Determinants of Stock Prices: Evidence of Manufacturing Companies Listed on the Indonesia Stock Exchange

Deafatunnizwa Ulfida*, Nadirsyah, Ridwan Ibrahim
Department of Accounting, Economics and Business Faculty, Universitas Syiah Kuala, Banda Aceh, Indonesia
*Corresponding Author: ulfidad@gmail.com

Abstract
Objective – This study aimed to test and analyze the effect of the audit opinion, audit report lag, profitability, and leverage on stock prices in manufacturing companies listed on the Indonesian Stock Exchange (BEI) for the period of 2012–2018, either simultaneously or partially.

Design/methodology – A total of 55 manufacturing companies were the samples of this study, and they were collected using a purposive sampling technique. Data analysis was conducted using multiple linear regression.

Results – This study indicates that simultaneously audit opinion, audit report lag, profitability, and leverage can affect stock prices. Partially, auditing report lag and profitability calculated using ROA can affect stock prices. Meanwhile, audit opinion and leverage partially do not affect stock prices.

Contribution – this study provides evidence on the factors influencing the stock prices specifically within the environment of listed manufacturing companies in Indonesia.

Keywords: Audit Opinion, Audit Report Lag, Profitability, Leverage, Stock Price

1. Introduction

In the globalization era, business competition is getting stiffer, with the opening of trade routes on an international scale, making companies more competitive at the national and global levels. To be able to survive in the increasingly competitive business environment, funding is a key success factor. One of the sources of funding needed by companies is investors’ investment, and one of the popular investment objects in the capital market is stocks (Sunariyah, 2011).

Investors buy shares of a company with the expectation that they will get a return in capital gains and dividends on the shares they buy. Stocks are traded at prices that can change in a very short time.

| Years | High     | Low      | Close    | Change from the previous years |
|-------|----------|----------|----------|-------------------------------|
| 2013  | 1,244.160| 1,087.564| 1,150.624| 2.713 (0.24%)                |
| 2014  | 1,335.205| 1,237.120| 1,335.205| 184.581 (16.04%)             |
| 2015  | 1,182.310| 1,060.811| 1,151.680| (-183.525) (-13.75%)        |
| 2016  | 1,455.617| 1,115.999| 1,368.697| 217.017 (18.84%)            |
| 2017  | 1,640.176| 1,438.492| 1,640.176| 271.479 (19.83%)            |
| 2018  | 1,628.220| 1,434.875| 1,618.123| (-22.053) (-1.34%)         |

Table 1. Development of the Stock Price Index of Manufacturing Companies Listed on the IDX at the End of the 2013-2018 Period
Based on the data from table 1 it can be seen that the stock prices of manufacturing companies in the 4th quarter of 2013 and 2014 have increased. Meanwhile, in 2015 the share price experienced a decline. In 2015 the close stock price fell by (-183,525) or (-13.75%) when compared to 2014. Then in 2016 the stock price of manufacturing companies increased again by 217,017 or 18.84%, an increase compared to 2015 which had experienced a decline. Share prices, this is supported in an article published by detik finance, which reports that based on data revealed by the Head of the Central Statistics Agency (BPS), the manufacturing industry is showing a pretty good development towards the end of 2016. In the 3rd quarter, the manufacturing industry experienced a growth of 5.7% or higher than the second quarter which experienced a growth of 5.01%.

In 2018, the share price of manufacturing companies decreased again by (-22,053) or (-1.34%) compared to 2017. During the 2012-2018 period, the closing price of manufacturing companies' shares was the lowest in 2013, namely 1,150,624, then the highest closing stock price was in 2017, amounting to 1,640,176.

Based on this report, it can be concluded that although the stock prices of manufacturing companies fluctuate, manufacturing companies are still experiencing development and are increasingly in demand by investors. With the increasing interest of investors to invest in manufacturing companies, the competition between manufacturing companies is getting tougher. Therefore, the manufacturing company was chosen to be the unit of analysis in this study. To see several factors that can affect stock prices based on a literature survey, these factors include audit opinion (Chandra & Arisman, 2016; Marindah, 2013; Sidabutar, 2014), Audit Report Lag (Marindah, 2013; Sidabutar, 2014), Profitability (Dwipratama, 2009; Wathi, 2006; Zaki, 2016), Leverage (Bawono & Haryanto, 2015; Itmami, 2017).

