

FINANCE | RESEARCH ARTICLE

# The Effect of Profitability on the Stock Price: Empirical Study from PT. Bank Danamon Indonesia

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## ABSTRACT

This study aims to analyze the influence of Return on Assets and Return on Equity, which reflect profitability ratios, on PT's stock price. Bank Danamon Indonesia Tbk. The research method used is descriptive quantitative research, an approach that measures phenomena objectively using numerical data. The data analysis method used descriptive quantitative analysis to calculate and analyze each research variable. Multiple regression analysis was used to assess the relationship between Return on Assets, Return on Equity, and stock prices. The results of the calculations and analyses show the influence of ROA and ROE on PT's stock price. Bank Danamon Indonesia Tbk. regression equation obtained:  $Y = 483,650 + 93,318 X_1 + 905,423 X_2$ . The results of the simultaneous significance test indicate that  $F_{hit} = 5.42 < F_{tab} = 19.00$ , so it is concluded that Return on Assets and Return on Equity have no significant effect on stock prices. Partial significance test  $X_1$  is  $t_{hit} = 0.488 < t_{tab} = 2.353$  means Return on Assets has a positive effect, but not significant on stock prices. Meanwhile, the significance test of  $X_2$  found  $t = 3.270 > t_{tab} = 2.353$ , indicating that Return on Equity has a positive effect and significantly impacts stock prices. Therefore, it is recommended to continue improving profitability ratios so that total asset and capital management can make a positive, significant contribution to PT's stock price. Bank Danamon Indonesia Tbk.

**Keywords:** Profitability, Return on Assets, Return on Equity, Stock Price

**JEL Code:** G12, G32, C22, C51.

## I. Introduction

Every company certainly has a goal of expanding its business. The goal is to become more competitive and achieve greater profits. To expand, companies require substantial additional capital, which can be obtained by going public by selling stock on the stock market. The role of the capital market is currently considered very important, not only as a means of capital exchange, but also as a way to connect parties seeking capital with investors seeking to invest. One factor to consider when investing is a company's financial performance. The better a company's performance, the higher demand for its stock, which ultimately drives its stock price higher. Stock price is one measure of a company's health and also reflects its value. If a company performs well, its stock value tends to attract investor interest. Supply and demand mechanisms influence stock prices in the capital market. High stock prices reflect solid company performance and promising



prospects. Conversely, low stock prices indicate suboptimal performance and less promising prospects. An important internal factor that investors often use to predict stock prices is a company's financial performance, which can be measured by various financial ratios, especially profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE). A company's profitability is an important indicator of the rate of return it can achieve from its investment activities. One ratio used to measure profitability is Return on Assets, which shows the amount of profit earned per dollar of assets used in the company's operations. The higher this ratio, the better the company's profitability.

Another ratio used to measure a company's profitability is Return on Equity, which measures the company's ability to generate profits from its equity and reflects the efficiency with which it uses stockholders' capital. The higher the ROE, the greater the potential for stock price appreciation, as ROE indicates the extent of stockholder wealth. A high ROE suggests higher dividends for shareholders, which can ultimately drive stock prices higher. In investing, investors require various data about companies with the potential to generate future profits. Companies sell stock to raise capital for business development, while investors purchase stock in hopes of generating returns on their investments. Stock prices are a key indicator for investors to monitor, as their fluctuations reflect the issuing company's performance. Therefore, changes in stock prices are directly related to the issuer's performance. If an issuer demonstrates improved business management, its profits will increase. In such situations, the issuer's stock price tends to rise. This is important for investors to consider, as stock price movements typically align with the issuer's performance. The better the results, the greater the potential profits from its operations. Based on the research by Pamungkas et al. (2024), it was concluded that Return on Assets had an insignificant effect on PT's stock price. In contrast, Return on Equity had a significant effect. Bank Central Asia. Likewise, the results of research findings conducted by (Nura'ini & Hasanuh, 2024) Research conducted on manufacturing companies in the basic chemical industry subsector in 2018-2022 revealed that Return on Assets had a negative and significant effect on stock prices, and Return on Equity had a positive and significant effect on stock prices; simultaneously, both profitability variables had a significant effect on stock prices in manufacturing companies in the basic chemical industry subsector. This shows that the company's financial management, especially profitability and the efficiency of equity capital use, is an important factor that investors consider when making investment decisions in the company's stock.

