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THE INFLUENCE OF NON-PERFORMING LOANS AND CAPITAL ADEQUACY RATIO ON SHARE PRICES (EMPIRICAL STUDY OF BANKING REGISTERED ON THE ISE FOR THE 2016-2018 PERIOD)

Muhammad Fikri Amarul Haq[1], Zulkhairahmi[2], Avis Febriananda[3], Muhammad Nuur Ihsan Rabbani Tarmaja[4], Debbie Christine[5]

[1,2,3,4,5] Accounting Department, Faculty of Economics and Business, Widyatama University, Indonesia

amarul.haq@widyatama.ac.id,[5]debbie.christine@widyatama.ac.id

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Keywords: Non-Performing Loans, Capital Adequacy Ratio, and Stock Prices

ABSTRACT

This study aims to determine whether non-performing loans and capital adequacy ratios affect the stock price of banks listed on the Indonesia Stock Exchange in the 2016-2018 period. The factors tested in this study are non-performing loans and capital adequacy ratios as independent variables, while stock prices as the dependent variable. The research method used in this study is the explanatory method. The population in this study is conventional banking which is listed on the Indonesia Stock Exchange in the 2016-2018 period, amounting to 43 companies. The sampling technique used in this study was non probability sampling with a purposive sampling method, so the total sample was 36 companies. Analysis of the data used in this study is panel data regression analysis at a significance level of 5%. The program used in analyzing data uses Eviews 9. The research results partially and simultaneously show that non-performing loans and capital adequacy ratios affect stock prices. In addition, the results of the study also showed that the magnitude of the effect of non-performing loans and capital adequacy ratios in giving a contribution to the stock price of 45.1%.

Keywords: Non Performing Loans, Capital Adequacy Ratio, and Stock Prices

INTRODUCTION

Background

The capital market is one form of financial markets, where market participants, namely individuals or business entities that have excess funds (surplus funds) make investments in securities offered by issuers (Abigael et al, 2010). Stating that funding sources through share issuance are more desirable because the profits to be gained by companies when issuing shares or going public, namely the amount of funds that can be raised by companies can be large, stock issuance is suitable to finance companies that have high risk, no financial burden which is fixed (ie interest expense), the period of unlimited use of funds, no certain collateral is needed, and can also improve the company's image in the eyes of the public (Dharmastutu, 2004). The amount of funds raised through the issuance or sale of new shares of the company is determined by the share price (Manurung and Adler, 2009).

Such difficult economic conditions, rapid regulatory changes, increasingly intense competition and various other trends in the banking industry make the reason for the need for solid bank management to be able to anticipate the situation. To deal with the complexity of decision making, many bank management considers as a burden and very troublesome, on the other hand other banks even make it as a condition to assess the performance of bank management (Siamat, 2005).

Banks as business entities that collect funds from a community then channel it back in the form of credit in order to improve the lives of many people (RI Law No. 10 of 1998). A bank that is said to be healthy will attract the interest of many potential investors, which if they are interested, the more likely they will include their shares in the bank they are interested in. This will have a positive impact on the bank concerned because the more people who include their shares in the bank, the stock price of the bank will also be better (Herlina and Hadianto, 2010).

The level of health can be seen one of them from non-performing loans (NPL). Non-performing loans or bad loans are loans in which there are obstacles caused by 2 elements namely from the bank in analyzing or from the customer who intentionally or unintentionally in his obligation not to make payments (Kasmir, 2016). In addition, bank health can also be seen from the capital adequacy ratio (CAR). Bank Indonesia through Bank Indonesia Circular No. 23/67/Kep/DIR on February 28, 1991 (PakFeb'91) which was reaffirmed through Bank Indonesia Regulation No. 3/21/PBI/2001 concerning bank minimum capital obligations, stipulates that the capital adequacy ratio (CAR) must reach 8%.

This research was conducted by referring to previous studies as conducted by Wismaryanto (2013). The results of his study showed that ROA had no significant positive effect on stock prices. LDR and BOPO have a significant negative effect on stock prices. NIM has a significant positive effect on stock prices. CAR has no significant negative effect on stock prices. While Simultaneously NPL, LDR, ROA, ROE, NIM, BOPO, and CAR significantly influence stock prices. In addition, research conducted by Marbun (2013). The results of his study showed that both simultaneously and partially there was no significant effect of NPL, LDR, ROA, and CAR on the growth of stock prices.