With so much interest in investing by investors in a company's shares, it is thought that it can increase the company's stock price. In investing, investors will assess the performance of a company; this is done so that they can invest in the right and profitable company. A company's performance can be reflected in the company's financial statements that have been audited by an independent auditor. In the audit report, there is an opinion given by the auditor as the auditor's statement on the fairness of the financial statements of an entity being audited.

Two types of audit opinion groupings have been regulated in the standard on auditing (SA) 700, which regulates audit opinion without modification, and standard on audit 705, which regulates modified audit opinion (IAPI, 2014). Audit reports are needed so that users of financial statements can be sure of the fairness of the financial statements presented, so that users of these financial statements, which consist of creditors, investors, potential investors, and other interested parties, can make the right decisions.

Besides, the length of time required to publish financial reports is also important because if the financial statements are not presented on time, investors who should have the potential to invest in a company will be discouraged. After all, the company's financial statements are not yet available, and they will switch to investing in another company. Companies that are late in publishing financial reports will get warnings and sanctions. Delays in publishing financial reports could impact the company because the IDX (Indonesia Stock Exchange) may impose a suspension of stock trading for companies that violate them after receiving three written warnings (SP3).

The suspension may affect the stock price because the suspended company cannot get investment from investors. After all, its shares are frozen or cannot make a stock offering. In assessing whether or not a company is eligible for investment, investors can look at several financial ratios analyzed through financial reports such as profitability and leverage.

A company's profitability is essential for business activities, especially for maintaining the viability of a business in the long term because profitability shows the prospects and efficiency of a company. Presumed if the company's profits have increased
in each period, investor interest can increase and open the possibility of an increase in stock prices.

The leverage ratio is used to see to what extent the company will use funding through assets and sources of funds with fixed expenses to obtain greater profits to provide additional benefits for shareholders (Sartono, 2010).

The following is the formulation of the problem in this study:

1) Do audit opinion, audit report lag, profitability, and leverage simultaneously affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange.

2) Does the audit opinion affect share prices in manufacturing companies listed on the Indonesia Stock Exchange.

3) Does the audit report lag affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange.

4) Does profitability affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange.

5) Does leverage affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange.

Based on the formulation of research problem, this study is to examine the effect of the audit opinion, audit report lag, profitability, and leverage both simultaneously and partially on stock prices in manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2018. The next section presents the literature review and hypotheses development followed by the elaboration of research method. Meanwhile the section afterwards provides results and discussion and the last section concludes this paper.

2. Literature Review and Hypotheses Development

Audit Opinion, Audit Report Lag, Profitability, and Leverage

Based on previous research, Wathi (2006) found that profitability ratios and leverage ratios simultaneously affect stock prices, and partially ROA and DER have a significant effect on stock prices in manufacturing companies listed on the IDX. Meanwhile, Dwipratama (2009) found that simultaneously financial ratios (PBV, DER, EPS, DPR and ROA) affect stock prices. The results of research conducted by Marindah (2013) show that Audit Report Lag, Earnings Per Share, Audit Opinions, and Public Accounting Firms simultaneously affect stock prices.

H1: Audit opinion, audit report lag, profitability, and leverage simultaneously affect stock prices in manufacturing companies.

Audit Opinion and Stock Prices

The audit opinion is useful as a source of information for parties outside the company who have an interest. Audit opinion can be used as a guide for interested parties in making decisions and for potential investors who consider the audit report to be one of their considerations for investing or not in a company.

Audit reports are a medium of communication between auditors and users of financial reports. With the existence of an audit report, it will increase investors’ confidence in the company's financial statements to be a supporting factor to convince potential investors to invest. The high interest of investors in the shares of a company might impact the company's stock price. Meanwhile, for creditors, financial reports and audit reports are needed to consider whether to provide loans to companies that want to make loans.

The result of Research conducted by Chandra & Arisman (2016) shows that the type of audit opinion has a positive effect on stock prices. Likewise, the results of research
conducted by Sidabutar (2014) show that audit opinion affects stock prices. Meanwhile, the results of Marindah (2013) show that audit opinion has no effect on stock prices.  

H2: Audit opinion partially affect stock prices.

**Audit Report Lag and Stock Prices**

Dyer & McHugh (1975) which is motivated by Hendriksen, Grady who is on the Accounting Principles Board of the American Institute of Certified Public Accountant, and several others who have recognized the role of preciseness time in accounting theory. Since Dyer and McHugh’s research began, many companies have been suspended from trading by the Australian Stock Exchange on the grounds of non-compliance with the specific timeliness requirements of the exchange, so this is clearly seen as an important issue. Time lags on Australia’s annual financial statements are scrutinized in an effort to find the reason for rejection (time lag) that occurred on companies in Australia. The results showed that the size company, the end date of the financial year has an effect on timeliness financial reporting.

