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Original Research Article

The Effect of ROE, DER, and NIM on Stock Price in Malaysian Banks during the COVID-19 Pandemic

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Abstract: This study aims to examine the effect of Return on equity (ROE), debt to equity ratio (DER), and net interest margin (NIM) on stock prices (SP) during the Covid-19 Pandemic in Malaysian banks. The data source is the Annual Financial Report with the observation year during the Pandemic 2019-2021 period in the banking industry listed in the Malaysian Stock Exchange (MLX)—data analysis with multiple regression liner and processed using SPSS. The results of this study show that DER has no effect on the SP in the banking industry listed in MLX. Meanwhile, NIM and ROE positively affect SP in the banking industry listed in MLX during covid-19.

Keywords: ROE, DER, NIM, SP, and COVID-19.

INTRODUCTION

Global economic growth fell by 4.3% in 2020 (World Bank, 2021) due to the negative impact of the COVID-19 pandemic (WHO, 2020). The characteristics of the COVID-19 pandemic and its incredible growth globally created panic in Malaysian society, caused the closing of borders among the Malaysian states, and consequently significantly dropped the demand side of entry economic activity. The Malaysian Stock market is among the most hit sectors in response to reduced demand for stock market products and services, the bid-ask price fluctuations, and stock market volatility during the outbreak. This influence of the pandemic outbreak is notably confirmed via statistics provided by official institutions in the country and international organizations during the preliminary pandemic expansion.

The maximum impact of a financial crisis is felt in the stock market's volatility. According to (the International Bank for Reconstruction and Development, 2020), as Covid-19 spreads domestically and externally, investment growth is expected to decrease significantly due to the shock of adverse terms of trade and the collapse of confidence, while lower borrowing costs and proposed economic reforms may support the recovery. In contrast, government consumption growth is expected to increase substantially as governments embark on a significant fiscal stimulus package amid a sharp drop in global growth and trade.

At the beginning of the COVID-19 outbreak worldwide and in Malaysia, the government acted toward a lockdown decision for all factories and industries, as well as the social isolation of citizens (Das *et al.*, 2020). Like many other countries, Malaysia was hit hard by the COVID-19 pandemic starting in early 2020.

Its past policy prudence has allowed Malaysia to react swiftly and boldly to the public health and economic crisis. Nevertheless, the crisis revealed the necessity of further reforms Malaysia needs to pursue to achieve more inclusive and high growth after the pandemic. Vulnerable workers have been more affected during the pandemic, and many firms have been urged to use digital tools, such as e-commerce and teleworking, for the first time. Going forward, strengthening social protection is of utmost importance to improve the well-being of the Malaysian people, including self-employed workers, and prepare for the aging society. Further easing government regulations is crucial to stimulate business dynamism and restore vigorous growth. Accelerating digitalization will be critical for Malaysian firms to become more productive in the post-pandemic era (Malaysia central bank, 2021).

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Financial performance is one factor that shows the effectiveness and efficiency of an organization in order to achieve its objectives. Effectiveness is achieved when management can choose a suitable destination or an appropriate tool to achieve those objectives. Efficiency was defined as the ratio (ratio) between input and output with specific inputs to obtain the optimal output (Pertiwi & Pratama, 2012).

As stated by (Zeti, 2013), During this phase of the development of the Malaysian financial system, significant advancement in the banking sector was made in terms of capitalization, risk management and governance practices, delivery channels, and human capital development in the industry. This paved the way for the interest rate reform to move to an excellent market orientation, thereby supporting more efficient pricing of financial products and services. The more competitive environment it generated also became an important driver of productivity gains, customer centricity, and innovation in the financial system. Underpinning the financial sector growth was also the development of a more robust surveillance, regulatory and supervisory framework. As the Malaysian financial system evolved to become more complex, sophisticated, and diversified, the regulatory and supervisory approach has correspondingly evolved from detailed and prescriptive rules to a risk-based approach that combined more excellent supervisory judgment and intensity with high-level principles of sound practice.

Banks play an essential role in economic development through their financial operations, collecting funds from the surplus groups and supplying them to the deficit groups. Thus, economic performance is often highly linked with banks' efficiency within an economy. As a result, examining bank efficiency has received greater attention from academics and researchers over the past decades.

