

## **ANALYZING FINANCIAL PERFORMANCE: HOW FINANCIAL RATIOS INFLUENCE THE STOCK PRICE OF PT BANK CENTRAL ASIA**

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### **ABSTRACT**

*This study aims to investigate the impact of financial performance indicators and the COVID-19 pandemic on the stock price of PT Bank Central Asia Tbk. The research analyzes data from 2016 to 2023, focusing on key financial indicators such as capital adequacy ratio, net interest margin, non-performing loans, and loan-to-deposit ratio. The analysis employs statistical tests to determine the relationships between these financial indicators and the bank's stock price. The findings reveal that the capital adequacy ratio and loan-to-deposit ratio positively influence the stock price in the long term. At the same time, net interest margin and non-performing loans do not show a significant effect. Additionally, the COVID-19 pandemic did not lead to substantial fluctuations in stock price, suggesting that the bank's strong financial fundamentals provided resilience during the crisis. These results underscore the importance of maintaining robust capital reserves and effective liquidity management to enhance investor confidence and ensure sustainable growth in the banking sector. The study offers valuable insights for investors and policymakers, highlighting the need for prudent financial practices in navigating economic uncertainties.*

**Keywords:** COVID-19; financial ratios; PT Bank Central Asia Tbk; stock price

Received: Oct 23<sup>th</sup> 2024

Revision: January 31<sup>th</sup> 2025

Accepted for Publication: February 06<sup>th</sup> 2025

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### **INTRODUCTION**

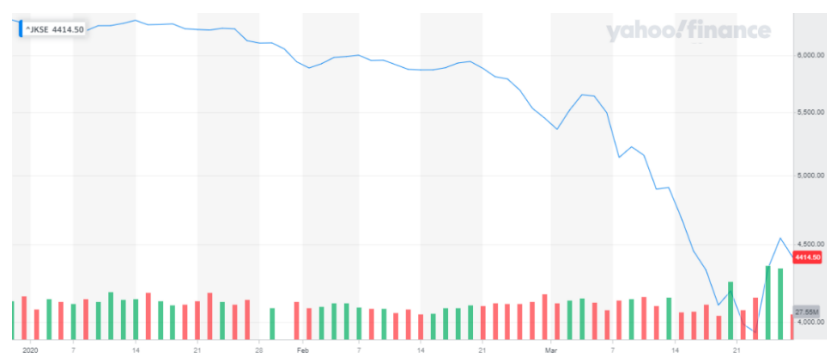
A country's economic activities intrinsically link to the banking sector, which acts as a financial intermediary. Banks gather deposits from the public and channel these funds back into the community through credit. In their operations, banks primarily use funds gathered from the public rather than relying on their capital. A press release from Bank Indonesia stated that a survey in September 2023 forecasted a rise in banks' new credit disbursements in August 2023. The weighted net balance (WNB) of new credit disbursement reflects this, rising to 86.2% from the previous month's WNB of 45.1%. Therefore, banks must maintain the health of their financial performance to sustain public trust. Analyzing the company's financial statements allows us to assess financial performance, estimate potential risks, and facilitate better planning.

We can measure financial performance using four key indicators: capital, earnings and efficiency, asset quality, and liquidity. This study focuses on four financial ratios that comprehensively represent these aspects: the Capital Adequacy Ratio (CAR), Net Interest Margin (NIM), Non-Performing Loans (NPL), and Loan-to-Deposit Ratio (LDR). These ratios were chosen due to their established significance in evaluating bank performance and risk. CAR reflects a bank's capacity to absorb potential losses and maintain solvency,

aligning with regulatory standards. NIM indicates profitability and operational efficiency, while NPL measures credit risk, highlighting the quality of a bank's loan portfolio. Lastly, LDR assesses liquidity, ensuring the bank can manage short-term obligations while extending credit to borrowers.

Each ratio offers unique insights into specific aspects of financial health, collectively providing a holistic view essential for investors when evaluating stock prices. For example, while higher CAR strengthens investor confidence, research suggests its impact on stock prices may vary (Nureny, 2020; Yoewono & Ariyanto, 2022). Similarly, a higher NIM signals better profitability, with studies consistently showing its positive influence on stock performance (Basuki & Sabilla, 2023; Chalise, 2022). Conversely, higher NPL ratios, indicative of greater credit risk, can negatively affect stock valuations. Meanwhile, an optimal LDR reflects sound liquidity management and operational efficiency, crucial for maintaining investor trust and influencing stock prices (Iskandar et al., 2023; Rizkia, 2023). These ratios collectively enable a nuanced understanding of a bank's financial health and its impact on stock price movements.

