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# Stock Return: Effect Return On Equity And Debt To Equity Ratio Moderated Earning Per Share

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**Abstract**

*One of the advantages obtained from buying shares by investors is in the form of Stock Return (SR). There are many variables that can influence Stock Return (SR), including Return On Equity (ROE), Debt to Equity Ratio (DER) and Earnings Per Share (EPS). The objective of the research was to examine the partial impact of return ROE, DER, and EPS on SR and assess the role of EPS in moderating the association between ROE and DER on SR.This study uses an explanatory research approach.In 2019-2020, a total of 57 manufacturing coorporation in the consumer goods industry were listed on the Indonesia Stock Exchange. From this population, 35 companies were selected using a purposive sampling technique. To analyze the data.used analysis of moderated multiple linear regression. This study concludes that ROE, DER and EPS partially affect SR and EPS strengthens the relationship between ROE and DER on SR.*

**Keywords: Stock Return, Return On Equity, Debt to Equity Ratio, Earning Per Share**

## 1. INTRODUCTION

Investors' opinion of equity investments is reflected in the health of the company, which is reflected in price and return on equity (ROE). The success of a corporationthat has good performance can be shown from higher stock prices. This led to investors and potential investors being intrigued to invest their capital by purchasing stocks of the company with

the expectation that the share price will rise further in the future. A company that has a higher share price also has an impact on shareholders who will increase their prosperity (Sartono, 2014).

From an investor's point of view, a company's future potential is evaluated by analyzing how its profitability increases. According to (Brigham & Houston, 2018) Return On Equity (ROE) is a key financial indicator that can enhance a company's financial success.The ROE indicatorshow a company's ability to obtain returns from the capital invested in the company. The higher the ROE value, the higher the investor confidence in the company. Investors tend to trust companies that are able to manage and generate profits from the capital they invest (Fitri, 2017).

To determine the effect of ROE on SR, several studies have been carried out. Research (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Sriyono & Suciwati, 2017), (Anjani & Syarif, 2019), (Fidrian, et al., 2019), (Purnomo & Soekotjo, 2019), (Danladi, 2020), (Nainggolan & Widajatun, 2020), (Rasyad et al., 2020), (Arsita & Sihombing, 2021), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021), (Santoso & Ugut, 2021) proves that ROE has an influence on SR. In contrast, research (Anwaar, 2016), (Hertina & Saudi, 2019), (Istiqomah & Febriyanto, 2020), (Napitu et al., 2020), (Dewi et al., 2020) and (Nurmayasari et al., 2021), (Sari & Kurniasih, 2021) proves that ROE has no effect on RS.

Investors should also keep an eye on changes in the Debt to Equity Ratio (DER), as it shows how much of the company's capital is financed by debt. If a company has a large amount of debt, investors will have a bad image of the company. A bad view of the company has an impact on investors being less interested in buying shares, resulting in a tendency for stock prices to decrease which affects investors to obtain stock returns which also decrease (Dwialesi & Darmayanti, 2016).

Several studies have been conducted to validate the effect of DER on SR. Research (Ghi & Ba, 2015), (Ibrahim & Bala, 2017), (Sayedy & Ghazali, 2017), (Sriyono & Suciwati, 2017), (Anjani & Syarif, 2019), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Sausan et al., 2020), (Rasyad et al., 2020), (Arsita & Sihombing, 2021), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021), (Sari & Kurniasih, 2021) proves that DER

has an influence on RS. In contrast, research (Allozi & Obeidat, 2016), (Parapat, 2018), (Ardianti et al., 2020), (Istiqomah & Febriyanto, 2020), (Dewi et al., 2020), (Pandaya et al., 2020 ), (Marito & Sjarif, 2020), (Nainggolan & Widajatun, 2020), (Nurmayasari et al., 2021) and (Santoso & Ugut, 2021) demonstrate that DER does not affect SR.