Audit report lag has relationship with investment decisions, where investors need financial reports and audit reports before deciding to invest in a company; this is so that investors can see a company's performance so that they are sure to invest in the company.

Suppose the financial statements are not presented on time. In that case, investors who should have the potential to invest in a company will be discouraged because the company's financial statements are not yet available. They will switch to investing in other companies. If the financial statements are not presented on time, the companies will get sanctions in the form of suspension of stock trading, this will result in a decline in share prices, this situation can occur because they are unable to carry out share trading activities due to the suspension of share sales.

Marindah (2013) shows that partially Audit Report Lag has no effect on stock prices, simultaneously the Audit Report Lag, Earnings per Share, Audit Opinions and Public Accounting Firms have an effect on stock prices. Meanwhile, Sidabutar (2014) shows different results, namely the Audit Opinion, Audit Report Lag, and the Size of the Public Accountant Firm have a simultaneous and partial effect on stock prices.  

H3: Audit report lag partially affect stock prices.

**Profitability and Stock Prices**

Profitability can reflect the performance of management in managing company. The value of the company’s profitability can be seen from: operating profit, net income, return on owner's equity, and rate of return on investment/assets. Profitability can measure the ability of a company to generate profits, so that the stockholders will consider continuing to invest or remain a provider of capital in the company or vice versa.

Jermsittiparsert, Ambarita, & Mihardjo (2019) this research examined the effect of financial ratios as determinants of stock price in ASEAN region. To address that purpose, business firm from Malaysia, Indonesia, Thailand, and Singapore are selected. The result of this study shows that for Indonesia companies, growth is a significant determinant among return on assets, average collection period, gross profit margin and price to earnings ratio for stock prices. This findings provide significant documentary evidence to investors, financial analysts, and other strategic decision makers. It is recommended that when making any type of investment decisions in this region, the effect between financial ratios and stock price should be analyzed.

Based on Jermsittiparsert, Ambarita, & Mihardjo (2019) research, one of the financial ratios, return on assets, can be one of the considerations for investors in choosing the company they will invest in ASEAN company. Therefore, the profitability to be measured by ROA (return on assets) will be tested in this study. Research conducted by Dwipratama (2009) found partially ROA not affect the stock price. In contrast to the
results of this study, research conducted by Zaki (2016) shows that profitability as measured by return on assets has a positive and significant effect to the share price. Likewise Wathi (2006) states that ROA has a significant effect on stock prices.

H4: Profitability partially affect stock prices.

Leverage and Stock Prices

Leverage is the use of funds that have fixed expenses with the aim that these funds can provide more benefits for shareholders (Sartono, 2010:263). Operating leverage is assumed to affect investors’ decisions to invest or not in a company because operating leverage can also be used to measure sales or income changes that influence the amount of the company’s operating profit.

Based on the results of research conducted by Itmamim (2017) indicates that the operating leverage does not affect the stock price. Meanwhile, Bawono & Haryanto’s (2015) shows the results that operating leverage affects stock prices.

H5: Leverage partially affects stock prices.

3. Research Method

Population and Sample

The data used in this research is secondary data in the form of historical reports, evidence, and records that have been arranged in archives (documentary data). The data used is sourced from the financial statements of manufacturing companies obtained from the IDX official website.

Researchers determined samples using a purposive sampling technique based on predetermined criteria to achieve study objectives.

The sample criteria that have been determined are as follows:
1) Manufacturing companies registered consecutively from 2012 to 2018.
2) Manufacturing companies that issue financial reports from 2012-2018.
3) Manufacturing companies that have positive profits on the income statement for the years 2012-2018.

Based on predetermined criteria, from all manufacturing companies listed on the Indonesia Stock Exchange during the 2012-2018 period, namely from 186 companies, only 55 companies can be sampled in this study.

Data Analysis Technique

This study used multiple linear regression, descriptive statistics, and classical assumption tests. The form of the multiple linear regression model used is as follows:

\[ Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon \]

Where \( Y \) is Stock Price, \( \alpha \) is Constant, \( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \) are Slope or Estimate Coefficient, \( x_1 \) is Audit Opinion, \( x_2 \) is Audit Report Lag, \( x_3 \) is Profitability, \( x_4 \) is Leverage, and \( \varepsilon \) is epsilon (error term).

