

LEVERAGE, EARNING PER SHARE AND PROFITABILITY: A STUDY ON INFRASTRUCTURE COMPANIES LISTED AT IDX FROM YEAR 2015-2018

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ABSTRACT

To measure company performance, use financial ratio analysis to find out several aspects that determine the financial position and company development, one of which is profitability ratios. This study aims to determine the effect of leverage and earnings per share on profitability. The variable leverage (DER) and earnings per share (EPS) as independent variables (independent) and profitability (ROE) as independent variables (dependent). The number of samples used in this study was 48 there are infrastructure companies in the energy sub-sector (6), toll roads, airports, ports, and the like (5), and telecommunications (8) registered on the IDX, the company provides financial reports and annual reports in 2015-2018. Data were collected using a purposive sampling method based on certain conditions. The method in this study uses a non-participant observation method or used secondary data. Data were analyzed using linear regression models. The results show that leverage does not oppose profitability, while earnings per share tend to profitability.

Keywords: Leverage, Earning Per Share, Profitability

PROEM

Every company, both companies that provide services and products, will want a profit in each period. Companies are very concerned about their performance in getting a profit. Company income is important for the survival of the company. With the income, the company's operations for the next period can be carried out. By obtaining the maximum profit according to the target, the company can provide welfare for owners, employees, and improve product quality and make innovations (Kasmir, 2013). Therefore, company management must be able to meet the targets set.

To measure a performance company, usually used analysis financial ratios to know several aspects that have an effect on financial position and development the

company. Financial ratio is a valuable tool in understanding and monitor the company's financial position and performance.. Several indicators are used as a measure of the performance of company, one of them is profitability ratio. Profitability is the ratio used to determine the effectiveness of the firm in getting rewards or investment returns through overall firm activities and balance in the ratio of liabilities and capital (Sugiono & Untung, 2016).

Every company in getting a large profit needs good resources and good resource management. One of the company's resources that must be managed properly is its capital source. There are sources of capital that come from within the company and some are from outside the company. According to Riyanto (2001), when viewed from its origin, the source of capital consists of internal resources and external sources of capital. Funding from external sources can increase company leverage. Leverage is the use of assets and sources of funds by companies that own fixed costs to increase potential shareholder returns (Sartono, 2016). Leverage is a level of company's ability to use assets and/or funds who have a fixed burden (debt and or special shares) in order to realize the company's goals to maximize the owner's wealth.

Generally, profitability increases along with stock prices which also increase. Likewise, the EPS ratio. A high EPS ratio will increase investor interest to buy the stock because of the large return. Earnings per share (EPS) is a comparison between the revenue generated (net income) and the number of shares outstanding (Gitman, et al., 2012).

THEORETIC

Leverage

Leverage is an analysis in which to measure the extent of assets the company is financed with debt. This analysis is used to measure how many funds are supplied by the owner of the company in proportion to the funds obtained from the company's creditors or to measure how far the company has been financed with long-term debt. Leverage is a means to improve something. With the leverage meant the opportunities available to take advantage of the capital structure the company, taking into account the level of cost of capital sources of equity and level debt source capital costs, the company's capital structure can be arranged in such a way, so that shareholders can

draw optimum benefits from it (Muhibah, 2018).

Leverage arises because the company in its operations using assets and sources of funds that cause fixed costs, in the form of depreciation costs from fixed assets, and interest costs from debt. Leverage is every use of assets and funds that carry the consequences of costs and fixed costs (Martono & Harjito, 2003). If the company uses external funding sources (foreign capital), then the fixed burden is the interest on the loan, whereas if the company uses machines then the fixed expense is in the form of depreciation of machinery, and if the company leases a fixed asset to another party, the consequence is having to pay a fixed fee in the form of rent. Based on this understanding, the fixed burden borne by the company depends on the type of source of funds and assets used.

Earning Per Share

According to Fahmi (2015) income per share is a form of the proceeds from the sale of goods and services obtained by the company to be given to shareholders or it can be said that the income generated from each share it owns. EPS is the most widely used indicator to assess a company's profitability. EPS is a tool used to measure company performance over a certain period for ordinary shareholders. Earnings per share can show the company's ability to earn profits and distribute profits earned by the company to shareholders. Earnings per share can be used as an indicator of the value of the company. Earnings per share are also one way to measure success in achieving profits for shareholders in a company (Bodie, et al., 2010). The smaller the value of earnings per share, the less likely the company is to distribute dividends. So it can be said that investors will be more interested in stocks that have high earnings per share compared to stocks that have low earnings per share. Low earning per share tends to make share prices go down, and vice versa.