Based on (Jogianto, 2018), research findings suggest that there is a conflict suspected to have a moderating variable or factor. The moderating factor in this research employs Earnings Per Share (EPS), as EPS represents the earnings or net income that the company obtains for distribution to its shareholders.Generally, EPS captures the interest of investors due to its elevated worth, leading to increased returns on equity for each share owned by investors (Tandelilin, 2018). Furthermore (Ginting, 2021) also mentions that EPS is utilized to evaluate the effectiveness of management in generating profits for stockholders. This is supported by research (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Anwaar, 2016), (Ibrahim & Bala, 2017), (Sriyono & Suciwati, 2017), (Parapat, 2018), ( Anjani & Syarif, 2019), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Ardianti et al., 2020), (Danladi, 2020), (Joseph, 2021), (Ricardo & Mustafa, 2021) proves that EPS has an influence on SR.

The novelty of this research lies in the presence of a moderating factor in the shape of EPS. It is believed to strengthen the relationship between ROE and DER with respect to SR using moderating linear regression as an analytical tool. This research seeks to partially examine the influence of ROE, DER and EPS on RS, as well as analyze the role of EPS in moderating the relationship between ROE and DER on RS.

## 2. LITERATURE REVIEW

### 2.1 The Clean Surplus Theory

Conforming to Ohlson (1995) and Feltham & Ohlson (1995), this clean surplus theory is the theory underlying the value significance of accounting information. The theory is that a corporation's stock price is mirrored in the financial information contained in its balance sheet and income statement financial statements. The clean surplus theory provides a framework consistent with the measurement perspective by showing how the market value

of firms and returns on securities can be expressed in the components of the balance sheet and income statement. This theory assumes ideal conditions and is related to accounting variables (such as book value and book profit) and economic variables (expected present value of incoming cash flows). Accounting plays an important guiding role in the statement of changes in equity, which shows the relationship between balance sheet items and profit and loss items. Includes earnings and book value of equity. The change in book value of equity equals earnings less dividends or net capital contributed. This relationship is called clean excess (Ohlson, 1995).

Clean surplus theory provides a structure that aligns with the viewpoint of measurement. This condition indicates that accounting information is connected to value. The objective of value relevance research is to establish the utilization of accounting values in the assessment of company equity. Value relevance is the presentation of accounting data that provides an estimate of the stock's market value.

Ohlson (1995) asserts that the market price of a company can be understood as the expected future sum of the firm's earnings and the expected future book value of the firm's stock. When determining the value of a company, expected future earnings are sufficient information to determine current value. Clean surplus theory emphasizes the usefulness of current financial reporting information in predicting future earnings.

### 2.2 Trade Off Theory

The trade off theory was initially presented by Modigliani and Miller (MM) in 1963 in an article titled "Corporate Income Tax on the Cost of Capital: An Amendment" published in the American Economic Review Article 53 (June 1963). This theory explains how much debt a company has, how much equity it has, and how the costs incurred and benefits are balanced. At the core of trade-off theory in capital structures is weighing the benefits and costs of using debt. Additional debt is permissible even if the benefit is higher. Additional debt is not allowed if the resulting sacrificial effort is greater. This theory elucidates that companies whose capital structure does not employ leverage and entirely relies on debt are ineffectively managed firms (Sansoethan and Suryono, 2016).

The trade off theory presupposes that the firm's financial framework is the consequence of a balancing act between the tax benefits derived from employing borrowed funds and the expenses incurred as a result of utilizing said funds. MM and his supporters developed a theory of trade-offs in capital structure. MM notes that while debt is beneficial because the interest is tax deductible, it also comes with costs associated with the possibility and reality of bankruptcy. At the core of trade-off theory in capital structures is weighing the benefits and costs of using debt. Additional borrowing is still permitted as long as the profit is large. Additional debt is not permitted if the debt is used to outnumber the victim (Pasaribu, 2018).

### 2.3 Stock Return (SR)

According to (Brigham & Houston, 2018) SR is the profit gained from investing in a company's shares which is calculated from the difference in the cost of buying the current share with the previous period, excluding dividends. Based on (Jogiyanto, 2018) return is the outcome gained from investing capital. An investor certainly wants profit (return) when they invest and is reluctant to make investments that do not earn profits.