According to (Sufian, 2010), As in other developing economies, the banking system plays an essential financial intermediary role in the Malaysian economy. According to him, the efficiency of the Malaysian banking sector around the Asian financial crisis with an emphasis on the domestic versus foreign banks debate. He employed the non- parametric DEA method to compute the sample's efficiency estimates of individual foreign and domestic banks. His empirical findings indicate that foreign banks have exhibited higher technical efficiency levels compared to their domestic bank peers. Despite that, the results seem to suggest that foreign banks were severely affected by the Asian financial crisis, implying that foreign banks were not insulated from unexpected events like the Asian financial crisis of 1997.

This study aimed to examine the effects of ROA, DER, and NIM on SPs during Covid-19 in Malaysia's banking industry. This research is beneficial for the governments of Malaysia in issuing policies should there arise an unexpected situation that cause an economic crisis in general. As a new phenomenon that needs studies to explain how to deal with it and a similar crisis in the future, governments must update the regulations to be prepared for a new crisis.

LITERATURE REVIEW

The Efficient Market Hypothesis

According to the efficient market hypothesis, the efficient capital market theory has achieved the most significant prominence among the approaches for understanding stock behavior. The efficient market hypothesis (EMH) asserts that prices fully reflect the available information in an efficient market. This implies that an investor can expect a merely risk-adjusted return from an investment as prices move instantaneously and randomly according to new information. Efficiency is defined at three different levels, according to the level of information reflected in the prices. The three EMH levels are expressed as weak, semi-strong, and strong forms. The weak form of the EMH assumes that the prices of securities reflect all the available public market information but may not reflect new information that is yet publicly available. It also assumes that past information regarding price, volume, and returns is independent of future prices.

Stock Price

According to (Kasmir, 2016), shares are owned securities, whereby the owner of the shares is the company owner. Investors need to know the value of the stock, as it is important information for making appropriate investment decisions. The share price is the price of a stock that occurs in the stock market at a particular time, as determined by market participants and the demand and supply of the relevant stock in the capital market. (Purnamasari, 2015) Stock price is a price of a type of stock that appears in the stock market because of the investor's action when purchasing the stock securities, also known as market price. According to (Tandelilin, 2010), the factors that influence SPs can be broadly grouped into three categories: influence from without, investor behavior, and financial performance of the issuer.

Return on Equity and Stock Price

Profitability is an essential aspect for a company because, for its survival, it must be in a favorable condition. Profitability measures the effectiveness of management as a whole, indicated by the size of the profits obtained from sales and investment (Fahmi, 2018). The higher the value of profitability, the higher the profits obtained by the company so that the company's stock price increases and the stock returns obtained by investors also increase (Fahmi, 2018). There are common ratios used in measuring profitability ratios, for example, namely, Return on assets, return on equity and net profit margin.

In this study, the author will use the Return on equity ratio.

According to (Kasmir, 2017), the Return on equity is a ratio to measure net profit after tax with own capital. According to (Fahmi, 2012), Return on Equity (ROE) is a ratio used to assess the extent to which a company uses its resources to be able to provide a return on equity. According to (Brigham & Houston, 2010), Return on Equity (ROE) is the ratio of net to ordinary equity, measuring the rate of Return on investment of ordinary shareholders. According to (Prastowo, 2015), one of the main reasons for operating a company is to generate profits that will benefit the shareholders. Return on equity (ROE) measures the success of this achievement. The results of (Alam, 2017) and (Khairudin & Wandita, 2017) showed that ROE positively and significantly influences SPs. (Cathelia, 2016) said ROE has a significantly positive effect on SP. Meanwhile, (Hutasoit *et al*., 2022) stated that ROE influences the SPs of banking companies on the Indonesian Stock Exchange. Based on the above description, the following hypotheses were formulated:
H_1: There is a significant positive effect of ROE on SP in the banking industry listed in MLX during covid-19.