Profitability

Profitability is the company's ability to earn profits concerning sales, total assets, and own capital (Sartono, 2016). Profitability describes the income a company has to finance investment and shows the ability of capital invested in overall assets to generate profits for investors. High company profitability shows a good prospect of the company in the view of investors which will then be responded by investors as a positive signal from the company and will facilitate the management of the company to attract capital

in the form of shares. If there is an increasing demand for a company's shares, will indirectly increase the price of the company's shares, so that the value of the company will increase. Profitability in a company can be measured using profitability ratios.

Return on asset is to know so far which investments will be made an investor in a capable company give a return that corresponds to the level required by investors, namely by using the ratio of return on equity (ROE) (Hery, 2015). This ratio shows the extent to which companies manage their capital effectively. Return on equity is a measure of income available to owners of the capital they invest in the company. If the return on equity is owned a company is getting higher, then the higher the amount of net profit generated from every rupiah of funds which is embedded in equity, and otherwise

Leverage and Profitability

Companies that use leverage expect the benefits to be greater than the fixed costs they will bear from the number of funds used. The use of financial leverage will have a different effect on profitability in different economic conditions. In good economic conditions, the use of leverage can have a positive effect on increasing profitability. This is due to the rate of return to the company's operating profit is greater than the fixed expense. In these conditions, the company can spend its financial needs by using as much debt as possible, because the profits obtained can still be used to cover the fixed costs arising from the use of the debt.

In normal economic conditions, an increase in the use of debt will initially increase the ability of the company to generate profits, because interest rates are still relatively low compared to the company's ability to generate profits, but if the company continues to use debt, the profit that will be generated becomes smaller and smaller. That is because the greater use of debt will increase interest rates and the risk faced by creditors is also getting higher. Conditions like this are expected to be more careful in using debt to fund its operational activities.

Poor economic conditions are generally very high loan interest rates, while company sales and profits decline. This means that the use of greater leverage can have a negative effect in the form of decreased profitability (Anugrah, 2019). In these conditions, the company should avoid spending by using debt because the company's ability to generate profits is smaller than the interest rate that must be paid by the company. The relationship between leverage and profitability is also stated to have an

influence based on previous research by Gunde, et al (2017) and Maria, et al (2019).

Earning per Share and Profitability

Company analysis is done by looking at the company's financial statements also by using financial ratios. From an investor's perspective, one of the important indicators for assessing the company's prospects is to look at the extent of the company's profitability growth. For this reason, the two main profit ratios are usually used, namely return on assets and return on equity. The first important component that must be considered in a company's analysis is earnings per share or better known as earnings per share. According to previous research by Joana & Pitaloka (2017), Ulzanah & Murtaqi (2015) earnings per share have a positive significant impact on profitability.

Observing the ups and downs of EPS of various issuers is very important for investors to determine the continuation of the investment that has been invested. For prospective investors, observing EPS fluctuations is certainly very useful to determine where the best investment land will provide the highest return for him.

Research Hypotesis

H₁ : Leverage affects the profitability of infrastructure companies listed on the IDX.

H₂ : Earning per share affects the profitability of infrastructure companies listed on the IDX.

METHOD

The object of research used in this study is leverage, earnings per share, and profitability. The data used are secondary data obtained from annual reports of energy sub-sector infrastructure companies (8), toll roads, airports, ports & the like (5), and telecommunications (6) registered on the Indonesia Stock Exchange in the period of 2015 - 2018 with a population of 19 companies. This research uses quantitative methods. The sample selection technique uses purposive sampling with the criteria of infrastructure companies in the energy sub-sector, toll roads, airports, ports, and the like, and telecommunications registered on the IDX, the company provides financial reports and annual reports in 2015-2018. From these criteria, a sample of 12 companies was obtained, namely LAPD, KOPI, PGAS, RAJA, JSMR, CMNP, META, BTEL, EXCL, FRCL, ISAT, and TLKM companies. So, there's 48 data sample in this research.

The research variables consist of the dependent variable profitability (Y) using the ratio of return on equity (ROE) and the independent variable namely leverage (X1) using the ratio of debt to equity (DER) and earnings per share (EPS) (X2). Data collection techniques using documentation techniques and data were analyzed with statistical descriptive, correlation analysis, significant test, classical assumption test, and linear regression analysis.

RESULT

Normality Test

The normality test aims to see whether the data in this study are normally distributed or not by looking at the results in the form of p-plot images. In this study, the data is normally distributed. This is indicated by the points that are around the line and are arranged following a diagonal line.

Multicollinearity Test

Multicollinearity test is used to see the state where between two or more variables occur perfect or near-perfect linear relationship. There are no symptoms of multicollinearity because it is stated that the VIF value below 10 is 1.092 and the tolerance value is above 0.1 which is 0.916.