### 2.4 Return On Equity (SR)

ROE is the proportion of post-tax net earnings divided by equity. A growing ROE indicator indicates improved company performance and enhanced owner position (Kasmir, 2018). ROE is an important indicator for assessing a company's prospective growth.When investing in companies, shareholders want to achieve profitable results. The greater the ROE, the greater the stock price. (Brigham and Houston, 2018) escalating share prices signify a growth in company worth, which subsequently enhances shareholder prosperity.ROE is highly appealing to shareholders, prospective investors and management. This is due to the fact that as the ROE value increases, so does the enterprise value, resulting in higher ROE that can be obtained (Fitri, 2017).

### 2.5 Debt to Equity Ratio (DER)

As per Fahmi (2020), DER serves as a gauge to assess financial statements in elucidating how many guarantees available to settle liabilities owed to lenders. Tandelilin (2018) explains that DER reflects part of the company's own capital which is used to fulfill its obligations to pay off debt. If the amount of debt exceeds the capital owned, it will cause the company to experience a decrease in returns because too much debt causes the company to have difficulty paying its debts. (Kasmir, 2018) revealed that DER is used in determining the amount of capital that must be provided for debt guarantees.

### 2.6 Earning Per Share (EPS)

(Tandelilin, 2018) states that EPS is the net profit attributable to the company's shareholders compared to the total number of shares outstanding. EPS as the proportion of earnings for each share obtained by the corporation. In other words, if the EPS value is greater, the profit sharing that will be given to ordinary shareholders will also be greater.

### 2.7 Hypothesis

H1: Return On Equity (ROE) has a significant positive impact on Stock Return (SR).

This hypothesis was developed as ROE indicates efficient use of capital (Kasmir, 2018). The greater the ROE, the greater the company's ability to generate earnings. High ROE also has a positive impact on dividends. This situation also leads him to an increase in SR. This is supported by studies (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Sriyono & Suciwati, 2017), (Anjani & Syarif, 2019), (Fidrian, et al., 2019), (Purnomo & Soekotjo 2019), (Danladi, 2020), (Nainggolan & Widajatun, 2020), (Rasyad et al., 2020), (Arsita & Sihombing, 2021), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021), ROE has a positive impact on SR.

H2: Debt to Equity Ratio (DER) has a negative and significant impact on Stock Return (SR).

This hypothesis was formulated based on Kasmir (2018), who asserts that the debt to equity ratio (DER) is computed by comparing the aggregate debt with the aggregate equity. This shows that all capital itself is destined to guarantee debt. Higher DERs increase

the likelihood of default, leading to higher interest expenses paid by companies. The impact will adversely affect profits. As a result, stock prices may also decline, affecting SR depreciation (Wibowo, 2017). This is supported by research evidence (Ghi & Ba, 2015), (Sayedy & Ghazali, 2017), (Sriyono & Suciwati, 2017), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Sausan et al., 2020), (Rasyad et al., 2020), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021), (Sari & Kurniasih, 2021), where DER a has a clear negative impact on SR.

H3: Earning Per Share (EPS) has a positive and significant impact on Stock Return (SR).

This hypothesis was developed (Tandelilin, 2018). EPS is a comparison that shows how much a shareholder receives in exchange for owning each share. By understanding the yield of each share, investors can decide whether to invest their money. (Fahmi, 2020) states that earnings per share indicates how each share held by an investor will benefit shareholders. A growing in EPS suggests that the amount of profit distributed to shareholders is also growing, thus a rise in EPS will enhance investors' desire to purchase stocks, ultimately resulting in a boost in the stock price, which in turn leads to an increase in SR. This is supported by research (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Anwaar, 2016), (Ibrahim & Bala, 2017), (Sriyono & Suciwati, 2017), (Parapat, 2018). ), (Anjani & Syarif, 2019), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Ardianti et al., 2020), (Danladi, 2020), (Joseph, 2021), (Ricardo & Mustafa, 2021) demonstrate that EPS has a positive impact on SR.

