinerja Emiten" portal (https://emiten.kontan.co.id).

The data collection technique employed in this research is documentation, namely collecting financial report documents published on the IDX and Kontan Emiten websites. In addition, a literature review was conducted by consulting references, theories, and previous studies related to the research topic. Based on the type of data and analytical approach, this study is classified as quantitative research. To analyze the collected data and arrive at conclusions, the researcher conducted calculations, processing, and analysis using EViews version 12 software to regress the specified model. The descriptive statistical data used in this study include mean, maximum value, minimum value, and standard deviation.

Panel data, which combines time series and cross-sectional data, was employed in the analysis. Time series data consist of multiple years or periods for a single sub-object (company), while cross-sectional data consist of multiple sub-objects (companies) within a single period. Panel data regression analysis was applied to test the influence of the independent variables—Earnings per Share (EPS), Debt to Equity Ratio (DER), and Return on Equity (ROE)—on the dependent variable, stock price. Data processing in this study was carried out using EViews 12 software. The panel data regression model used in this study is specified as follows:

$$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \varepsilon$$

Where:

Y = Stock Price

α = Constant

X_1 = Earnings per Share (EPS)

X_2 = Debt to Equity Ratio (DER)

X_3 = Return on Equity (ROE)

$\beta_1, \beta_2, \beta_3$ = Partial regression coefficients for X_1, X_2, and X_3

ε = Disturbance error (residual/error term)

RESULTS AND DISCUSSION

Table 3. Descriptive Analysis of Research Variables

Date: 12/21/23 Time: 18:29
Sample: 2018 2022

	X1	X2	X3	Y
Mean	0.982750	0.830250	0.446000	6.482250
Median	0.685000	0.875000	0.390000	3.690000
Maximum	0.672000	1.740000	1.309000	13.76500
Minimum	0.200000	0.020000	0.004000	0.308000
Std. Dev.	0.888660	0.438883	0.276765	8.214792
Skewness	1.099558	0.114666	0.868361	2.152612
Kurtosis	4.120638	2.097261	3.049541	6.048564
Jarque-Bera	10.15324	1.445885	5.031091	46.38116
Probability	0.006241	0.485322	0.080819	0.000000
Sum	1039.310	33.21000	17.84000	259.2900
Sum Sq. Dev.	5512.265	7.512097	2.987360	2631.830
Observations	40	40	40	40

Source: EViews 12, 2024.

Earnings per Share (EPS) during the 2018–2022 period ranged between 0.20 and 0.67, with a mean value of 0.98 and a standard deviation of 0.88. The company with the highest EPS was PT Solusi Tunas Pratama Tbk in 2022, with a value of 672. A higher EPS indicates greater earnings per share, which

provides better returns for investors. Thus, the higher a company's EPS, the higher its stock price tends to be. The Debt to Equity Ratio (DER) during the 2018–2022 period ranged between 0.02 and 1.74, with a mean of 0.83 and a standard deviation of 0.43. The company with the lowest DER was PT Telkom Indonesia (Persero) Tbk in 2018, with a value of 0.02. A higher DER generally reduces investor interest in the company's stock. Conversely, when a company's DER is lower, investors tend to be more attracted to its stock, which in turn can increase the stock price.

The Return on Equity (ROE) during the 2018–2022 period ranged between 0.004 and 1.309, with a mean value of 0.44 and a standard deviation of 0.27. The company with the highest ROE was PT Smartfren Tbk in 2019, with a value of 1.309. A higher ROE indicates that the company can generate higher income for shareholders, which positively impacts stock prices. Stock Prices during the 2018–2022 period ranged between 0.30 and 13.76, with a mean value of 6.48 and a standard deviation of 8.21. The company with the highest stock price was PT Smartfren Tbk in 2021, with a value of 16,000. Stock price reflects the value of a company in the eyes of investors. The better a company manages its operations and generates profits, the higher its value will be perceived by investors.

The following section presents the results of panel data regression analysis conducted using EViews 12 software, employing the Fixed Effect Model (FEM).

Table 4. Panel Data Regression Results

Dependent Variable: Y
Method: Panel Least Squares
Date: 03/20/24 Time: 06:23
Sample: 2018 2022
Periods included: 5
Cross-sections included: 8
Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.912044	1.631983	-4.665706	0.0000
X1	1.220581	1.059459	3.127952	0.0300
X2	- 10.80197	0.602908	2.362852	0.0100
X3	17.97461	1.554586	6.427667	0.0100

Source: EViews 12, 2024.