Debt to Equity Ratio and Stock Price

Considering that DER has a high enough leverage indicates that the company's performance is getting worse because the level of dependence of company capital on outsiders is getting bigger (Dwiatma, 2011). Previous research conducted by (Sasongko & Wulandari, 2011) shows that DER positively and significantly affects stock prices. Research conducted by (Natarsyah, 2011) also shows that the DER variable positively and significantly affects stock prices. Meanwhile, research (Nyoman, 2018) DER hurts stock prices. Then the results of previous research conducted by (Purnamawati, 2016) DER hurt stock prices. The results of previous research conducted by (Satryo *et al.*, 2017) showed that DER hurts stock prices. The results of previous research conducted by (Hatta, A. J., & Dwiyanto, 2012) showed that DER hurts stock prices. The results of previous research conducted by (Al Qaisi, F., Tahtamouni, A., & Al-Qudah, 2016) showed that DER hurts stock prices. Based on the description above, the hypothesis formula will be:
H_2: There is a significant negative effect of DER on SP in the banking industry listed in MLX during covid-19.

Net Interest Margin and Stock Price

According to (Aryaningsih, 2018), The NIM reflects market risk arising from changing market conditions, which can be detrimental to the bank. Also referred to as economic profitability, it compares net interest income and the average earning assets used to generate that profit. The NIM ratio describes the net interest income a bank earns from its productive assets. The higher the NIM ratio, the higher the bank's net interest income from its productive assets. (Catriwati, 2017) carried out a study to test and analyze NIM's influence on a company's share price. The results showed that NIM has a partially positive and significant effect on the share price, meaning that the ability of banks to utilize NIM is appreciated by investors when buying shares (Andarwati & Jatmika, 2019).

Meanwhile, according to (Wismaryanto, 2013), NIM has a positive and significant effect on SP. Thus, it can be generalized that NIM positively affected the SPs of commercial banks in the period 2008 ± 2012. Based on the above description, the following hypotheses were formulated: H_3: NIM has a significant positive effect on SP in the banking industry listed in MLX during covid-19.

RESEARCH METHODE

Research Design

The type of research used is quantitative, i.e., research that focuses on testing theories by measuring research in variables by numbers and analyzing data by statistical procedures. To analyze the effect of Indonesia's central bank's financial policies on Indonesia's financial performance during the corona Pandemic 2019-2021.

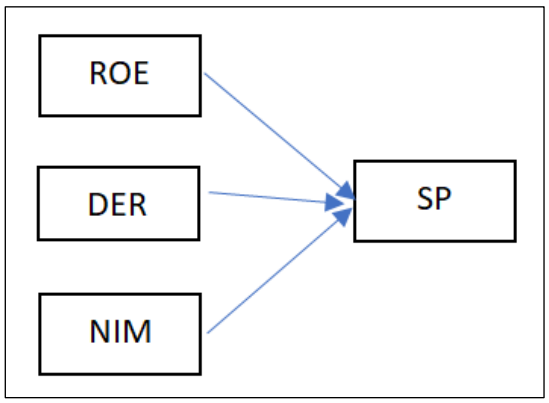

Figure 1: Conceptual Framework

Variables and Variable Measurement

Table 1: The Variables Measurement

No	Name	Measurement
1	SP	The month-end closing price added up in one year/number of months in one
2	ROE	Net income /shareholders' equity
3	NIM	Investment Income - Interest Expenses /Average Earning Assets
4	DER	Total liabilities/Total shareholder's equity

Population and Sample

The population in this study consisted of all Malaysian banks listed on the stock market exchange. The researcher found 23 banks in Malaysia that publish their annual reports. Data for the study has been collected from websites of the concerned stock markets and the Yahoo-finance website (http://www.yahoo/financeere). The data source is the Annual Financial Report, with the observation year during the Covid-19 Pandemic being 2019-2021. To obtain data that meets the requirements for analysis, samples that do not issue complete annual financial statements for that period will be excluded.