Problem Formulation

Based on the background stated earlier, the researcher formulated the problem to be discussed as follows:

1. Does the net performing loan (NPL) affect to stock prices in the banking sector companies listed on the Stock Exchange in the period 2016-2018.
2. Does the capital adequacy ratio (CAR) affect to stock prices in the banking sector companies listed on the Indonesia Stock Exchange in the period 2016-2018.
3. Does the net performing loan (NPL) and capital adequacy ratio (CAR) affect to stock prices in the banking sector companies listed on the Indonesia Stock Exchange in the period 2016-2018.

Research Objectives

This research has objectives including:

1. To find out and analyze the effect of Net Performing Loans (NPLs) on stock prices in the Banking Sector companies listed on the ISE.
2. To find out and analyze the effect of Capital Adequacy Ratio (CAR) on share prices in Banking Sector companies listed on the ISE.
3. To find out and analyze the influence of Net Performing Loans (NPL) and Capital Adequacy Ratio (CAR) on share prices in Banking Sector companies listed on

Research Benefits

The research is expected to provide benefits including:

1. For the Community

   This research can be used for the development of science, especially financial accounting, especially those related to net performing loans, capital adequacy ratios, and stock prices.

2. For companies

   Research can be used as a tool to assess the company's financial performance and whether it will affect stock prices

3. For investors

   This research is used as an analysis tool to determine the company's ability to carry out its operational activities as a material consideration in investment decision making

4. For writers

   This research is used to find out the factors that influence stock prices

5. Next writer

   This research is useful as a reference material for further research, especially related to the content of financial information related to stock prices.

LITERATURE REVIEW

Non Performing Loan (NPL)

Non-performing loans or bad loans can be interpreted as loans that have difficulty paying intentionally or unintentionally (Kasmir, 2016). The formula for calculating NPL is as follows:

$$NPL = \frac{Bad\ Credit}{Total\ Credit} \qquad (1)$$

Capital Adequacy Ratio (CAR)

Capital adequacy ratio is the ratio of capital adequacy owned by banks to cover the risk of credit losses (Kasmir, 2016). The minimum CAR standard based on Bank Indonesia Circular Letter No.1 /24/DPNP dated October 25, 2012 is more than 12%. The formula for calculating CAR is as follows:

$$CAR = \frac{\text{Owner's equity}}{\text{ATMR}} \quad (2)$$

Stock Price

stock price is the buying and selling price that is currently in effect on the stock market which is determined by market power, which means that it is determined by demand and supply. Conversely, if the excess supply then the stock price tends to fall (Sartono, 2008). Share prices are a reflection of investment, funding (including dividend policy) and asset management decisions (Martono and Harjito, 2007). The share price in this study is measured from the closing stock price at the end of the period (closing price).

Framework

The Influence of NPL on Stock Prices

Non-performing loans are credit constraints that occur because of late payments from customers. There are 3 categories of non-performing loans, namely substandard loans, doubtful loans and bad loans. When customers are no longer able to pay for loans or loans provided by banks, the bank will experience the risk of loss so that there are uncollectible loans or the emergence of non-performing loans, so the banking company will lose the opportunity to obtain income from the credit provided, thereby reducing profitability , so that will have an impact on the decline and rise in stock prices.

The Influence of CAR on Stock Prices

Capital adequacy ratio (CAR) is the company's ability to cover the risk of loss, in this case the company has a reserve fund to cover the possibility of the company experiencing losses. The risk of loss in a banking company can be in the form of loans, investments, securities, or bills at other banks and also funds originating from other sources such as funds from the public in the form of savings, current accounts, deposits, and others. So, if a company has a capital adequacy ratio (CAR) that is sufficient in covering / funding the possibility of loss risk, it means that the possibility of losses that will occur within the company can be overcome so that it does not interfere with the company's revenue and the company will be judged well so that it will increase prices stock.