Research result (Abdul Aziz Junaedi et al., 2021): A study examining the influence of Return on Assets and Return on Equity on PT. Unilever Tbk found that, from 2016 to 2020, ROA and ROE accounted for only 14.5% of the increase in stock price, with the remaining 85.4% attributable to other variables. This contrasts with the study's results. (Nandita et al., 2026) which examined the effect of Return on Assets and Return on Equity on stock prices in seven banking companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. They found that Return on Assets had a positive effect on stock prices. In contrast, Return on Equity had no significant effect on stock prices in seven conventional banking companies listed on the Indonesia Stock Exchange. Therefore, for banking companies, the direction and significance of profitability's influence on stock prices differ. PT. Bank Danamon Indonesia Tbk, a national private bank listed on the Indonesia Stock Exchange (IDX), plays a significant role in the national banking sector. Like other companies in the banking industry, Bank Danamon's stock price fluctuates over time, influenced by internal factors such as financial performance and external factors such as macroeconomic conditions and government policies. Therefore, it is interesting to examine the effect of ROA and ROE on Bank Danamon's stock price during the 2019–2024 period. This research is expected to provide a deeper understanding of the relationship between financial performance, specifically ROA and ROE, and the stock price movements of PT. Bank Danamon Indonesia Tbk. This study aims to analyze the effect of profitability, as reflected in Return on Assets and Return on Equity, on PT's stock price. Bank Danamon Indonesia Tbk. The results of this study are expected to inform investors' decisions and help company management improve financial performance, thereby enhancing the company's value in investors' eyes.

## II. Literature Review and Hypothesis Development

### 2.1. Signaling Theory

Based on Signaling theory put forward by Michael Spence (Rahmawati, 2023), in a situation of information asymmetry (information imbalance between two parties), the party with more information (the insider) can provide signals to reduce uncertainty for the other party (the outsider). In the context of economics and management, this theory is often used to explain. The information a company conveys through its financial performance can serve as a signal to investors. Superior performance, as evidenced by a high profitability ratio, can signal to the market that the company has bright prospects, thereby increasing interest in the stock and influencing its price. This positive signal can increase investor interest, ultimately driving up stock prices. The signaling theory proposed by Spence (1973) is rooted in information asymmetry, where company management typically has far more in-depth information about business prospects than outsiders do. In the investment world, investors often feel hesitant because they cannot reliably distinguish between truly high-quality companies and those that appear good on the surface. To address this information gap, companies must send credible "signals" so the market can assess their true value. Positive signals to investors are often delivered through actions that are difficult or expensive for underperforming companies to replicate. For example, when a company pays a high dividend or conducts a stock buyback, these actions are seen as strong signals that it has healthy cash flow and is optimistic about future growth. Because these actions involve real financial risk, investors view them as evidence of management's honesty, rather than merely lip service in the annual report. The alignment between the signals sent and a company's actual performance ultimately creates market equilibrium. When investors receive consistent and credible positive signals, their confidence increases, which in turn drives capital inflows and stock price appreciation. Thus, Signalling Theory explains that success in attracting investment is not solely about a company's performance, but rather about how effectively it communicates its quality through strategic actions that the market trusts.

### 2.2. Profitability Ratio

Profitability is a key indicator of operational efficiency and financial health, providing a baseline for investors assessing a company's value. A high level of profitability demonstrates a company's ability to manage its resources effectively, generate added value, and reflect a strong competitive position in the market. For investors, profitability is more than a number on a financial statement; it is concrete evidence that a company's business model is sustainable and can withstand various economic conditions. Furthermore, stable and growing profitability is a key source of investment returns, both through dividend distribution and capital gains. Investors tend to invest in companies that report strong net profits because this guarantees funds for future expansion without relying on ongoing debt. Therefore, high profitability creates positive sentiment, which increases demand for stocks in the capital market and directly raises the company's valuation. Profitability ratios, according to Fahmi (2017), are used to evaluate the overall effectiveness of management and are assessed based on the profit achieved relative to sales and investments. A larger profit margin reflects a company's ability to generate significant profits. According to Kasmir (2017), Profitability ratios are used to assess a company's profitability. They also indicate the effectiveness of company management, as reflected in sales and investment returns. Essentially, these ratios demonstrate a company's efficiency. (Fahmi, 2020) states that the profitability ratio serves a purpose and is beneficial not only to business owners or management but also to external parties, particularly those with relationships or interests with the company. The purpose of the profitability ratio, both for the company and external parties, is as follows:

- a. To measure or calculate the profit earned by a company in a certain period.

- b. To assess the company's profit in the previous year with the current year's profit.
- c. To assess profit development over time.
- d. To assess the amount of net profit after tax with equity.
- e. To measure the productivity of all company funds used, both borrowed capital and equity.