Data Analysis Techniques

This research used a multiple linear regression test. Based on the research model that uses the dependent variable SP and the independent variables ROE, DER, and NIM, which are analyzed using multiple linear regression (multiple regression analysis), below are multiple regression equations:

$SP= \beta_0 + \beta_1 ROE + \beta_2 DER + \beta_3 NIM + \varepsilon$

Description:

SP= stock price

ROE = Return on equity

DER = Debt to equity ratio

NIM = Net interest margin

β_0 = Constant

β_1-β_4 = Beta Value of each Independent Variable

ε = *Error term*

1. Hypothesis testing

a. Coefficient of Determination (*Adjusted* R^2)

The degree to which the model can explain variations in the dependent variable is primarily measured by the coefficient of determination (R2). The coefficient of determination has a value between 0 and 1. A low R2 value indicates that the independent variables' capacity to explain the variation of the dependent variables is severely constrained. If the value is near 1, then the independent variables almost entirely satisfy the requirement for predicting the variation of the dependent variable. The bias toward the number of independent variables included in the research model is the fundamental problem of employing the coefficient of determination (Chandrarin, 2021). A value close to 1 (one) means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

b. F Test goodness of fit

The F statistic test aims to test whether all independent variables (in this study ROE, DER, and NIM) in the regression model simultaneously or jointly affect the dependent variable (in this study SP) (Chandrarin, 2021).

c. Hypotheses Test (t-Test)

The t-test is used to determine how significant each independent variable's influence (partially) is in explaining the variance of the dependent variable (Chandrarin, 2021). The Test uses a significance value of = 0.5.

RESULTS AND DISCUSSION

Results

A. Descriptive Statistics

This study uses data from the banking industry listed on the Indonesia Stock Exchanges period 2019 - 2021. The results of sample selection using the purposive sampling method obtained a sample of 39 banking industry companies listed in the MLX.

Table 2: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
ROE	-28,87	18,63	5,10	9,96
NIM	-6,80	4,23	1,63	2,27
SP	,05	12,29	3,09	2,82
DER	,33	9,30	4,42	3,11

Based on the table above, it is known that the average SP variable is 3.9, the minimum value is 0,050, and the maximum is 12,29, with a standard deviation of 2,82. In the SP variable, the average value is 3,09, which shows the comparison between the month-end closing prices added up in one year and the number of months in one year in banking industry companies listed on MLX is 3,10%.

Table 3: Normality Test Results

Description	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Unstandardized Residual	,146	39	,055	,920	39	,009
a. Lilliefors Significance Correction						

The average ROE variable is 5,10, the minimum value is -28,87, and the maximum is 18,63, with a standard deviation 9,96. So based on the average value of 5,10, it shows that the average ROE of the company is 5,10%. This shows that the ROE is low because it is below of normal average in other countries, 13.44%, so the ROE of banking companies in Malaysia must be increased.

The average NIM variable is 1,63, the minimum value is -6,80, and the maximum is 4,23 with a standard deviation 2,27. So based on the average value of 1,63, it shows that the average NIM is 1,63%. The average value in the NIM variable is 1,63, which shows that the comparison between Investment Income - Interest Expense and Average Earning Assets in banking industry companies listed on MLX is 1,63%. However, this figure is still classified as a low NIM category because it is still below 6%.

The average DER variable is 4,42, the minimum value is 0,33, and the maximum is 9,30 with a standard deviation of 3,11. So based on the average value of 4,42, it shows that the average DER is 4,42 times. In the DER variable, the average value, which shows that the comparison between total Debt and total equity in banking industry companies listed on MLX, is 4.42 times. However, this figure is still classified as a high debt category because it is higher than equity, and a ratio higher than two is considered less favorable.

B. Examination of the Variables Results

The Examination of the variables tested in this study was carried out by normality, multicollinearity, autocorrelation, and heteroscedasticity tests.

1. Normality test

To test the normality of the data in this study was carried out using the Kolmogorov-Smirnov test with the following results:

Based on the above, it is known that the final normality test can be seen from the Kolmogorof-Smirnov sig. of 0.055 greater than 0.05; it can be said that the data for banking industry companies in Malaysia in this study are standard.