The Influence of NPL and CAR on Stock Prices

Credit as a source of funding for the real sector is still little given by banks, this is due to the increasing level of NPL experienced by banks which have reduced the quality of productive assets of a bank as a consequence of credit risk faced by banks. Because of this risk borne by banks, bank management must take several stages in the process of lending to minimize the risk of non-performing loans, so that a bank can always maintain its liquidity level, so that a bank is always able to fulfill all its obligations in the short term. Due to the large number of problem loans, it will cause bank capital to erode which can be seen from the CAR figures. The decrease in CAR certainly results in a decrease in the ability of banks to extend credit, which in turn banks lose their ability to produce optimum profits from their main activities. Then it can be concluded that capital

adequacy is an important factor for banks in the context of business development and accommodating the risk of losses they face. The risk to be faced also lies in the allocation of funds that have been successfully collected by banks in various forms of assets that contain different risks. In addition, large capital and appropriate placement of funds are expected to increase the ability to pay obligations. Based on the description above, the following framework will be presented below, as follows:

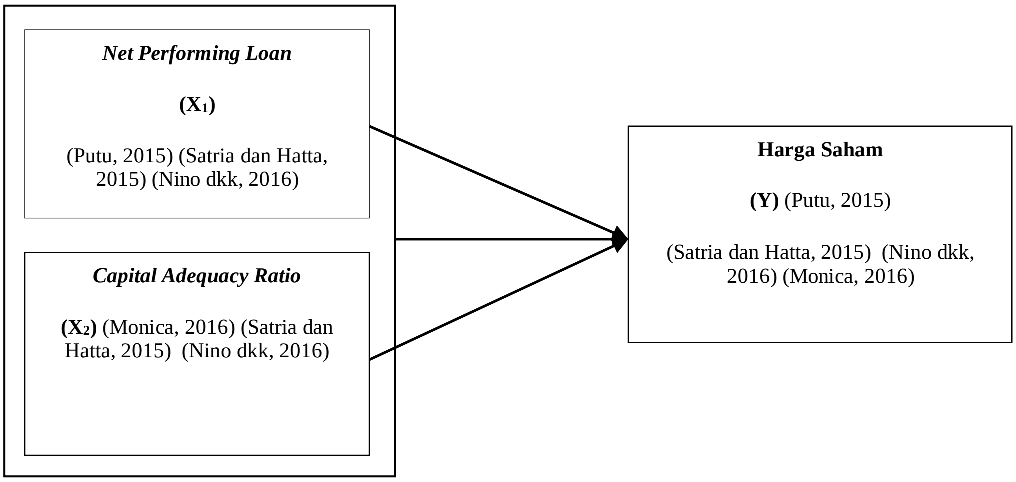

Figure 2. Framework

2.5 Research Hypothesis

H1: Net Performing Loans affect Stock Prices in Conventional Banking companies listed on the ISE for the period of 2016-2018

H2: Capital Adequacy Ratio affects the Stock Price of Conventional Banking companies listed on the ISE in the period of 2016-2018

H3: Net Performing Loans and Capital Adequacy Ratio affect Stock Prices in Conventional Banking companies listed on the ISE for the period of 2016-2018.

RESEARCH METHOD

This research uses a quantitative approach, using explanatory research methods. The data used in the form of finance in the form of financial statements and stock prices of banking sector companies on the ISE for the period of 2016-2018. The population referred to in this study was 44 companies. The research sample was determined using a nonprobability sampling technique that is the purposive sampling method, so that 36 companies. The independent variable of this study consisted of NPL and CAR, while the dependent variable was stock prices. Analysis of the data used in this study is panel data regression. Data analysis in this study used the Eviews 9.

RESULTS AND DISCUSSION

Panel Data Regression Analysis

Tabel 1: Random Effect Model

Variable	Coefficient
C	-2520,556
NPL	-40682,40
CAR	22272,91

Source: Results of Data Eviews 9

Based on table 1, the panel regression model arrangement is based on the panel data regression analysis as follows:

$$Y = -2520{,}556 - 40682{,}40\ X1 + 22272{,}91\ X2 + \varepsilon$$

Model Match Test (Goodness of Fit)

Tabel 2: Goodness of Fit

Name	Value	Percentage
R-squared	0,451	45,1%

Source: Results of Data Eviews 9

Based on tabe 2 shows the magnitude of the effect of the NPL and CAR on the stock price on the ISE for the period of 2016-2018 of 45.1%.