According to Wardiyah (2017), the types of ratios included in the profitability ratio are:

- a. Return on Assets (ROA) is a profitability ratio used to measure a company's ability to make a profit using its total assets.
- b. Net Profit Margin is a ratio that functions to evaluate net profit after deducting taxes, relative to sales made.
- c. Earning power of total investment is a ratio used to measure the ability of equity invested in total assets to generate net profit.
- d. Return on Equity (ROE) is an important figure that assesses the effectiveness of equity capital in creating profits for all stockholders.

According to Hanafi (2016), profitability serves various purposes and benefits that are relevant not only to business owners and management but also to external parties, particularly those with interests or connections to the company. The use of profitability ratios aims to provide understanding for the company and external parties, namely:

- a. To estimate or calculate the income earned by a business in a certain period.
- b. To compare the company's profit position between last year and this year.
- c. To evaluate profit growth over time.
- d. To assess the amount of net profit after tax compared to equity.
- e. To assess the efficiency of the use of all company funds, both from loans and from equity.

### 2.3. Return on Assets

Return on Assets (ROA) is a profitability ratio used to evaluate an entity's financial performance. Performance assessment using Return on Assets (ROA) illustrates the efficiency with which capital invested in all assets generates profits. (Hery, 2016) states that this ratio assesses how much net profit is generated per rupiah invested in overall assets. (Yuniningsih, 2018), said that this ratio is used to assess a company's ability to generate after-tax profits, or profits that can be distributed to stockholders based on the total assets or investments it owns, to generate net income. According to Fahmi (2015), there needs to be a return on investment. This is a comparison of the potential return on an investment.

### 2.4. Return on Equity

Return on Equity (ROE) measures the extent to which a company uses its capital to generate profits. (Hanafi, 2016) states that Return on Equity (ROE) is an indicator that measures a company's ability to generate profits using the stock capital it owns. According to Syamsuddin (Safitri & Sulistiyo, 2021), Return on Equity is an indicator that measures the income available to company owners, both ordinary and preferred stockholders, based on the capital they invest in the company. Fahmi in (Indraswari, 2023) states, "Return on Equity (ROE) is an important calculation for a company that shows a high and consistent level of Return on Equity. Return on Equity, or ROE, is a ratio that measures net profit after tax relative to equity, especially in banking companies (Kasmir, 2010). According to Hery (2016), Return on Equity (ROE) is a ratio that measures the net profit generated per rupiah of equity invested. According to Jumingan (2017), Return on Equity measures the return on stockholders' investments. Based on the definitions above, it can be concluded that

Return on Equity (ROE) is a financial ratio that measures how much net profit a company generates from its capital.

In capital market analysis, ROA and ROE are often viewed as two sides of the same coin, but they tell different stories about a company's health. ROA serves as a benchmark for management efficiency in using all resources and assets, whether from equity or third-party loans. Investors pay attention to ROA to ensure a company can generate profits organically from its operations without relying too heavily on financing. In other words, ROA provides a clear picture of how productively each rupiah of assets a company deploys to generate profits. Investors use ROA to assess a company's operational performance. ROA indicates a company's ability to convert its assets (machinery, factories, cash) into profits, regardless of where the funds for those assets come from (whether debt or equity). If ROA is low but ROE is high, it may indicate that the company is overleveraged, thereby increasing financial risk (Subramanyam, 2014). On the other hand, ROE is a more personal indicator for investors because it directly reflects the rate of return on capital invested by stockholders. While ROA looks at the overall asset profile, ROE focuses on the effectiveness of equity utilization. However, a crucial difference arises in leverage (debt): a company can have a very high ROE but a low ROA. This phenomenon typically occurs when a company uses significant debt to finance its assets. Therefore, wise investors should not be tempted solely by a high ROE but should compare it with ROA to ensure that the profits truly stem from operational efficiency, not simply the financial risks of a dangerous debt pile.

## 2.5. Stock price

The stock price is the price a company sets for its stock. Stock prices fluctuate and are influenced by the supply-and-demand mechanisms in the capital market between buyers and sellers. The stock price reflects how much people are willing to pay to acquire evidence of participation or ownership in a company. A company's value can be measured by its stock market value. The higher the stock price, the higher the company's value, which can attract investors. (Purwantini et al., 2022) states that stock prices are formed through the demand and supply mechanism in the capital market. When demand for a stock increases, its price tends to rise. Conversely, if supply increases, the stock price tends to decrease. (Jogiyanto, 2019), explains that stock prices cannot be predicted or follow a consistent pattern because their movements follow the random walk principle, so investors must accept nominal returns at the level of profit provided by the market mechanism.