2. Heteroscedasticity Test

Table 4: Heteroscedasticity Test Results

Variables	Standardized Coefficients		t	Sig.
	Beta	Std. Error		
ROE	-,794	,026	-1,28	,52
NIM	,410	,089	1,54	,13
DER	-,320	,035	-1,23	,53
SP	,898	,082	1,95	,05

This section discusses the heteroscedasticity test. In this study, the Glejser test was used to test heteroscedasticity. In the Glejser test, the independent variable regresses the residual absolute value (|u|). The following is the test result:

Based on the table above, it can be seen that the heteroscedasticity test results for each independent variable have a significant value above 0.05 (sig greater than 0.05), so it is said that there is no heteroscedasticity for banking industry companies in Malaysia.

3. Multicollinearity Test

Table 5: Multicollinearity Test Results

Variables	Collinearity Statistics	
	Tolerance	VIF
ROE	,738	1,355
NIM	,730	1,369
DER	,979	1,022

The multicollinearity test is a test to determine whether there is a correlation between independent variables. It can be seen from the VIF (Variance Inflation Factor) and Tolerance values find out whether or not multicollinearity exists. If the VIF value is less than ten and the tolerance is more significant than 0.1, multicollinearity is ensured. The following is the result:

Based on the above, it can be seen that the test results for multicollinearity have a Tolerance value for each independent variable greater

than 0.1 and for a VIF value < 10, so it can be said that it does not occur or is free from multicollinearity for banking industry companies in Malaysia.

A. Hypotheses Test Results

This study used multiple linear regression analysis to prove a solution regarding the effect of ROE, ROA, DER, and NIM on SP. Test the Coefficient of Determination to find out how much the contribution of the independent variables ROE, DER, and NIM to the dependent variable (SP). Then test (F) or simultaneous Test determines the significance of ROE, DER, and NIM together on the SP variable. Testing the partial t-test is to test whether there is a positive effect or to determine the importance of each separate variable so that it can be seen whether the accusations made can be accepted or rejected.

1. Coefficient of Determination Test

For banking industry companies in Malaysia, the Adjusted R Square value is 0.769, meaning that the independent variable affects the dependent by 76.9% while other variables influence the remaining 23.1%.

2. Goodness of Fit of the Model

The value of significance of F = 43,14 with significance probability 0.000 < 0.05 for banking industry companies in Malaysia, the fit model and independent variables can be used to predict the dependency on the banking industry companies in Malaysia.

3. Hypotheses Test results (t-Test)

After all, assumptions are met, the next step is to test the hypothesis to determine the effect of the independent variables on the dependent variable. Testing was carried out using the t-test with the following results:

Table 6: t-test results

Variables	Standardized Coefficients		t	Sig.
	Beta	Std. Error		
ROE	1,01	,02	11.12	.000
NIM	-,68	,11	-7.5	,000
DER	-,06	,07	-.81	.423

* statistically significance at α level 5%

The effect of ROE on SP

Based on the analysis results, it is known that the significance value of t for the ROE variable is 0.000 < 0.05, meaning that ROE affects the SP in the banking industry listed in MLX. So hypothesis 1b in this study is accepted.

The effect of DER on SP

Based on the results of the analysis, it is known that the significance value of t for the DER variable is 0.423 > 0.05, meaning that DER has no effect on SP in the banking industry listed in MLX. So hypothesis 3b in this study is rejected.

The effect of NIM on SP

Based on the analysis results, it is known that the significance value of t for the NIM variable is 0.000 < 0.05, meaning that NIM affects SP in the banking industry listed in MLX. So hypothesis 4b in this study is accepted.

B. Discussion

1. **ROE and Stock Price**

The significance value of t for the ROE variable is 0.000 < 0.05, meaning that ROE affects the SP in the banking industry listed on Malaysia Stock Exchange (IDX). So hypothesis 1 in this study is accepted.

ROE is included in the profitability ratio. According to (Prastowo, 2015), one of the main reasons to operate the company is to generate profit that will benefit shareholders. For this reason, the success Measure of achievement is the number of ROE. The market will accept information on increasing ROE as a good signal that will provide positive input to investors in making decisions to buy shares (Husnan & Pudjiastuti, 2015). This makes the demand for stocks increase so that prices will rise.

The results of this study support research conducted by (Alam, 2017), (Khairudin & Wandita, 2017) show that ROE has a positive and significant influence on stock prices. (Cathelia, 2016) said ROE has a significant positive effect on SP.

