

THE EFFECT OF INFLATION AND EARNINGS PER SHARE ON PROFITABILITY IN BUMN COMPANIES FROM 2019-2021

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Abstract

Objective: The purpose of this study is to empirically investigate and contribute to the existing understanding of the factors affecting profitability. Investors, in general, evaluate a company's ability to generate profits based on current events, where the company's profit performance, earnings per share value and also inflation movements play an important role. The study seeks to provide valuable contributions to the field of finance, utilizing empirical approach to shed light on the issue at hand.

Design/Methods/Approach: The study employs BUMN, a state-owned company that has a large reach to society. The index that monitors the price performance of the best BUMN shares is the BUMN20 Index. Evaluations are carried out periodically on shares listed in the BUMN20 Index. The population in this study are companies listed on the BUMN20 Index listed on the Indonesia Stock Exchange (BEI) in 2019-2021 with a total of 20 companies. The sampling technique used, namely the purposive sampling method, is based on obtaining a sample that is able to represent the population, 60 research samples have been obtained. The variables of this research are inflation, earnings per share and profitability and will be measured using SPSS statistical software.

Findings: The research results noted that there was an insignificant influence between inflation and profitability in BUMN20 index companies. Meanwhile, earnings per share were found to have a significant influence on state-owned companies from 2019-2021. The results of the F test simultaneously note that inflation and EPS have an effect on profitability.

Originality/Value: The study is a replicate research which means that the variables has been used by previous researchers. Nonetheless, the research employs BUMN companies index, which is rarely studied, as it is a new index in the stock exchange, while the companies has large reach to society.

Practical/Policy implication: The research findings have significant implications for management and business practices, as well as policy aspects. As the result indicated that between macroeconomic and fundamental factor that affecting profitability, fundamental factor held an importance, therefore the management need to take notes and evaluate their performance in maintaining or increasing the performance of the company.

Keywords: Inflation, Earning per Share, Profitability

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INTRODUCTION

The capital market essentially goes hand in hand with a country's economic development. With various investment instruments, the capital market in Indonesia wants to provide services to the general public in channeling their funds to securities they trust. With this, interaction is created in the capital market, those who need funds are met with funding from the general public and also institutions involved in the capital market. With this, every company can develop and serve the needs of society, create products and generate profits.

Referring to the Kontan newspaper (2023), state-owned companies are said to have achieved profits of more than 300T rupiah. And it was found that this was due to improvements in the performance of the state-owned company's lister. The financial sector is the highest provider of these profits. In this way, BUMN continues to provide profits. This is amidst a lot of news that inflation could affect company profitability in 2022 (Kontan, 2022). At the same time, analysts also predict an increase in share prices of state-owned companies until the final quarter of 2022 (Kontan, 2022).

Every business certainly wants its business to grow. The capital market is an option that can be taken, by selling shares there and getting funds for business ventures. Investors on the other hand will own companies that have profits. If a business is unlucky, then it can be said to have no prospects. Investors are of course interested in companies that perform well and are profitable. Then, if they want to analyze more deeply, they will try to find out what things, or what factors can make this profit increase, maybe even vice versa. In this case, macroeconomic factors and company performance are options, where company profit performance, earnings per share value and also inflation movements play an important role.

Investors play a role in changes in share prices in the capital market (Hutabarat, 2023). Of course, investors invest in companies that generate profits, and wonder about the factors that can influence the profits of these businesses. This can be seen from research by Naibaho & Hutabarat (2020) which tested various determinant elements of profitability. Ratios such as return on equity, price earnings ratio, price to book value, are aspects of fundamental analysis that are often studied in various studies (Nopiyanti & Darmayanti, 2016; Hutabarat, 2021). Regarding this research, the factors that are of concern to the research are inflation in a country and earnings per share.

BUMN is a state-owned company that has a large reach to society. The index that monitors the price performance of the best BUMN shares is the BUMN20 Index. Monitoring is carried out for companies included in this Index, specifically in January and July, twice a year. In this way, it can be seen that the best state-owned company is based on the criteria given.

Referring to the discussion provided, this research wants to see the relationship between the variables in the research based on applicable rules with the title: The Effect of Inflation and Earning Per Share on Profitability in companies on the BUMN20 Index.

LITERATURE REVIEW

Profitability

Profitability is a ratio that looks at the company's profit level, and can also be seen as how much the company's ability to generate profits. (Nurlaela et al, 2018). The ratio that investors often use to see the level of company capability in their investment decisions is return on equity. Return on equity looks at the company's ability to generate profits based on the company's own capital. (Brigham & Houston, 2019). This ratio has the following calculation:

$$\text{Return on Equity} = \frac{\text{net profit}}{\text{total equity}}$$

Inflation and Profitability

The Indonesian government has set the goal of controlling inflation in its government. Inflation occurs due to an increase in the price of goods together, apart from that inflation also occurs due to a decrease in the value of the currency. This of course has an impact on people's purchasing power, and naturally people's purchasing power becomes the main objective of the company in selling its products. Thus, inflation in a country is important for companies, in increasing the level of profits they receive. Bank Indonesia recorded the lowest inflation in Indonesia in 2019 (CNN Indonesia, 2020). Of course, companies want the impact of this inflation to be positive. However, this is not in accordance with research by Dithania & Suci (2022), it was noted that inflation does not have a positive effect on the profitability of commercial banks on the Indonesian stock exchange, which confirms the research results of Nugroho & Krisnaldy