After testing the classical assumptions, the next step is to test the hypothesis. Hypothesis testing in this study will be carried out by (F test) for simultaneous testing and (t-test) for partial testing. The coefficient of determination is used to measure the regression model's ability to explain the dependent variable (Ghozali, 2018:97)

Operationalization of Variables

The stock market price at the closing price of 2013 to 2018 is the stock price used in this study. Meanwhile audit opinion is an opinion given by an independent auditor on the fairness of a company’s financial statements. An audit of financial statements is carried out to determine that the financial statements have been declared under specific predetermined criteria or vice versa (Arens, Elder, & Beasley, 2014).
In 2014, the Indonesian Institute of Certified Public Accountants (IAPI) made an update on auditing standards. For this type of audit opinion, the standard on auditing (SA) 700 states that an unmodified opinion should be given by the auditor when the auditor concludes that the financial statements are prepared, in all material aspects, following the applicable financial reporting framework. Furthermore, in the standard on auditing 705, there are three types of the modified audit opinion: a qualified opinion, an adverse opinion, and a disclaimer opinion (IAPI, 2014).

In this study, the auditor's report on manufacturing companies from 2012 to 2017 will be used. The modified audit opinion, namely: a disclaimer opinion will be given code 1, an adverse opinion will be given code 2, and a qualified opinion will be given code 3. An unqualified audit opinion with an explanatory paragraph will be given code 4, and for an unmodified audit opinion of an unqualified audit opinion will be given code 5.

Furthermore, audit report lag is the length of time required by an auditor to maintain the audited financial statements. The longer it takes to complete the audit report, the longer the audit report lag to complete. Investors need financial reports and audit reports before deciding to invest in a company; this is so that investors can see a company’s performance so that they are sure to invest in the company. Suppose the financial statements are not presented on time. In that case, investors who should have the potential to invest in a company will be discouraged because the company's financial statements are not yet available. They will switch to investing in other companies.

The audit report lag can be measured by calculating the number of days difference between the end of the accounting period and the date the auditor approves the audit opinion report. The audit report used to view the number of audit report lag days is the report from 2012-2017. The period for completing the audit can be calculated using the following formula:

Audit Report Lag = date of the audit report - date of the financial statements.

Profitability is the company's ability to generate profits. If the company's ability to earn a profit is high, it shows that it is a promising company for investors. Conversely, if the company's profit is low and if the company even experiences losses, then this may result in investment withdrawal by the investors' Profitability in this study is measured by ROA (return on assets).

“ROA shows the company's ability to use all its assets to generate profit after tax (net income). The greater the ROA, the more efficient the use of company assets. In other words, with the same number of assets, a greater profit can be generated, or vice versa” (Sudana, 2011:22). The ROA to be calculated in this study is from 2012 to 2017 and, the formula is as follows:

$$ ROA = \frac{Net\ income}{Assets} $$

Leverage is the use of funds that have fixed expenses with the aim that these funds can provide more benefits for shareholders (Sartono, 2010:263). However, if this leverage is not managed correctly, it will only be an additional burden for the company. In this study, leverage will be measured using operating leverage. Operating leverage is closely related to company sales and earnings before interest and taxes (EBIT). Operating leverage in this study is calculated from 2012 to 2017, using the DOL (degree of operating leverage) formula:

$$ DOL = \frac{\text{percentage change}}{\text{(EBIT)}} \cdot \frac{\text{percentage change in sales}}{} $$
4. Result and Discussion

The results of the classic assumption test in this study are as follows:

The following are the results of the normality test carried out with a probability plot:

1) First Stage Normality Test Results

Based on Figure 1, it can be concluded that the Normal P-P plot of the residuals is not normally distributed. So it is necessary to transform the data so that the data can be normally distributed. The form of data transformation can be in the form of the square root (SQRT), the logarithm of 10 (LG-10), natural logarithm (LN), and skewness (Ghozali, 2018).

After transforming data for data normality, the next screening step is to detect data that has outliers. These data have unique characteristics and are far different from other observations and appear in extreme values (Ghozali, 2018). To obtain normally distributed residuals, the researchers transformed data in logarithms 10 (LG 10) from the initial data of 330 data. However, because outliers were found in five companies, 30 extreme data were deleted, so the total data becomes 300. The following are the results of a probability plot after transforming data and outliers:

2) Second Stage Normality Test Results

Figure 1. Normality Test Results before Data Transformation

Figure 2. Normality Test Results after Data Transformation
Based on figure 2, it can be concluded that the data is normally distributed. Furthermore, the multicollinearity test results indicate that the multicollinearity is not present for the variable audit opinion, audit report lag, timeliness, profitability, and leverage. The absence of multicollinearity occurs because VIF (variance inflation factor) < 10, the VIF value does not exceed 10, and the tolerance value > 0.01.