H4: Earning Per Share (EPS) strengthens the relationship Return On Equity (ROE) on Stock Return (SR).

This hypothesis was developed based on the fact that earnings per share indicates how much each shareholder's share can generate earnings per share (Parapat, 2018). EPS data is frequently incorporated in a company's financial statements and is used by shareholders and investors as a benchmark to evaluate a company's earnings performance. EPS is one of the parameters that can describe a company's performance, considering that

the amount of EPS depends on the profit that the company has achieved. Shareholders certainly have expectations of obtaining high dividends. Therefore, companies need to allocate their net income wisely. (Nurfiana et al., 2021) conducted research which proved that EPS strengthens the relationship between ROE and stock returns. Likewise (Parapat, 2018) proves that EPS strengthens the relationship between DER and ROE for SR.

H5: Earning Per Share (EPS) strengthens the Debt to Equity Ratio (DER) relationship to Stock Return (SR).

This hypothesis comes from (Ardianti et al., 2020), where EPS is a benchmark that gauges a company's ability to earn a profit for each issued share. The high value of EPS can increase stock prices and attract investors to invest. If there is interaction between EPS and DER, the effect of DER on SR will be stronger. The greaterthe DER, the more debt a company has in the course of its business activities. If the debt used for financing exceeds the equity of the company, the shareholders' position is jeopardized. This is because the higher the amount of debt used to finance the company's activities, the larger the company's obligation to repay, which impacts the future earnings that shareholders will receive. This is supported by studies by (Parapat, 2018) and (Ardianti et al., 2020) showing that EPS is used to support the income of major shareholders. Higher EPS drives up the stock price and can give investors better stock returns. It's expensive anyway.

To provide clarity regarding theoretical studies and the results of several studies which are used as the basis for preparing hypotheses along with a research conceptual framework that can clarify the relationship between variables.

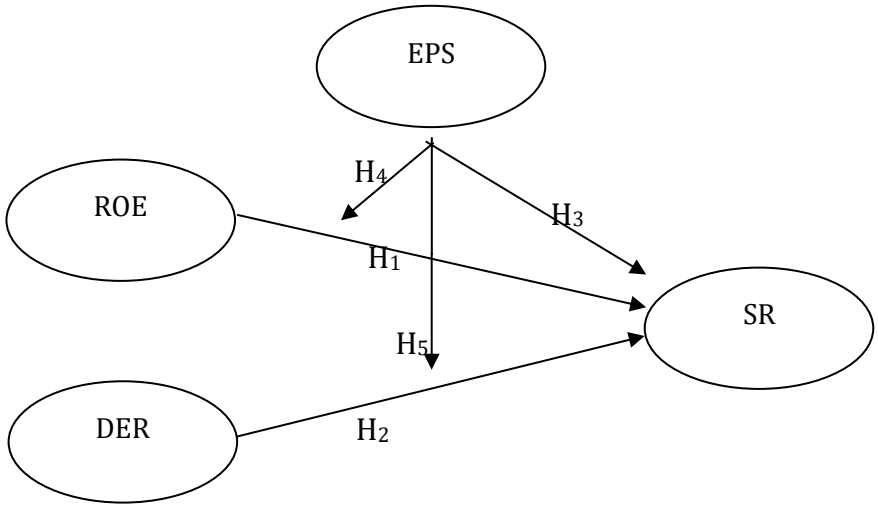


Figure 1. Research Conceptual Framework

## 3. RESEARCH METHOD

The research encompasses the 2019-2020 yearly financial statements of manufacturing firms in the consumer products sector listed on the Indonesian Stock Market (IDX). The research utilized quantitative data types in the form of numbers related to variables in the financial statements of companies. Secondary information was acquired in the shape of1) total revenue, 2) number of shares outstanding, and 3). Debt, 4) Equity, 5) Closing stock price. This data was gathered as part of the documentation procedure by accessing his website of the Indonesia Stock Exchange (IDX) and copying his financial reporting documents for the years 2019-2020.