## 2.6. The Relationship Between Return on Assets and Return on Equity and Stock Prices

The relationship between Return on Assets (ROA) and stock prices, as explained by Brigham (2010), assesses the return on total assets held. A higher Return on Assets (ROA) indicates improved company performance. Signals reflect actions a company takes to inform investors about how management views the company's future. These signals provide information about the steps management has taken to meet the owner's expectations. Return on Assets (ROA) is a profitability ratio that measures how efficiently a company's management uses its existing assets to generate profits for stockholders. Therefore, increasing Return on Assets (ROA) leads to higher profits, which in turn increase demand for the company's stock, ultimately driving up the company's stock price. (Brigham, 2010) stated that investors tend to prefer high Return on Equity because it generally has a positive correlation with stock prices, which indicates better company performance. Return on Equity (ROE) is a ratio that measures the level of profit earned by capital owners (investors) relative to the company's capital. As net profit increases, ROE also increases. This increase can attract investors, ultimately boosting the stock price. Return on Assets (ROA), Return on Equity (ROE), and Return on Equity (ROE) are important financial performance indicators in fundamental stock analysis. Both reflect a company's profitability, but from different perspectives. ROA measures how efficiently a company generates profit from all its assets, while ROE indicates how much profit is generated from each unit of stockholder capital. In the

capital markets, these two ratios are often used by investors as primary benchmarks to assess a company's prospects and performance. Companies with a high Return on Assets are generally considered to optimally utilize assets to generate profits, making them more efficient and attractive to investors. An increase in Return on Assets reflects improved operational efficiency and strong cash flow potential, which can increase demand for the company's stock and drive its price higher.

On the other hand, a high Return on Equity indicates a company's ability to provide returns on the capital invested by stockholders. An increasing Return on Equity is often interpreted as a signal of a well-managed company's performance, thereby increasing market confidence. Meanwhile, in the context of the company's financial difficulties, Oktaviani's research results (Oktaviani, 2026) This concludes that (1) profitability has a negative and significant influence on a company's financial difficulties, (2) sales growth has no influence on a company's financial difficulties, and (3) leverage has a positive and significant influence on a company's financial difficulties. (Saragih, 2023) stated that both ROA and ROE have a significant positive influence on stock prices in banking sector companies listed on the Indonesia Stock Exchange. The study concluded that ROA and ROE simultaneously have a positive influence on stock prices, reflecting the effectiveness of resource management and investor confidence in the company. According to (Dendawijaya, 2019) In the highly leveraged banking industry which has large debts / third party funds, the relationship between the Return on Assets and Return on Equity ratios and stock prices can be explained as follows: Return on Assets (ROA) reflects a bank's ability to manage all its assets (the majority of which consist of loans) to generate net profit. In the banking industry, the higher the ROA, the greater investor confidence in the bank's management efficiency, which, in turn, increases demand for the bank's stock and drives up its price. Furthermore, Return on Equity (ROE) is often considered the most vital indicator for investors in banking stocks. ROE measures how much profit is generated from the capital invested by stockholders. In capital markets, investors evaluate banks based on their ability to deliver returns above the cost of equity. Banks with a high ROE indicate that management can optimally maximize their equity. This attracts both institutional and retail investors because it is perceived as capable of delivering large future dividends. Theoretically, there is a strong positive correlation between ROE and stock price. Company value (as reflected in the stock price) will increase as the bank's ability to add value to stockholders' equity grows.

## 2.7. The effect of Return on Assets (ROA) on stock prices

Return on Assets (ROA) is a crucial measure of a company's efficiency in using its assets to generate profits. A high ROA indicates sound management, which can boost investor confidence and influence their investment choices. In the stock market, a rising ROA is often seen as a positive sign that a company has bright prospects and can generate consistent profits, which in turn increases investor interest and drives up stock prices. Furthermore, companies with high ROA are considered better able to generate strong cash flow, which can be used for business expansion or dividend distribution—two factors that attract market attention. Tangngisalu's research results (Tangngisalu, 2022) show that Return on Assets has a positive effect on stock prices in property and real estate companies. Company management hopes to observe investor behavior in the capital market by understanding investor motivations, so they can develop administrative strategies to attract investment in the company. Meanwhile, Marito's research results (Marito & Dewi Sjarif, 2020) indicate that profitability, as indicated by Return on Assets, and the market ratio, as indicated by dividend yield, have a positive and significant effect on stock returns. Return on Assets signals to investors that the company's management has used its debt-funded assets effectively. Based on the latest study by Saragih (2023), a study in the *Journal of Accounting and Financial Research* found that ROA has a positive and significant impact on the stock prices of banking-sector companies listed on the IDX. A similar finding was also reported in research by Adhistia et al. (2024) in the *Scientific Journal of Industrial Engineering and Management*, which shows that companies with high ROA usually have higher stock prices because they are considered more profitable and attractive to investors. In addition, according to Brigham (2010), Profitability ratios, such as ROA, are among the main factors investors consider when assessing the feasibility of investing in stocks.