The results of the heteroscedasticity test can be seen in the image below:

![Scatterplot](image)

Figure 3 shows that the data used in this study are free from Heteroscedasticity symptoms. The absence of Heteroscedasticity is evidenced by the plot points randomly spreading above and below the 0 on the Y-axis. The points also do not form a regular pattern.

For the autocorrelation test, the Durbin Watson value was 2.008 and α = 5% (n = 300, k = 4), the dl = 1.784 and du = 1.838 were obtained. It can be concluded that the DW value count > du, namely: 2.008 > 1.838, so it can be concluded that there is no autocorrelation between residuals.

| Model                  | Unstandardized Coefficients | Standardized Coefficients | T     | Sig.  |
|------------------------|-----------------------------|---------------------------|-------|-------|
|                        | B   | Std. Error | Beta |       |       |
| (Constant)             | -0.634 | 1.116      | -0.568 | 0.571 |
| AUDIT OPINION          | 0.177 | 0.091      | 0.119 | 1.943 | 0.054 |
| LG10 AUDIT REPORT LAG  | 1.130 | 0.522      | 0.131 | 2.165 | 0.032 |
| LG10 PROFITABILITY     | 1.137 | 0.119      | 0.594 | 9.557 | 0.000 |
| LG10 LEVERAGE          | 0.001 | 0.050      | 0.001 | 0.023 | 0.982 |

Based on table 2, the regression equation obtained is as follows:

\[ Y = -0.634 + 0.177 \text{Audit Opinion} + 1.30 \text{Audit Report Lag} + 1.14 \text{Profitability} + 0.001 \text{Leverage} \]

If the profitability measured by ROA increases by 1 percent, and other variables are considered constant from the regression equation, the stock price will increase by 1.14%. Then, every 1 percent increase in the audit report lag will decrease the share price by 1.30%.

Based on the simultaneous research results, audit opinion, audit report lag, profitability, and leverage affect stock prices in manufacturing companies in the 2012-2018 period. Then, the Adjusted R Square value is 0.363 or 36.3%. So it can be concluded...
that 36.3% of stock price changes are caused by changes in audit opinion, audit report lag, timeliness, profitability, and leverage. Meanwhile, the rest (100% - 36.3% = 63.7%) change in stock prices is caused by other variables outside this study’s variables. From the research results, the value of $F_{count}$ is 25,253, with a significance of 0.000, then the $F_{table}$ value with a significance value of 5% is 2.40. From the results of these calculations indicate that $F_{count} > F_{table}$, namely 25.253 > 2.40. So that $H_1$ is accepted.

This study’s results are aligned with Wathi (2006), she found that the profitability ratio and the leverage ratio simultaneously affect stock prices. Likewise, Marindah (2013) found that Audit Report Lag, Earnings Per Share, Audit Opinions, and Public Accounting Firms simultaneously affect stock prices. Partially audit report lag and profitability calculated using ROA influence stock prices. The results of this study are supported by research by Wathi (2006) and Zaki (2016) they found that ROA’s profitability partially affects stock prices. Meanwhile, audit opinion and leverage partially do not affect stock prices.

This study's results are in line with previous research conducted by Marindah (2013), which found that partially audit opinion does not affect stock prices. Another study by Itmami (2017) found that leverage, calculated by degree of operating leverage (DOL) partially, did not affect the share price.

5. Conclusions

From the results of the research and analysis described above, it can be concluded that audit opinion, audit report lag, profitability, and leverage simultaneously affect the stock price of manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2012-2018. Partially, the audit opinion does not affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2012-2018. Partially the audit report lag influences stock prices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2012-2018. Partially profitability affects stock prices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2012-2018. Partially leverage does not affect stock prices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2012-2018.

This study is limited by several circumstances. First, this study only focuses on manufacturing sector companies hence the scope of this research limited. Second, the time horizon used in this study is six years which may be considered short. Future research are suggested to find and use different variables that are thought to influence stock prices. The analysis may be extended to other sectors hence that it can further enrich research results. Extended duration of study may also be considered in future studies to enhance the robustness of the findings.

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