This research employs an explanatory research approach. The research sample consisted of a total of 57 manufacturing firms in the consumer products sector that were listed on the Indonesian Stock Exchange between 2019 and 2020.vOut of this population, 35 companies were chosen using a purposive sampling technique.

After the data was collected, to analyze it used a moderated linear regression analysis technique. The formula for moderating multiple linear regression analysis according to Jogiyanto (2017) is as follows:

$Y = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X1*X3 + \beta5X2*X3 + e$

Description:

Y = Stock Return (SR)
X1 = Return On Equity (ROE)
X2 = Debt Equity to Ratio (DER)
X3 = Earning Per Share (EPS)
X1*X3 = Return On Equity interacted with Earning Per Share
X2*X3 = Debt Equity to Ratio interacted with Earning Per Share
β0 = constant
β1...β5 = regression coefficient of X1 ..... X2*X3
e = other variables not included in the model

## 4. RESULT

### 4.1 Multicollinearity

According to (Ghozali, 2017), the purpose of the multicollinearity test is conducted in order to evaluate whether there exists a linear association between the independent variables incorporated in the model. The best model should have no association between the independent variables. Variance Inflation Factor (VIF) values can be employed to ascertain whether multicollinearity exists. If the VIF values are below 10, there is no indication of multicollinearity among the independent variables utilized in the model. Table 1 displays the outcomes of the multicollinearity test utilizing the Variance Inflation Factor (VIF).

**Table 1. Multicollinearity Classical Assumption Test Results**

| Variable | VIF Results | Criteria | Conclusion |
|---|---|---|---|
| ROE | 1.941 | < 10 | no multicollinearity occurs |
| DER | 1.216 | < 10 | no multicollinearity occurs |

| | | | |
|---|---|---|---|
| EPS | 1.960 | < 10 | no multicollinearity occurs |
| ROE*EPS | 1.416 | < 10 | no multicollinearity occurs |
| DER*EPS | 1.082 | < 10 | no multicollinearity occurs |

Table 1 indicates that every variable possesses a VIF value below 10. Hence, it can be inferred that there is no presence of multicollinearity among the independent variables in the regression model.

### 4.2 Heteroscedasticity

The purpose of the heteroscedasticity test as stated (Ghozali, 2017) is to check whether the model used represents the difference in residual variance across different observations.

A quality model does not exhibit heteroscedasticity, where the variance varies for each observed residual. A scatter diagram method is used as a method for determining the presence or absence of non-uniform dispersion. The conclusion is that heteroscedasticity does not exist if the plots in the graph do not show a clear pattern or give a concrete picture. Figure 2 displays the outcomes of the heteroscedasticity test utilizing a scatterplot.

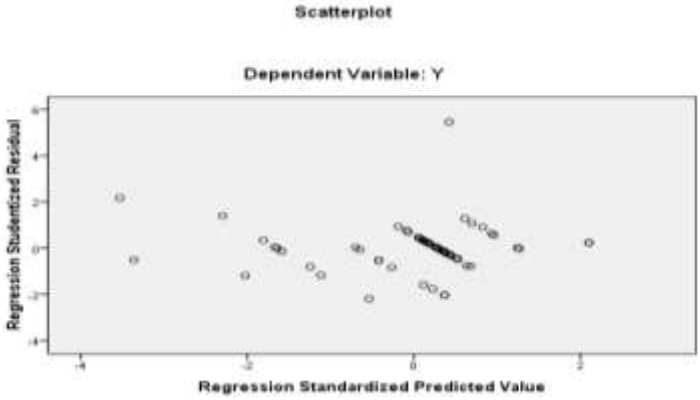


Figure 2. Heteroscedasticity Test with Scatterplot Graph

Figure 2 demonstrates that there are no discernible patterns or specific images. Based on this, we can infer that heteroscedasticity is absent.

### 4.3 Autocorrelation

As per (Ghozali, 2017), the autocorrelation test aids in validating the existence of a connection between the confounding error for period t and the the confounding error for the (prior) t-1 period in the regression model. This autocorrelation test is conducted using the Durbin-Watson model. The parameters variables are: for values ranging from 1.500 to 2.500, there is no identification of autocorrelation. Table 2 displays the outcomes of testing the classical autocorrelation assumption using Durbin Watson.