## 2.8. The Effect of Return on Equity on Stock Prices

Return on Equity (ROE) is a financial ratio that measures how much net profit a company generates per unit of shareholders' equity. ROE indicates the extent to which a company can provide a return to its investors on their invested capital. In the context of stock prices, ROE plays a significant role, as investors often use it to assess management's efficiency in generating returns from equity. A high ROE is generally perceived positively by the market because it reflects a company's profitability and growth potential, which drives buying interest and increases the stock price. Conversely, a low ROE can signal a company's inefficiency in managing shareholder capital, negatively impacting investor perceptions and stock value. Research by Rahmawati (2023), published in the Indonesian Journal of Accounting and Finance, showed that ROE has a positive and significant impact on stock prices in the consumer sector of the Indonesian Stock Exchange (IDX). Companies with high ROEs are more trusted by investors because they are perceived as capable of delivering optimal returns, which ultimately impacts stock price.

## 2.9. Hypothesis and Framework of Thought

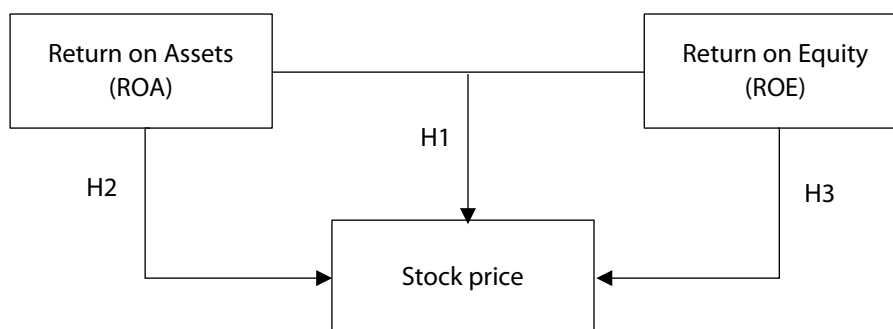
Based on the theoretical basis and results of previous research, the following research hypothesis is formulated:

H1 : Return on Assets and Return on Equity have a significant effect on the stock price of PT. Bank Danamon Indonesia.

H2 : Return on Assets has a positive and significant effect on PT's stock price PT. Bank Danamon Indonesia.

H3 : Return on Equity has a positive and significant effect on PT's stock price PT. Bank Danamon Indonesia.

In accordance with the hypothesis described above, the theoretical framework of thought can be described as follows:



**Figure 1. Framework of Thought**

## III. Research Method

### 3.1. Research Approach

The research method is a descriptive, quantitative approach that objectively measures phenomena using numerical data. This approach is often used to test hypotheses and measure relationships between variables.

### 3.2. Data Types and Sources

The data used in this study are both quantitative and qualitative. Quantitative data are tabulated, and the numbers are closely related to the problem being discussed and the research material. (Sugiyono, 2107) Qualitative data is information obtained from companies in the form of reports. This data provides a general overview of the company's development and other information relevant to the research. Qualitative data on the company profile and business development are integrated with quantitative data in the discussion of the research results. In this research, the author uses secondary data, namely by collecting data obtained indirectly from the company concerned, such as the Company's financial reports for a certain period published by the Indonesian Stock Exchange (BEI), which can be downloaded via the website [www.idx.co.id](http://www.idx.co.id), the company's official website [www.danamon.co.id](http://www.danamon.co.id), and the website [www.investing.com](http://www.investing.com) to get stock price data.