2. DER and Stock Price

The significance value of t for the DER variable is > 0.05, meaning that DER has no effect on SP in the banking industry listed on Indonesia Stock Exchange (IDX). So hypothesis 2 in this study is rejected.

The significance value of t for the DER variable is > 0.05, meaning that DER affects SP in the banking industry listed on Malaysia Stock Exchange (IDX). So, hypothesis 2 in this study is rejected. This means that higher or lower DER will not affect SP because the policy of DER did not realize by investors as well due to information asymmetric.

The results of this study support research conducted by Goyal and Joshi (2013) found that DER has no relationship with stock prices. Research conducted by Rehman, Iqbal, and Khan (2014) on Pakistan companies also shows no significant relationship between DER and stock prices. This study finds that other factors, such as company size, profitability, and liquidity, have a more significant influence on stock prices.

3. NIM and Stock Price

The significance value of t for the NIM variable is 0,000 < 0.05 with a positive coefficient value, meaning that NIM positively affects SP in the banking industry listed in IDX. So hypothesis 3 in this study is accepted.

The significance value of t for the NIM variable is 0.000 < 0.05, meaning that NIM affects SP in the banking industry listed in IDX. So, hypothesis 3 in this study is accepted. According to Sujarweni (2017), The increasing NIM means the bank is improving too. A larger NIM indicates that the company can generate more significant interest income from its productive assets so that large interest income can also cover the company's better profitability.

The results of this study support research conducted by (Catriwati, 2017); the purpose of his study was to test and analyze the influence of NIM on the company's share price. The results showed that partial Net Interest Margin (NIM) positively and significantly affects the Share Price. NIM has a positive and significant effect on SP. This means that investors appreciate the ability of banks to utilize NIM in buying shares (Andarwati & Jatmika, 2019).

CONCLUSION

The purpose of this study was to analyze the financial performance of Indonesian and Malaysian economies and compare them by knowing the effect of ROE, NIM, and DER on SP in the banking industry listed in IDX and MLX. The results in this study are based on the data examination.

ROE affects the SP in the banking industry listed in MLX. This shows that the company's ability to generate profits by utilizing its capital cannot be used as a reference for investors to assess its performance. ROE can affect stock prices because the higher the ROE, the better the company's performance in utilizing its capital, and it can also provide benefits for shareholders. However, the company's capital comes more from loans than its capital. In that case, it will also not benefit investors because the company's profits will later be used to pay off its debts.

DER does not affect SP in the banking industry listed in IDX and MLX. This shows that when investors invest their shares in a company, they will not see the high Debt used as company capital. However, investors are interested in investing their shares based on the company's performance which is assessed from the profits that can be generated because if the company can generate good profits, the Debt can be minimized. Moreover, the company will be able to bear both short-term and long-term liabilities from the profits generated so that the rate of Return on dividends on shares invested by investors has a high return. This is what causes the DER to be the ratio used to compare the amount of Debt (Debt) of a company with the amount of equity (equity) that cannot affect the price of shares in the company.

NIM has positively and significantly affected SP in the banking industry listed in IDX and MLX during covid-19. This means that NIM has a positive effect on the stock prices of commercial banks in the period 2019-2021. The higher the NIM, the higher the stock price. If NIM decreases, it will not directly affect the company stock price increase. Therefore, it is hoped that the company can manage its productive assets well to benefit from interest income. NIM is the primary source of bank income, so it is very rational if NIM affects bank profits which then affect its share price.

1. RECOMMENDATION

Suggestions for this research are:

1.2 In future research, you can add other variables affecting stock prices, such as EPS and NPL.

1.3 In future studies, other countries can use regions, for example, countries that are members of ASEAN, to obtain more samples to produce better data.

1.4 In future research, a more extended research period can be added so that the research results can be more generalized.

2. The Limitations of the Research

2.1 There are few studies on Malaysian banks, primarily commercial banks.

2.2 There are no studies about the relationship between ROE and NIM with stock prices in Malaysia and only a few in Indonesia.

2.3 There needs to be more data to analyze it, especially in Malaysia.

2.4 The time for analyzing was short because of the nature of the research.

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