**Table 2. Autocorrelation Test Results**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .893[a] | .798 | .782 | .54096 | 1.935 |
| a. Predictors: (Constant), DER*EPS, ROE, DER, ROE*EPS, EPS | | | | | |
| b. Dependent Variable: SR | | | | | |

As shown in Table 2, the Durbin Watson number is 1.935 and ranges from 1.500 to 2.500. This indicates no autocorrelation. R-squared is 0.798. This implies that changes in ROE, DER and EPS account for 79.80% of the changes or fluctuations in SR, while other variables not investigated in this study account for 20.20%.

### 4.4 Normality Test

As per (Ghozali, 2017), the normality test serves to assess whether the applied model contains disturber variables that exhibit a distribution that is normal or not.

The Kolmogorof-Smirnov approach is used to conduct this test. If the number asymp. If the value asymp. sig (two-sided) of the Kolmogorof-Smirnov model exceeds 5%, it can be

concluded that the disturbing variables in the data used are normally distributed. The outcomes of the Kolmogorov-Smirnov one-sample normality test are displayed in Table 3.

**Table 3. Normality Test Results**

| Variable | Asymp. Sig. | Criteria | Conclusion |
|---|---|---|---|
| ROE | 0.899 | > 0.05 | distributed normally |
| DER | 0.198 | > 0.05 | distributed normally |
| EPS | 0.976 | > 0.05 | distributed normally |
| ROE*EPS | 0.224 | > 0.05 | distributed normally |
| ROE*EPS | 0.876 | > 0.05 | distributed normally |
| SR | 0.675 | > 0.05 | distributed normally |

Table 3 indicates the Asymp numbers. Sig. (2-tailed) in each variable exceeds the 5% threshold (0.05). This demonstrates that the data utilized in this research possesses a normal distribution, thus indicating the suitability of the model employed in this study.

### 4.5 Hypothesis Testing Results

Hypothesis tests (t-tests) essentially demonstrate the level of impact that the independent variables ROE, DER, and EPS have on the dependent variable SR. Using SPSS for Windows version 26, we obtained the t-test results shown in Table 4 when testing partial hypotheses.

**Tabel 4. Test Results t**

| Coefficients[a] | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 4.985 | 2.962 | | 2.683 | .000 | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ROE | .284 | .021 | .130 | 3.229 | .000 | .677 | 1.941 |
| | DER | -.202 | .019 | -.179 | -3.139 | .000 | .529 | 1.216 |
| | EPS | .685 | .021 | .454 | 4.136 | .000 | .405 | 1.960 |
| | ROE*EPS | .308 | .013 | .373 | 3.574 | .000 | .407 | 1.416 |
| | DER*EPS | .330 | .011 | .432 | 3.778 | .000 | .399 | 1.082 |
| a. Dependent Variable: SR | | | | | | | | |

Table 4 presents the findings of testing the influence of ROE on SR. The ROE variable shows that the positive sign of the regression coefficient is 0.284. This indicates that there is positive connection between ROE variable and SR.It is assumed that other factors remain constant, if there is a rise in ROE by 1%, it will have an impact of an increase of 0.284% on RS. With the significance value of 0.000 for the ROE variable in Table 4, we can infer that the ROE variable positively and significant impacts on SR. This is due that the value is lower than 0.05. Therefore, the hypothesis number one is accepted, suggesting that ROE has a significant positive effect on SR.

The findings from examining the impact of DER on RS indicate that the regression coefficient displays a negative value of 0.202, signifying a negative relationship between the DER variable and RS. It is assumed that other factors remain constant, if there is a rise in DER by 1%, it will result in a rise of 0.202% in RS. With a significance level of 0.000 for the DER variable, it can be inferred that the DER variable a negative and significant effect on RS, as indicated by a value below 0.05. Therefore, the hypothesis number twois accepted, suggesting that DER has a significant negative effect on SR can be accepted.