(2019). Although, previous research by Nadzifah & Sriyana (2020), revealed the influence of inflation on profitability. This discussion resulted in the following research hypothesis:

H1: Inflation and profitability have a significant effect

Earning per Share and Profitability

Brigham & Houston (2019) sees earnings per share (EPS) as a reference ratio for investors in investing. This ratio compares the company's profits and the total shares owned by the company. Ferawaty (2017) looks at the role of the EPS ratio, where investors often refer to this ratio because as investors, the distribution of company profits to owners is taken from the company's profits. EPS, according to Hutabarat (2022), is also a reference for the success of company management, because the same thing is the reference ratio for share owners in successfully generating profits. The calculation used to view earnings per share is as follows:

$$\text{Earning Per Share} = \frac{\text{net profit}}{\text{Number of shares outstanding}}$$

Increasing EPS plays a role in increasing business profits. In this way, the profitability ratio will increase according to the size of the numerator, whether assets in return on assets, equity in return on equity or sales in net profit margin. And an increase in the numerator will result in a higher profitability ratio. Referring to the above, research supports the significant influence between earnings per share and profitability as conducted by Ulzanah & Murtaqi (2015) and Joana & Pitaloka (2017). However, different results by Pramesty (2013) and Diaz et al (2014) reveal that earnings per share have no effect on profitability. This discussion resulted in the following research hypothesis:

H2: EPS and profitability have a significant effect

METHOD

This research uses data referring to secondary capital market data in Indonesia. Using the purposive sampling method, the sample was obtained from the data population in the BUMN20 Index. There were 60 research samples from 20 state-owned companies from 2019-2021 that were listed on the Indonesian Stock Exchange. The variables tested are the independent variables: inflation and earnings per share, and the independent variable: profitability, with the return on equity indicator. PSPP software was used, and testing according to Arikunto (2016) used multiple linear regression analysis methods and other statistical analyzes such as correlation coefficient, descriptive statistics, coefficient of determination, t test and F test in research.

The regression equation from the discussion above is found to be:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where:

Profitability (ROE), is the Y variable

Beta coefficient, using the notation b_1 , b_2 , b_3

X_1 represents inflation (INF)

X_2 represents earnings per share (EPS)

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. Descriptive statistics

	M	Mn	Mx	SD	Skew	Kurt
ROE	0,28	-2,30	13,85	1,82	7,03	53,22
INF	2,09	1,68	2,72	0,46	0,61	1,50
EPS	613,55	-255,48	25477,31	3283,33	7,41	56,68

Descriptive statistical tests noted that variable inflation had a mean of 2.09, a maximum of 2.72 and a minimum of 1.68 with a standard deviation of 1.82. EPS on the other hand has a mean of 613.55 with a standard deviation of 3283.33 and a maximum value of 25477.31 and a minimum value of -255.48. Profitability with return on equity as a proxy has a mean of 0.28 with a maximum value of 13.85 and a minimum of -2.30.

Correlation

Tabel 2. Correlation

	ROE	Inflation	EPS
ROE	1,000		
INF	0,186	1,000	
EPS	0,987	0,178	1,000

Correlation coefficient analysis looks at the relationship between research variables. The correlation test recorded a low correlation between inflation and profitability at a value of 0.186. EPS on the other hand has a very strong correlation at 0.987 to profitability. EPS and inflation are recorded to have a very low correlation with a value of 0.178.

Regression Test

Table 3. Regression Test

	B	SE	T	Sig.	Description
INF	0,05	0,09	0,57	0,569	H1 rejected
EPS	0,00	1,20E-005	45,46	0,000	H2 accepted
C	-0,16	0,18	-0,86	0,395	
F	1071,30		Adj.R ²	0,97	
Sig.	0,000		R	0,99	

Simultaneously, it was found that inflation and earnings per share have a significant influence on profitability, this can be seen from the F test of 1071.30 with a significant value of 0.000 < 0.05. Thus the regression model in the table is accepted.

Test the hypothesis in the table above, the results record a value of 0.05 (INF) and significance at a value of 0.57 > 0.05, then H0 is accepted. So the findings in BUMN20 companies, inflation does not affect profitability. So it can be said that inflation is not a factor that can affect the profitability of BUMN companies20.

The hypothesis test on EPS recorded a value of 0.00 (EPS) and significance at a value of 0.000 < 0.05, then H0 was rejected. So the findings in BUMN20 companies, earnings per share affect profitability. So it can be said at a certain level that EPS plays a role in increasing the profitability of BUMN companies20.

The Coefficient of Determination Test recorded an Adjusted R² value of 0.97, which means that the variables Inflation and Earning Per Share have an influence of 97% on Profitability and 3% are influenced by other variables.

CONCLUSION

The inflation rate was found to be relatively low with an average of 2.09% from 2019-2021. Earnings per share were found to have an average of 613.5 rupiah per share. Meanwhile, the profitability of state-owned companies as measured by return on equity is 0.28 or 28%, which is quite large in the 2019-2021 period. The results of the hypothesis test note that there is an insignificant influence between inflation and profitability in BUMN20 index companies. This indicates that the government is capable of implementing macroeconomic policies appropriately. Meanwhile, earnings per share was found to have a significant influence on the hypothesis test. The results of the F test simultaneously note that inflation and EPS have an effect on profitability.

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