Price Stock =-8,910244 + 1,220581 X_1 - 10,80197 X_2 + 17,97461 X_3

The multiple regression model above has the interpretation that the constant value of –8.910244 means that if all independent variables, namely Earnings per Share (X_1), Debt to Equity Ratio (X_2), and Return on Equity (X_3), are equal to 0, then the stock price (Y) does not increase or is equal to –8.910244. The coefficient value of Earnings per Share (X_1) of 1.220581 has a positive relationship with the stock price (Y). This means that if the variable Earnings per Share (X_1) increases by 1%, then the stock price (Y) will increase by 1.220581, assuming the other independent variables remain constant. The coefficient value of Debt to Equity Ratio (X_2) of –10.80197 has a negative relationship with the stock price (Y). This means that if the variable Debt to Equity Ratio (X2) decreases by 1%, then the stock price (Y) will increase by 10.80197, assuming the other independent variables remain constant. The coefficient value of Return on Equity (X_3) of 17.97461 has a positive relationship with the stock price (Y). This means that if the variable Return on Equity (X_3) increases by 1%, then the stock price (Y) will increase by 17.97461, assuming the other independent variables remain constant.

Hypothesis testing was carried out using the multiple linear regression method, which aims to test the effect of the independent variables on the dependent variable, in this case, whether there is an effect of the variables professional ethics, independence, and auditor experience on the consideration of the materiality level of local

government financial statements. The hypothesis tests conducted were the partial test (t-test), the simultaneous test (F-test), and the coefficient of determination test.

Table 5. Summary of the Hypothesis Test Results

Variable	t-statistic	t-table	Sig.	F- statistic	F-table	Sig.	*AdjustedR Square*
X1	3,127	2,028	0,030	6,526	2,911	0,0100	0,5740
X2	2,363	2,028	0,010				
X3	6,427	2,028	0,010				

The t-test serves to show how far an independent variable, namely Earnings per Share, Debt to Equity Ratio, and Return on Equity, influences a dependent variable, namely stock price. Testing in this study was carried out using a significance level of 0.05 and two-tailed (0.05/2 = 0.025). The t-table value can be found using the statistical table at a significance of 0.025 with df = n – k – 1 or 40 – 3 – 1 = 36 (k is the number of independent variables and n is the number of observations). Partial regression coefficient testing in this study is as follows, using the fixed effect model.

Based on the t-test results above, the t-table value can be seen in the t statistical table (at a significance level of α = 5%:2 = 0.025 (two-tailed test) and degrees of freedom df = n – k – 1, or df = 40 – 3 – 1 = 36). The t-table value obtained is 2.02809. Based on significance, if the significance < 0.05, then there is a significant effect, and if the significance value > 0.05, then there is no significant effect. In Table 6, it can be seen that the resulting significance is 0.03 and the t-count is 3.12792. Because the significance in the t-test is less than 0.05 (0.03 < 0.05), where the value (t-count > t-table) (3.12792 > 2.02809), it can be concluded that Earnings per Share has a positive effect on stock price.

Based on significance, if the significance < 0.05, then there is a significant effect, and if the significance value > 0.05, then there is no significant effect. In Table 6, it can be seen that the resulting significance is 0.01 and the t-count is 2.36285. Because the significance in the t-test is less than 0.05 (0.01 < 0.05), where the value (t-count > t-table) (2.36285 > 2.02809), it can be concluded that Debt to Equity Ratio has a negative effect on stock price.

Based on significance, if the significance < 0.05, then there is a significant effect, and if the significance value > 0.05, then there is no significant effect. In Table 6, it can be seen that the resulting significance is 0.01 and the t-count is 6.42766. Because the significance in the t-test is less than 0.05 (0.01 < 0.05), where the value (t-count > t-table) (6.42766 > 2.02809), it can be concluded that Return on Equity has a positive effect on stock price.

Testing in this study was carried out with a significance level of 0.05. The F-table value can be found using the statistical table at a significance of 0.05 with df1 = k or df1 = 3 (k is the number of independent variables) and df2 = n – k – 1 or df2 = 40 – 3 – 1 = 36 (n is the number of observations). If the probability/ significance value < 0.05, then it can be stated that the independent variables simultaneously influence the dependent variable. The following are the F-test results in this study using the fixed effect model.