The findings of examining the impact of EPS on RS indicate that the regression coefficient shows a positive sign of 0.685, indicating a positive relationship between the EPS variable and SR. It is assumed that other factors remain constant, if there is a rise in EPS by 1%, it will have an impact of an increase of 0.685% on RS. With the significance value of 0.000 for the EPS variable, we can infer that the EPS variable positively and significant impacts on SR.This is due that the value is lower than 0.05. Therefore, the hypothesis number threeis accepted, suggesting that EPS has a significant positive impact on SR.

The coefficient of the regression between ROE and EPS displays a positive indication of 0.308.This indicates that the interaction between ROE and EPS has a positive relationship with SR. It is assumed that other factors remain constant, if the interaction between ROE and EPS is enhanced by 1%, it will have an increase of 0.308% in RS. It will have an impact of an increase of 0.308% on RS. With the significance value of 0.000 for the ROE*EPS variable, we can infer that the ROE*EPS variable positively and significant impacts on SR. This is due that the value is lower than 0.05. Therefore, his fourth hypothesis that EPS enhances the relationship between ROE and SR is accepted.

The regression coefficient between DER*EPS shows a positive sign of 0.330. This suggests that the interaction between DER and EPS is positively favorably linked to SR. It is assumed that other factors remain constant, if the interaction between DER and EPS is enhanced by 1%, it will have an increase of 0.330% in RS. It will have an impact of an increase of 0.330% on RS. With the significance value of 0.000 for the DER*EPS variable, we can infer that the DER*EPS variable positively and significant impacts on SR. This is due that the value is lower than 0.05. Therefore, his fifth hypothesis that EPS enhances the DER relationship with RS is accepted.

## 5. DISCUSSION

ROE has a positive effect on SR. The findings of this research align with those of prior studies conducted by (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Sriyono & Suciwati, 2017), (Anjani & Syarif, 2019), (Fidrian, et al., 2019), (Purnomo & Soekotjo, 2019), (Danladi, 2020), (Nainggolan & Widajatun, 2020), (Rasyad et al., 2020), (Arsita & Sihombing, 2021), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021) showing that ROE has a positive effect on RS. This aligns with Bhattacarya's (1979) signal theory, which explains that high profitability (measured by ROE) indicates positive expectations for firms. This will lead to a favorable reaction from investors and lead to an increase in corporate value. A rise in corporate worth will motivate investors to allocate more funds, which will impact the escalation of the stock price and the increase of RS. Therefore, ROE should be properly managed, such as increasing the company's profit by increasing sales or reducing costs.

DER negatively affects SR. The findings of this research align with those of prior studies conducted by (Ghi & Ba, 2015), (Sayedy & Ghazali, 2017), (Sriyono & Suciwati, 2017), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Sausan et al., 2020), (Rasyad et al., 2020), (Nurfiana et al., 2021), (Ricardo & Mustafa, 2021), (Sari & Kurniasih, 2021), showed that DER adversely affects SR. This is consistent with the signaling theory that companies send signals to users through their financial reports. One way is to view information about high or low DERs that indicate default risk. DER reflects the amount of guaranteed capital to service the debt. Investors typically hesitate to invest in firms with a high DER, resulting in a decrease in the company's stock price and subsequently having an adverse effect on RS. Consequently, companies need to proficiently and effectively handle their debts by utilizing a portion of their earnings to repay them, thereby having a beneficial impact on RS.

EPS has a positive impact on SR. The findings of this research align with the outcomes of prior studies conducted by (Ghi & Ba, 2015), (Allozi & Obeidat, 2016), (Ibrahim & Bala, 2017), (Sriyono & Suciwati, 2017), (Parapat, 2018), (Anjani & Syarif, 2019), (Purnomo & Soekotjo, 2019), (Hertina & Saudi, 2019), (Endri et al., 2019), (Ardianti et al., 2020), (Danladi, 2020), (Joseph, 2021), (Ricardo & Mustafa, 2021) prove that EPS has a positive effect on SR.

