

# The effect of Return on Assets, Book Value, Working Capital Turnover, and Earning Per Share on Stock Prices in Industrial companies

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**Abstract:** *The stock price is an important factor in the company, this stock price is very important for investors to invest in a company where he will invest, because later by investing he expects profits from the company. This study aims to determine how the influence of return on assets, book value, working capital turnover, and earning per share on stock prices. Sampling in this study used 32 Jordanian industrial companies for the period 2017-2023. To test the hypothesis the method used is the statistical method of testing multiple regression data. It was found that the return on assets, book value, and earning per share, has a significant positive effect on stock prices while the price to working capital turnover variable has a significant and negative effect on stock prices. Investors can use the implications of the study's findings to inform their investment decisions by considering the financial characteristics of the company, specifically ROA, BV, WCT, and EPS.*

**Keywords:** return on assets, book value, working capital turnover, earning per share, stock prices, Amman Stock Exchange.

## 1. INTRODUCTION

Share prices, or market prices for stock securities, are the result of supply and demand dynamics in the market, which are primarily driven by the assets they represent (Putu et al 2017). According to Trisanti and Marliani (2019), share price fluctuations occur around the ex-dividend date, which denotes the point at which a company's stock price drops by the amount of dividends paid. Stock prices fluctuate in an efficient market according to the information at hand (Datu & Maredasa, 2017). When choosing a company to invest in, an investor bases his decision mostly on the stock price since he anticipates gains from the business in the future (Putra, 2021).

Return on Assets is a metric that demonstrates a company's profitability with assets it has previously held and is used to estimate profitability going forward (Darmayanti et al., 2023). The amount of money available in the corporation for dividends increases with the amount of profit received (Pribadi & Djoko Sampurno 2012). Return on Assets is a ratio that is used to assess if management has gotten a sufficient return (Reasonable Return) from the assets under control. Brigham and Houston (2017) define Price to Book Value as the ratio of a company's book value to its stock price, where the latter is determined by comparing the equity of the company's common stock to the total number of outstanding shares.

Revenue divided by average working capital yields Working Capital Turnover, a financial ratio. The efficiency with which the business makes money from its working capital is demonstrated by this ratio, Jeni (2021). The utilization of working capital, which is typically employed for fixed asset purchases, debt repayment, stock purchases, dividend payments, and cost or expense reimbursement, demonstrates good working capital management. The ratio known as Earnings Per Share (EPS) indicates the amount of profit per share received by shareholders. Due to its ability to project future earnings for the company, earnings per share, or EPS, is thought to be the most fundamental and helpful piece of information for shareholders (Adnyana, 2020). Earnings Per Share (EPS) growth indicates that the business can benefit investors and vice versa, according to Rahayu (2020). The EPS and stock prices are contrasted in the following.

## 2. Theoretical Background and Hypothesis Development

2.1 Stock prices' Return on Asset (ROA): ROA indicates how well a company uses its resources to generate the most profit. The net income to firm asset ratio is used to calculate ROA. High ROA indicates effective resource management by the company in producing revenue. The stock price is impacted by increasing income because investors receive better returns. Higher ROA has been shown to affect a company's performance (Daeli, 2018; Ng et al., 2020). The following hypotheses can be inferred from the explanation given above, from which hypothesis 1 is derived:

H1 : stock prices has a positive effect on (ROA)

2.2 The effect of BV on stock prices: Investments in companies with strong performance levels will be highly sought after by investors, as indicated by the Price to Book Value ratio. Excellent performance by the business will have an impact on its stock price (Alshifa 2021). The following hypotheses can be inferred from the explanation given above, from which hypothesis 2 is derived:

H2: stock prices has a significant positive effect on BV

2.3 Effect of Working Capital Turnover on Stock Price:According to Wardani (2023:27), working capital turnover influences stock prices in a favorable and significant way. Turnover in working capital is utilized by businesses to run their operations profitably. Profit can be defined as the extra income less the expenses incurred in generating that revenue. The amount of profit a business makes indicates how successful it is. The key to achieving maximum profits is having working capital, or money that can be used to finance business operations. The following hypotheses can be inferred from the explanation given above, from which hypothesis 3 is derived:

H3: stock prices has a negative and significant effect on working capital turnover

2.4 Earnings per share on Stock Prices:According to Bringham (2017), one factor that has a positive and notable impact on stock prices is Earnings Per Share. If a company's earnings per share rises, investors will be more eager to invest their money because it will raise the company's profits The following hypotheses can be inferred from the explanation given above, from which hypothesis 4 is derived:

H4: stock prices has a positive and significant effect on EPS.