### 3.3. Data Analysis Methods

The collected data is then analyzed using descriptive quantitative methods. To calculate and analyze each research variable, namely Return on Assets (ROA) by comparing net profit with total assets, and Return on Equity (ROE) by comparing net profit with total equity (capital). Meanwhile, for the stock price variable, the closing price at the end of the research year, 2020–2024, was used. To measure the influence of Return on Assets and Return on Equity on stock price, multiple regression analysis is used. (Sugiyono, 2014) Regression analysis is used not only to measure relationships between two or more variables but also to indicate the direction of the relationship between the independent and dependent variables. Testing will be conducted using the following multiple regression model:

$$Y = a + b_1x_1 + b_2x_2 + e$$

Where:

- Y = Stock Price
- a = Constant
- b<sub>1</sub> = Return on Assets coefficient
- b<sub>2</sub> = Return on Equity coefficient
- x<sub>1</sub> = Return on Assets variable
- x<sub>2</sub> = Return on Equity Variable
- e = Standard Deviation

To calculate the regression equation, the regression coefficient values (b<sub>1</sub> and b<sub>2</sub>), the intercept (a), the coefficient of correlation, the coefficient of determination, the F significance test, and the t test, the IBM SPSS version 26 application was used. In the multiple regression model analyzing the influence of profitability on the stock price of banking companies, it is possible that intervening, moderating, and control variables, such as interest rates, company size, dividend policy, inflation, and credit risk, are included. These variables were not included in this study and are categorized as other variables. Furthermore, several basic assumptions must be met, including linearity, independence, and homoscedasticity (Sugiyono, 2107). The linearity assumption states that the relationship between the independent and dependent variables must be linear. This means that proportional or constant changes will follow changes in one variable, affecting the other. The independence assumption states that there is no correlation between observation errors (residuals). Each data item or observation must be independent and unaffected by previous or subsequent data. The homoscedasticity assumption requires that the variance of the residuals be constant across the entire range of the independent variable data.

## IV. Results and Discussion

### 4.1. Regression Coefficient and Constant

From calculations using SPSS version 26, a multiple regression equation was obtained as follows:

**Table 1. Regression coefficients, constants, and partial significance test (t-test)**

| Model                    |            | Coefficients                |            |                           |       |      |
|--------------------------|------------|-----------------------------|------------|---------------------------|-------|------|
|                          |            | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig  |
|                          |            | B                           | Std. Error |                           |       |      |
| 1                        | (Constant) | 483,650                     | 693,947    |                           | .697  | .558 |
|                          | X1         | 93,318                      | 191,291    | .136                      | .488  | .674 |
|                          | X2         | 905,423                     | 276,922    | .913                      | 3,270 | .082 |
| a. Dependent Variable: Y |            |                             |            |                           |       |      |

Based on Table 1, the regression equation for the influence of Return on Assets (ROA) and Return on Equity (ROE) on the stock price of PT. Bank Danamon Indonesia Tbk in 2020-2024 is obtained, namely:

$$Y = 483,650 + 93,318 X1 + 905,423 X2$$

Interpret the regression equation as follows:

- The constant value (a) of 483.65 means that if it is assumed that Return on Assets and Return on Equity do not change or = 0, then the stock price of PT. Bank Danamon Indonesia Tbk remains at IDR 483.65.
- The regression coefficient b1 is positive (+), meaning that Return on Assets has a positive effect on stock prices of 93.32, meaning that if Return on Assets (ROA) increases by 1%, it will result in stock prices increasing by IDR 93.32.
- The regression coefficient b2 is positive (+), meaning that Return on Equity (ROE) has a positive effect on stock prices by Rp. 905.42, meaning that if ROE increases by 1%, the stock price will also increase by IDR 905.42.

The results of this study are in line with research by Saragih (2023), who found that both ROA and ROE have a significant positive influence on the stock prices of banking sector companies on the Indonesia Stock Exchange. The study concluded that ROA and ROE simultaneously have a positive influence on stock prices, reflecting the effectiveness of resource management and investor confidence in the company, signaling the Theory of Signaling (Spence, 1973). High profitability is a good news signal for investors. Profit and return ratio information reflects management quality and future cash flow prospects, so the market responds positively through a rising stock price. Residual Income Theory (Ohlson, 1995) states that a company's value is influenced by its profit and equity. Return on Equity that exceeds the cost of equity results in abnormal earnings that increase the stock market value.

### 4.2. Coefficient of correlation and Coefficient of determination

Results: Calculation of the coefficient of correlation (r) and coefficient of determination (R<sup>2</sup>) of simultaneous ROA and ROE on the stock price of PT. Bank Danamon Indonesia Tbk is as follows:

**Table 2. Coefficient of correlation and coefficient of determination**

| Model Summary                     |       |          |                   |                                |
|-----------------------------------|-------|----------|-------------------|--------------------------------|
| Model                             | R     | R Square | Adjusted R Square | Standard Error of the Estimate |
| 1                                 | .919a | .844     | .688              | 177,256                        |
| a. Predictors: (Constant), X2, X1 |       |          |                   |                                |