F-Test

Tabel 3: F Test

Name	Value	Criteria	Result
F Value	43,232	> 3,08	Accepted
F Probality	0.000	< 0,05	Accepted

Source: Results of Data Eviews 9

Based on table 3 shows that simultaneous NPL and CAR affect the stock price on the ISE for the period of 2016-2018.

t-Test

Tabel 4: t-Test

Variable	t Value	t Probality	Result
NPL	2,798>1,983	0,006< 0,05	Accepted
CAR	8,479>1,983	0,000< 0,05	Accepted

Source: Results of Data Eviews 9

Based on table 4 shows that partially NPL and CAR NPL and CAR affect the stock price on the ISE for the period of 2016-2018.

Discussion of Research Results

The Influence of NPL on Stock Prices

The results showed that non-performing loans affect stock prices. From the results of statistical tests show that non-performing loans have a negative direction on the company's stock price. This means that the higher the non-performing loan, the lower the company's stock price, and vice versa. One example is PT Bank Central Asia Tbk which shows the value of non-performing loans tends to decrease in the 2016-2018 period, but the value of the shares of PT Bank Central Asia Tbk tends to increase in the period 2016-2018.

This research is supported by research Nino et al (2016) and Monica (2016). The results of his study showed that NPL has effect on stock prices. While this research is contrary to research Satria and Hatta (2015) and Sambul et al (2016). The results of his research showed NPL has no effect on stock prices.

The Influence of CAR on Stock Prices

The results showed that the capital adequacy ratio affects stock prices. From the results of statistical tests show that the capital adequacy ratio has a positive

direction on the company's stock price. This means that the higher the capital adequacy ratio, the higher the company's stock price, and vice versa. One example in PT Bank Agris Tbk which shows the value of capital adequacy ratio tends to increase in the period 2016-2018, this is evidenced by an increase in the value of the stock prices of PT Bank Agris Tbk in the period 2016-2018.
This research is supported by research Satria and Hatta (2015), Indriani and Dewi (2016), Nino et al (2016), Putri (2017), and Purnamasari et al (2017). The results of his study showed that the CAR has effect on stock prices. While this research is contrary to research Monica (2016) and Sambul et al (2016). The results of his research show that the CAR has no effect on stock prices.

The Influence of NPL and CAR on Stock Prices
The results showed that non-performing loans and capital adequacy ratios affect stock prices. The magnitude of the influence of non-performing loans and capital adequacy ratios in contributing influence to the stock price of 45.1%. This research is supported by research Nino et al (2016). The results of his research show that NPL and CAR has effect on stock prices. While this research is contrary to research Sambul et al (2016). The results of his research show that NPL and CAR has no effect on stock prices.

CONCLUSIONS AND SUGGESTIONS

Conclusions

Based on the results and discussion, the following conclusions can be made:

1. The results showed that NPL affect stock prices.
2. The results showed that the CAR affects stock prices.
3. The results of the study show that NPL and CAR affect stock prices.

Suggestions

Suggestions that the author can give based on the results and discussion are as follows.

1. For Companies
    a. Apply credit procedures or policies in the credit granting process, as well as the existence of a policy of limiting lending so as to minimize the risk of problem loans.
    b. Follow the minimum CAR compliance in accordance with the conditions required by Bank Indonesia of 12%.
    c. Increase stock prices by increasing financial performance and company management performance that can be seen from financial ratios, as well as improving the health condition of the breed. In addition, company management also needs to pay attention and consider macro-economic risks such as inflation, interest rates, political conditions, and others that can cause stock prices to decline.

2. For Futher Researcher

    a. Not only focused on the variables in this study, but can add other variables such as inflation, interest rates, loan to deposit ratio, leverage, company size, and others.

    b. It is recommended for researchers to further use research subjects such as other financial services companies listed on the ISE, such as companies in the financial institutions sub-sector, securities companies sub-sector, insurance sub-sectors and others. And it is recommended that further researchers are advised to always use the latest research period in order to provide a broad picture.

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