Based on Table 6, it can be seen that simultaneously the independent variables produce an F-count of 6.526. Using a 95% confidence level, α = 5%, df1 = number of independent variables (k) and df2 = (n – k – 1), or df1 = 3 and df2 = 40 – 3 – 1 = 36. The result obtained an F-table value of 2.911. Because the F-count value is greater than the F-table value (6.526 > 2.911) and the significance value is less than 0.05, namely 0.01 (0.01 < 0.05), it means that Earnings per Share, Debt to Equity Ratio, and Return on Equity simultaneously or jointly affect stock price.

The coefficient of determination (R^2) aims to measure the ability of the independent variables, namely Earnings per Share, Debt to Equity Ratio, and Return on Equity, in explaining the variation of the dependent variable, namely stock price. The closer the R^2 value is to 1, the more capable the independent variables are in explaining the variation of the dependent variable. The following are the results of the coefficient of determination test in this study using the fixed effect model.

Based on the table above, it shows that the coefficient of determination value obtained is 0.574074 or 57.40%. This shows that 57.40% of the stock price is influenced by Earnings per Share, Debt to Equity Ratio, and Return on Equity, while the remaining 42.60% is explained by other variables not included in this study, such as liquidity ratio, return on assets, current ratio, total asset turnover, and net profit margin.

The test results for earnings per share obtained a significance value of 0.03, which is smaller than 0.05, and a coefficient value of 1.220581. This proves that earnings per share have a positive effect on the stock prices of telecommunications companies listed on the IDX for the 2018–2022 period. The results of this study show a positive (direct) effect, which means that an investor who invests in a company will receive a profit on the shares owned. The higher the earnings per share (EPS) provided by the company, the better the return it will provide. Thus, the higher the earnings per share of a company, the higher the stock price of the company will be.

The results of this study support agency theory, where earnings per share can be an important indicator because it can reveal the extent to which management acts in the interests of shareholders, who are the principals in the agency relationship. By monitoring earnings per share, shareholders can ensure that management is working to increase the overall value of the company, not just their own personal gain. In this case, agency theory helps in analyzing and understanding the dynamics behind the calculation of earnings per share. The results of this study support signaling theory, where investment activity will give a signal about the company's expected income growth in the future and will be able to increase the market value of the company's stock. An efficient market is a market in which securities quickly and fully reflect all available information. Thus, if earnings per share increase, the market will capture this signal as good information for investors.

The facts in this study use earnings per share as an indicator of the profitability ratio. Based on the results of the study in Table 4.1, the earnings per share variable obtained an average of 672, which is in the best category. This ratio figure shows that the higher the earnings per share (EPS) provided by the company, the better the return it will provide. Thus, the higher the earnings per share of a company, the higher the stock price of the company will be.

Previous research is consistent with the results of this study, which was previously conducted by Jaya et al. (2022), Marlina (2022), Hidayatullah (2022), Dinar (2022), Safitri & Pinem (2022), who concluded that earnings per share have a positive effect on stock prices. This means that the higher the earnings per share of a company, the higher the stock price of the company will be.

The recommendation that can be given by the researcher based on the description above for telecommunications companies is that one of the reasons investors buy shares is to obtain dividends; if the value of earnings per share is small, then the possibility of the company distributing dividends is also small. Therefore, it can be said that investors will prefer stocks with high earnings per share compared to those with low earnings per share.

The test results for the debt to equity ratio obtained a significance value of 0.01, which is smaller than 0.05, and a coefficient value of –10.80197. This proves that the debt-to-equity ratio has a negative effect on the stock prices of telecommunications companies listed on the IDX for the 2018–2022 period. The results of this study show a negative (inverse) effect, which means that the higher the debt to equity ratio, the less interest investors will have in the company's stock; conversely, if the company's debt to equity ratio is lower, investors will be more interested in the company's stock, which will automatically increase the company's stock price.

The results of this study support agency theory, which helps in analyzing how a company's capital structure can affect the behavior of management and shareholders. Agency theory assumes the existence of a conflict of interest between management (agents) and shareholders (principals), where management may have incentives to take higher risks by using more debt, which can harm shareholders. Therefore, analysis using the debt-to-equity ratio can provide insights into the level of financial risk of a company and how it can influence management decisions.