The simultaneous correlation coefficient is 0.919, indicating a strong relationship among ROA, ROE, and Stock price PT. Bank Danamon Indonesia Tbk is classified in the very strong category, with a score of 0.81–0.99. Based on the multiple linear regression results, the simultaneous coefficient of correlation (R) was 0.919. This value is in the very strong category, indicating a close and positive relationship among Return on Assets (ROA), Return on Equity (ROE), and the stock price of PT Bank Danamon Indonesia Tbk. This means that changes in the company's profitability level are highly correlated with changes in stock price. Furthermore, the coefficient of determination ( $R^2$ ) value of 0.844 indicates that variations in ROA and ROE can explain 84.4% of the variation in Bank Danamon's stock price. In comparison, the remaining 15.6% is influenced by other factors outside the model, such as macroeconomic conditions, interest rates, market sentiment, monetary policy, and other fundamental variables such as company size and capital structure. This also shows that the company's financial performance, particularly the efficiency of asset and equity utilization, is an important factor investors consider when making investment decisions about PT Bank Danamon Indonesia Tbk. The results of this study are consistent with Spence's (1973) Signaling Theory. High ROA and ROE reflect operational efficiency and the ability to generate optimal returns for stockholders. This information is perceived as a positive signal by investors, thereby increasing demand for Bank Danamon stock and driving its price higher. Furthermore, within the Residual Income Model framework developed by Ohlson (1995), a high ROE—especially if it exceeds the cost of capital—will result in abnormal earnings, thereby increasing the company's value. Thus, the large contributions of ROA and ROE to stock prices ( $R^2 = 0.844$ ) indicate that profitability is the primary determinant of PT Bank Danamon Indonesia Tbk. 's stock valuation.

The R value of 0.919 indicates a very high level of dependence among the simultaneous relationships, suggesting that investors in Bank Danamon stock tend to use a fundamental, profitability-based approach when making investment decisions. The  $R^2$  value of 0.844 also indicates that the regression model has very strong explanatory power. This means the model used in this study is appropriate and representative for explaining variations in the company's stock price. However, because ROA and ROE are both based on net profit, it is necessary to test for multicollinearity (e.g., using the Variance Inflation Factor/VIF) to ensure that the observed relationship is not driven by collinearity among independent variables. In this study, the potential for multicollinearity should be tested, as ROA and ROE are both based on net profit and thus have a conceptual structural relationship. Multicollinearity is a condition in which the independent variables in a regression model are highly correlated, which can interfere with the estimation of the regression parameters (Ghozali, 2021). Based on the results of the multicollinearity test, the tolerance values for each variable were above 0.10, and the VIF values were below 10. This shows that although ROA and ROE have a close conceptual relationship, both remain within statistical tolerance limits and do not cause serious multicollinearity in the regression model. Thus, the estimated regression coefficients can be considered stable and free of distortion from correlation among the independent variables. This means that the simultaneous contribution of ROA and ROE to stock prices can still be interpreted validly.

Meanwhile, the standard error of the estimate (SEE) measures how far the regression model's predicted values differ from the actual values, in the same units as the dependent variable (stock price). The SEE of the model summary in this study was 177.26, meaning the average prediction error (mistake) of the regression calculation was 177.26, or an average deviation of Rp 177.26 from the actual stock price of Rp 2,720. This indicates that the average prediction error between the actual and model estimates is 177.26. Thus, the regression model has fairly good predictive accuracy because the error is relatively small compared with the average stock price. According to Ghozali (2021), the smaller the standard error of the estimate (SEE), the more

precisely the model explains the variation in the data. The larger the SEE, the less precise the model is, indicating that the independent variable does not accurately explain the dependent variable. The SEE determines the prediction margin of error. The smaller the SEE, the narrower the prediction interval, making managerial decisions more accurate.

#### 4.3. Simultaneous (F-Test) and Partial (t-Test) Significance Test

The F-test is used to determine whether independent variables simultaneously have a significant effect on the dependent variable. In this study, the F-test examines whether Return on Assets (ROA) and Return on Equity (ROE) simultaneously affect stock price. Meanwhile, the t-test is used to determine whether Return on Assets (ROA) has a significant effect on stock price and to test the hypothesis that Return on Equity has a significant effect on the stock price of PT. Bank Danamon Indonesia Tbk. The results of the calculation of the simultaneous significance test (F Test) obtained the calculated F as in the Analysis of Variance (ANOVA) table below:

**Table 3. Analysis of Variance**

| ANOVA                             |            |                |    |             |       |       |
|-----------------------------------|------------|----------------|----|-------------|-------|-------|
| Model                             |            | Sum of Squares | df | Mean Square | F     | Sig.  |
| 1                                 | Regression | 340,560.584    | 2  | 170280.292  | 5,420 | .156b |
|                                   | Residual   | 628,39.416     | 2  | 31419.708   |       |       |
|                                   | Total      | 403,400.000    | 4  |             |       |       |
| a. Dependent Variable: Y          |            |                |    |             |       |       |
| b. Predictors: (Constant), X2, X1 |            |                |    |             |       |       |

The results of the simultaneous significance test (F test) showed an F count of 5.42, while the F table at a significance level of 0.05 (5%) for  $n = 5$  and  $k = 3$  was 19.00. Thus,  $F_{hit} < F_{tab}$  (5.42, 19.00), so it is concluded that ROA and ROE have no significant effect on stock prices at PT. Bank Danamon Indonesia Tbk. These results indicate that ROA and ROE simultaneously have no significant effect on stock prices at the 95% confidence level. Although the calculated F value (5.420) appears numerically quite large, given the very small sample size ( $n = 5$ ; total  $df = 4$ ), statistical power is very limited. This increases the probability of a type II error, leading the model to be deemed statistically insignificant. In other words, the regression model is not statistically strong enough to conclude that ROA and ROE jointly influence stock prices during the study period. Therefore, A high correlation does not automatically mean statistical significance. Significance depends heavily on sample size and degrees of freedom. Whereas the results of the partial significance test (t-test) for the significance of the influence of ROA on stock prices obtained a t-test of 0.488, while the one-way t-test at a significance of 0.05, where  $n = 5$  and  $k = 2$ , obtained a t-test of 2.353, thus  $t_{hit} < t_{tab}$  or  $0.488 < 2.353$ . Since the ROA significance value is  $0.674 > 0.05$ ,  $H_0$  is accepted, and  $H_2$  is rejected. This means that ROA has a partially insignificant effect on the Stock price PT. Bank Danamon Indonesia Tbk. The  $b_1$  coefficient of 93.318 indicates a positive relationship, but it is statistically insignificant. This indicates that asset utilization efficiency has not been a dominant factor in investors' stock price decisions during the study period. For the significance of the influence of ROE on stock price, the t hit was 3.270, while the one-way t tab at a significance of 0.05, where  $n = 5$  and  $k = 2$ , obtained a t tab of 2.353, thus  $t_{hit} > t_{tab}$  or  $3.270 > 2.353$ . Statistically, because  $0.082 > 0.05$ , it is declared insignificant. However, this p-value is close to 0.05, so at the 10% significance level ( $\alpha = 0.10$ ), ROE is significant. The  $b_2$  coefficient of 905.423 indicates that a 1-unit increase in ROE will increase the stock price by IDR 905,423, assuming other variables remain constant. The standardized Beta value of 0.913 indicates that ROE has a greater influence than ROA. The results of this study are in line with the results of research (Utami & Darmawan, 2019) Regarding the influence of DER, ROA, ROE, EPS, and MVA on the stock prices of manufacturing sector companies listed on ISSI in 2012-2016, the author obtained the following conclusions:

(1) Partial testing of the independent variable DER on the dependent variable stock price has no effect, so H1 is rejected. (2) Partial testing of the independent variable ROA on the dependent variable stock price has no effect, so H2 is rejected. (3) Partial testing of the independent variable ROE on the dependent variable stock price has no effect, so H3 is rejected. (4) Partial testing of the independent variable EPS on the dependent variable stock price has a positive effect, so H4 is accepted. (5) Partial testing of the independent variable MVA on the dependent variable stock price has a positive effect, so H5 is accepted.

## V. Conclusion

Based on the results of the calculation and analysis of the influence of ROA and ROE on stock prices at PT. Bank Danamon Indonesia Tbk, it is concluded that: Return on Assets and Return on Equity have no significant effect on stock prices, which means that hypothesis H1 is rejected. Return on Assets has a positive but insignificant effect on stock prices, so hypothesis H2 is rejected. Return on Equity has a positive and significant effect on stock prices, supporting hypothesis H3. Return on Assets and Return on Equity both have positive effects on stock prices, but ROA has an insignificant effect, while ROE has a positive and significant effect. Thus, although research shows that ROE tends to have a greater influence than ROA, management should maintain a balance between asset efficiency and equity management to improve market perception. On the stock price of PT. Bank Danamon Indonesia Tbk. For further research, strengthening the research design, increasing the research period, and expanding the variables are important steps to enhance the validity and reliability of future results.

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