### 3. Research Methodolog

To examine the influence of return on assets, book value, working capital turnover, and earning per share on stock prices, the following regression model is employed.

$$SP_{it} = \beta_0 + \beta_1ROA_{it} + \beta_2BV_{it} + \beta_3WCT_{it} + \beta_4EPS_{it} + sit$$

### 4. EMPIRICAL RESULTS

Variable Names	obs	Mean	S.D	Min	Max
SP	224	2.471	4.227	0.13	44.57
ROA	224	0.331445	0.2044469	0.0039982	1.042351
BV	224	0.1408707	0.2199146	0.00875	0.956188
WCT	224	2.33	1.994	0.212	11.99
EPS	224	0.066	0.351	-1.28	2.57

Variable	SP	ROA	BV	WCT	EPS
SP	1				
ROA	0.425	1			
BV	-0.0502	-0.226	1		
WCT	0.029	0.325	0.0864	1	
EPS	0.353	-0.241	0.0527	-0.025	1

**TABLE 3**  
**REGRESSION RESULTS (N=224)**

Variable	Coe	Sig.t	VIF
ROA	.00377	**0.000	1.65
BV	.60770	**0.024	2.60
WCT	-.01422	0.019	1.29
EPS	.02665	***0.000	1.35
VIF	1.72		
R <sup>2</sup>	0.2144		
Autoco.	Prob>f	0.024	
Hausman	chi2 =	0.170	
Hetro.	Prop>chi <sup>2</sup>	0.0010	

Table 4. Research hypotheses and predicted signs for the independent variables.

Research Hypotheses	Expected sign	Decision
H1: return on assets	(+)	Supported
H2: book value	(+)	Supported
H3: working capital turnover	(-)	Supported
H4: earning per share	(+)	Supported

The Return on Assets (ROA) variable has a probability value of 0.000, which is smaller than the significant level of 5% (0.000 < 0.05), indicating that it rejects H0. As a result, the ROA variable has a significant impact on the share price of industrial companies between 2017 and 2023, according to the results of partial hypothesis testing. This outcome is consistent with earlier research by Utara & Ngatno (2017), who found that ROA significantly and favorably affects stock price level. Since the investment is essentially the same as the company's assets invested or placed, this ratio examines the degree to which the invested investment is able to produce the anticipated results. A high return on assets (ROA) indicates effective management of the company's resources to boost earnings. The study's findings suggest that return on assets is a factor that investors take into account when making decisions about their investments, which in turn affect stock prices.

The Price to Book Value (PBV) variable has a probability value of 0.024, which is less than a significant level of 5% (0.024 < 0.05), according to the results of partial hypothesis testing. This indicates that H0 is rejected, meaning that the BV variable has a significant impact on the share price of industrial companies between 2017–2023. This demonstrates that investors take the earning per share variable into account when making decisions about their investments, which in turn affect stock prices. This finding is consistent with study by Said Kelana Asnawi (2016), who found that stock prices are positively impacted by price to book value. Investors utilize price to book value as a measure to gauge a company's performance level.

The partial hypothesis test results indicate that the working capital turnover variable has a significant impact on the stock price of industrial companies between 2017 and 2023. Specifically, the variable's probability value is 0.019 less than the significant level of 5% (0.019 < 0.05), indicating that H0 is rejected. The present study is consistent with the findings of Pradanimas and Sucipto (2022) which indicate that working capital turnover has an adverse and noteworthy impact on stock prices. Specifically, negative working capital signifies a company's inability to generate adequate revenue to cover its debt, but it is noteworthy due to the company's achievement of profits for its shareholders, as high earnings per share (EPS) will drive up demand for the company's shares among the industrial companies listed on the Jordanian Stock Exchange between 2017 and 2023.

Partial hypothesis testing results show that the variable Earning Per Share (EPS) has a probability value of 0.000, which is less than a significant level of 5% (0.000 < 0.05). This indicates that H0 is rejected and that the EPS variable has a significant impact

on the share price of industrial companies between 2017 and 2023. This demonstrates that investors take the Earnings Per Share variable into account when making decisions about their investments, which in turn affect stock prices. These findings support the findings of Brigham and Houston's (2017) study, which found a substantial positive relationship between stock prices and earnings per share. Additionally, research by Indah and Parlia (2017) indicates that earnings per share has a positive impact on stock prices.

## 5. CONCLUSION

The research investigated the influence of return on assets, book value, working capital turnover, and earning per share on stock prices of 32 Jordanian industrial companies listed on ASE in 2017-2023. The research found that ROA, BV and EPS have a positive effect on stock prices. The WCT of the company has a significant and negative effect on stock prices. Investors can use the implications of the study's findings to inform their investment decisions by considering the financial characteristics of the company, specifically ROA, BV, WCT, and EPS. One of the study's limitations is that, in order to fulfill its objectives, it only looked at Jordanian industrial companies who were listed on ASE between 2017 and 2023. As a result, this study suggests that future research look into the study model for further MENA sectors

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