The results of this study support trade-off theory, which discusses the relationship between capital structure and company value. The essence of trade-off theory in capital structure is balancing the benefits and sacrifices arising from the use of debt. As long as the benefits are greater than the sacrifices, additional debt is still allowed. However, if the sacrifices due to the use of debt are greater, then additional debt is no longer permitted. Based on this theory, companies strive to maintain a targeted capital structure to maximize stock prices.

The facts in this study use the debt-to-equity ratio (DER) as an indicator of the solvency ratio. Based on the results of the study in Table 4.2, the debt to equity ratio variable obtained an average of 0.83, which is in the best category. This ratio is used to determine how

much of the owner's equity is used to guarantee debt. This means that the higher the debt-to-equity ratio, the less interest investors will have in the company's stock; conversely, if the company's debt-to-equity ratio is lower, investors will be more interested in the company's stock, which will automatically increase the company's stock price.

Previous research is consistent with the results of this study, which was previously conducted by Jaya et al. (2022), Marlina (2022), Hidayatullah (2022), Dinar (2022), Safitri & Pinem (2022), who concluded that the debt to equity ratio has a negative effect on stock prices. This means that the higher the debt-to-equity ratio, the less interest investors will have in the company's stock; conversely, if the company's debt-to-equity ratio is lower, investors will be more interested in the company's stock, which will automatically increase the company's stock price.

The recommendation that can be given by the researcher based on the description above for telecommunications companies is that it needs to be understood that the debt to equity ratio is related to company decisions in seeking funds to finance investments and determine the composition and sources of funding, so that company financing can be properly grouped based on its sources, namely internal funding and external funding. It should be noted that when a company's debt level is high, part of its profits will be distributed to creditors, so that the distribution to shareholders becomes smaller. This means that the value of the debt-to-equity ratio is expected not to deviate too far from the company's ability to pay its obligations.

The test results for return on equity show that return on equity affects the stock prices of telecommunications companies for the 2018–2022 period. The results of this study show a positive (direct) effect, which means that with higher return on equity, the company has the opportunity to provide higher income to shareholders, which in turn will increase stock prices.

The results of this study support agency theory, where management acts as an agent managing the capital owned by shareholders. Return on equity helps shareholders evaluate the extent to which management has succeeded in generating adequate profits from the equity they manage. If return on equity is low, this can be an indication that management is not using capital efficiently, or there may be agency problems where management does not pay attention to the interests of shareholders. Therefore, return on equity is important in the context of agency theory to assess management performance and the financial health of the company.

The results of this study support signaling theory, where investment activity will give a signal about the company's expected income growth in the future and will be able to increase the market value of the company's stock. An efficient market is a market in which securities quickly and fully reflect all available information. Thus, if return on equity increases, the market will capture this signal as good information for investors.

The facts in this study use return on equity as an indicator of the profitability ratio. Based on the results of the study in Table 4.3, the return on equity variable obtained an average of 0.44, which is in the best category. This ratio measures the ability of management to manage the existing capital to obtain net income. With higher return on equity, the company has the opportunity to provide higher income to shareholders, which in turn will increase stock prices.

The recommendation that can be given by the researcher based on the description above for telecommunications companies is that it is necessary to understand that return on equity in this case is the return on common equity, which is used to measure the level of profit generated from shareholder investment. Investors view return on equity as an important indicator of profitability because return on equity is an indicator to measure the success of management in carrying out its duties, namely, to generate maximum profit for the owners of capital.

CONCLUSION

The findings of this study indicate that financial performance, measured by Earnings per Share (EPS), Debt to Equity Ratio (DER), and Return on Equity (ROE), significantly influences stock prices of telecommunications companies listed on the Indonesia Stock Exchange during the 2018–2022 period. EPS and ROE have a positive effect, suggesting that higher profitability and efficient use of equity contribute to increased stock prices. On the other hand, DER has a negative effect, indicating that higher leverage reduces investor interest and tends to suppress stock prices. These results emphasize the importance of profitability and capital structure as key determinants of stock price movements in the telecommunications sector.

Based on these findings, several recommendations can be made. For investors, it is important to pay attention to profitability indicators such as EPS and ROE when making investment decisions, while using DER as a warning signal of financial risk. For company management, maintaining a balanced capital structure by controlling debt levels and improving profitability through efficient equity utilization can strengthen stock performance. For future researchers, expanding the analysis with additional financial ratios such as liquidity ratio, return on assets (ROA), current ratio, total asset turnover, and net profit margin is recommended to provide a more comprehensive understanding of stock price determinants.

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