Table 1. Multicollinearity Test

Variable	Tolerance	VIF
DER	0,916	1,092
EPS	0,916	1,092

Source: Reseach data, 2020

Autocorrelation Test

Autocorrelation test is performed to see whether in the linear regression model there is a confounding error in period t with an error in the period t-1 (previous). In this study 48 data were used with 2 independent variables, then DL was 1.4500 and DU was 1.6231. The value of Durbin-Watson in this study was 1.864. This shows that autocorrelation did not occur with the following explanation: $1.6231 < 1.864 < 2.3769$.

Heteroscedasticity Test

Heteroscedasticity testing is performed to test whether in the regression model there is an inequality of variance between residuals from one observation to another. Based on the images produced, the plot spread can be interpreted as no symptoms of

heteroscedasticity.

Analysis of the Coefficient of Determination

To find out how much the contribution of the influence of leverage and earnings per share to profitability, the data is processed and analyzed based on the coefficient of determination. The coefficient of determination is the square of the correlation coefficient that serves to measure how much the independent variable simultaneously contributes to the dependent variable. The results of the coefficient of the determination indicate that the adjusted R^2 value of 35.2% is obtained. This means that 35.2% of the ability of independent variables namely leverage, earnings per share in influencing the dependent variable namely profitability and the remaining 64.8% influenced by other variables not included in this study.

Table 2. Determination Analysis

Indicator	Estimate
R Square Change	0,352
F Change	12,200
df1	2
df2	45
Sig. F Change	0,000

Source: Reseach data, 2020

Multiple Regression Analysis

Multiple regression analysis is used to determine the effect of the load variable on the dependent variable. From this multiple regression analysis the results obtained $b_0 = -0.132$, $b_1 = 0.478$, $b_2 = 0.238$ so that the multiple linear regression equation can be formed as follows: $PROF = -0.132 + (0.478) LEV + (0.238) EPS$

Table 3. Regression Analysis

Variable	Estimate	Sig
Constant	-0,132	0,070
DER	0,478	0,000
EPS	0,238	0,064

Source: Reseach data, 2020

Based on the formed regression model the results can be explained as follows:

1. If the value of leverage and earnings per share is 0, then the value of profitability is -0.132.
2. Each increase of one unit of leverage will increase profitability by 0,478.
3. Each increase of one unit of earnings per share will increase profitability by 0,238.

The first hypothesis states that leverage has no effect on profitability. The DER

variable which is a proxy of leverage shows a regression coefficient of 0,478 with a variable probability value of 0.000 which is higher than the significance level of 0.05 (5%). The test results indicate that H1 was not accepted, and showed that CR has no significant relationship to the profitability of infrastructure companies in the energy sub-sector, toll roads, airports, ports, and the like, and telecommunications on the IDX.

The second hypothesis states that earning per share has a significant positive effect on profitability. EPS shows a regression coefficient of 0,238 with a variable probability of 0.064, smaller than the significance level of 0.05 (5%). So from previous studies Joana & Pitaloka (2017) and Ulzanah & Murtaqi (2015) it can be seen that the test results indicate H2 is accepted, this shows that EPS has a significant effect on profitability of infrastructure companies in the energy sub-sector, toll roads, airports, ports, and the like, and telecommunications listed on the IDX.

CONCLUSION

This study aims to examine how much influence leverage, earnings per share and profitability based on predetermined criteria. 48 samples selected in this study were selected, namely 12 companies in the infrastructure sub-sector of energy, toll roads, airports, ports & the like and telecommunications that were listed on the Indonesia Stock Exchange during the 2015-2018 period. Through the research that has been done, the researchers make the following conclusions:

1. Leverage does not affect profitability, this shows that companies with high DER levels do not affect the value of profitability.
2. Multiple regression analysis shows that EPS has a significant positive effect on profitability in infrastructure sector companies in the energy sector, toll roads, airports, ports & the like and telecommunications that are listed on the Indonesia Stock Exchange in 2015-2018. This result is supported by Joana & Pitaloka (2017) and Ulzanah & Murtaqi (2015) as a previous study that stated that EPS has a significant effect on profitability. Companies with higher EPS are preferred because companies generate higher profits.

Through this research that has been done, the researchers provide suggestions like the following:

1. Based on the results of research showing that leverage has no significant effect on

profitability. But on the contrary, earnings per share have a significant positive effect on profitability. Infrastructure sector companies in the energy sector, toll roads, airports, ports & the like, telecommunications registered on the IDX are advised to pay more attention to the use of leverage and earnings per share, especially leverage so that it can be used as best as possible to increase profitability.

2. Material consideration for investors to invest in a company, to find out whether the company to be entered has good prospects and provides information about the company's ability to repay loans and interest
3. For further researchers, it is recommended to be able to use this research is to research leverage, earnings per share and more developed by adding research samples.

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