This is also in line with the signaling theory, where companies disclose financial statement information pertaining to EPS that is utilized to give positive indications to external stakeholders regarding the company's ability in executing its performance with effectiveness and efficiency. (Arifin & Agustami, 2016) explain that by increasing EPS value, companies can gain positive perceptions in the market and attract investors to higher RS. Signaling theory aims to reduce uncertainty about the future of a company. His EPS is attractive to investors who invest in any stock of a company, because as the EPS increases, so does the profit that the investor earns (Purnomo & Soekotjo, 2019). EPS is used as the most basic and valuable data since it mirrors the anticipated earnings possibilities in the upcoming time. Therefore, companies need to be able to manage earnings per share by increasing revenue generated by increasing sales volumes and reducing costs.

EPS strengthens the relationship between ROE and SR. The findings of this study are similar to previous findings (Nurfiana et al., 2021) that claimed that EPS enhances the relationship between ROE and SR. (Parapat, 2018), he explains that earnings per share are used to calculate profitability per share outstanding. Earnings per share information is typically included in the financial statements of publicly traded companies and is very important to investors and shareholders in evaluating a company's track record of achieving profitability. Corporate earnings affect the size of earnings per share (EPS), so earnings per share (EPS) is an important indicator for determining corporate performance. Shareholders want to receive high dividends, so companies need to manage their net income carefully. On the other hand, (Brigham & Houston, 2018) shows that an improvement in ROE improves corporate value which in turn will increase stock prices and have implications for increasing RS as well.Therefore, when purchasing stocks, SR can be obtained by considering the interaction between ROE and EPS as an investment consideration.

EPS strengthens the relationship between DER and SR. The findings of this research are comparable to those of prior studies conducted by (Parapat, 2018) and (Ardianti et al., 2020), which showed that EPS enhances the relationship between DER and SR. (Dwialesi & Darmayanti, 2016) describe the debt-to-equity ratio (DER) employed to evaluate how a company raises its capital via debt. The greater the company's debt, the lesser the appraisalfrom investors. This could potentially dissuade investors from purchasing stocks in the corporation, consequently resulting in a decline in the company's stock price and ultimately reducing profits for investors. Therefore, companies should manage DER carefully. Furthermore, the more elevated the EPS figure, the larger his earnings per share that investors will receive, making his earnings per share (EPS) an attractive proposition for investors (Purnomo & Soekotjo, 2019). Therefore, when buying stocks, you can consider the interaction of DER and EPS when making stock investments to earn SR.

## 6. CONCLUSION

An increase in ROE has a positive impact on SR, with higher ROE leading to higher RS.On the other hand, an increase in EPS also has a positive effect on SR. The higher the EPS,

the higher the SR. However, DER has a negative impact on RS, with an increase in DER leading to a decrease in RS. In addition, EPS can strengthen the relationship between SR and ROE and DER. Therefore, companies must analyze ROE, DER and EPS to increase earnings by increasing sales without incurring additional expenses, optimizing the use of debt relative to capital up to a point that does not negatively impact financing and maximizing the company's asset turnover. Prior to making investments in stocks, prospective investors should examine factors that influence the alteration of SR, such as ROE, DER, and EPS. Approximately 79.80% of the change in SR is influenced by alterations in ROE, DER, and EPS.

This research has constraints on the small size of the sample, the period of observation for 2 years, the chosen industrial sector, and the independent variables employed in the research. For future research, it is recommended to extend the observation period beyond 2 years in order to more accurately reflect the condition of the company over a longer period of time to produce more precise research findings. For the type of industrial sector used, it is better to increase the number of sample companies by expanding to various types of industrial sectors so that the research results can represent capital market conditions in all companies. Suggestions for future research consider the use of other independent variables that are relevant to proxies or ratios related to SR but have not been tested in this study. Some examples of variables that can be used are Return On Assets (Sriyono & Suciwati, 2017), Price Earning Ratio (Parapat, 2018) and Current Ratio (Nurmayasari et al., 2021).

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