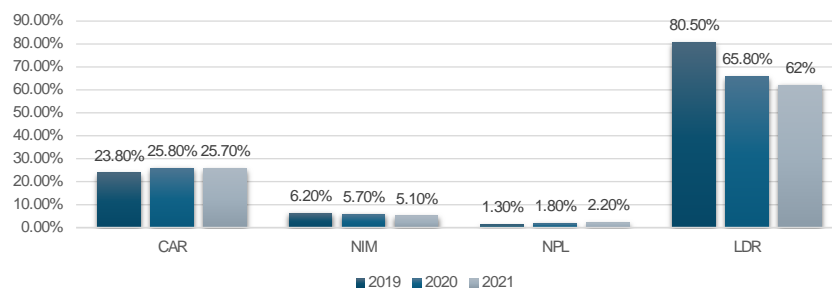
The emergence of the COVID-19 virus has had a negative impact on performance. Stock prices in Indonesia have continued to decline, as evidenced by Figure 1, which shows a 38.09% drop in the Composite Stock Price Index (IHSG) from the beginning of 2020 until March 20, 2020, with the IHSG falling from 6,300 to 3,900. The Indonesia Stock Exchange (IDX) suspended trading, known as a "trading halt," due to a 5% decline in the IHSG. Furthermore, the COVID-19 pandemic has also had a detrimental impact on the banking sector. Banks, which function to gather public funds and redistribute them through loans or credit, found themselves unable to fulfill this role during the pandemic. This was due to the heightened risk of default by borrowers. According to *Warta Ekonomi*, PT Bank Central Asia Tbk experienced a 4.8% decline in profit in the first half of 2020. The cessation of loan interest income caused this decline, despite the company's ongoing obligation to pay interest to depositors.



**Figure 1. IHSG, January – March 2020**

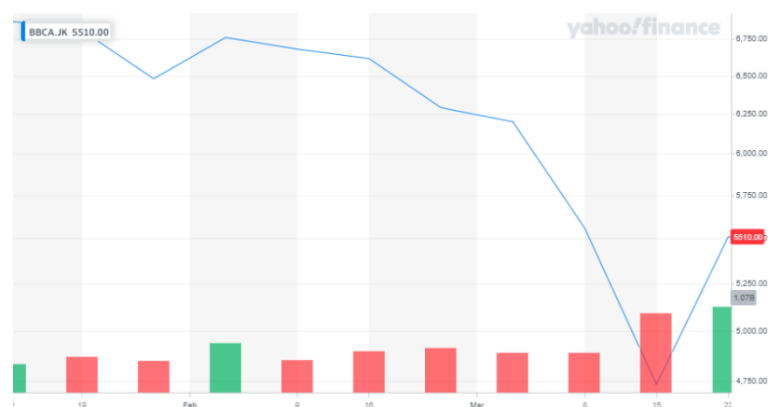
Source: Yahoo Finance

Figure 2 illustrates the financial performance of PT BCA over the period from 2019 to 2021. The CAR ratio remained above the minimum threshold of 8%, with a 2% increase in 2020, followed by a slight decrease of 0.1% in 2021. The NIM ratio also declined, dropping by 0.5% in 2020 and a further 0.6% in 2021. Despite a 0.5% increase in 2020 and an additional 0.4% rise in 2021, the NPL ratio remained within acceptable limits. Meanwhile, the LDR ratio saw a significant decrease of 14.7% in 2020 and another 3.8% decline in 2021, though it can still be considered within a healthy range. These ratio fluctuations occurred between 2019 and 2021, during which the world was grappling with the onset of the COVID-19 pandemic. However, the changes in these financial ratios remained within acceptable boundaries, indicating that PT Bank Central Asia Tbk demonstrated resilience during the pandemic, as evidenced by its financial ratios, which remained strong throughout this challenging period. Figure 3 shows the stock price of PT Bank Central Asia Tbk (BBCA), which experienced a significant decline in March 2020. The stock price dropped by 29.85%, from 6,700 in January 2020 to 4,700 in March 2020.



**Figure 2. Financial Performance of PT Bank Central Asia Tbk 2019-2021 period**

Source: Financial Report of PT Bank Central Asia Tbk



**Figure 3. Closing Price of PT Bank Central Asia Tbk Februari-Maret 2020**

Source: Yahoo Finance

This research aims to investigate the impact of these financial performance indicators (CAR, NIM, NPL, LDR) on the stock price of PT Bank Central Asia Tbk. Furthermore, this

study will assess whether there is a significant difference in stock prices before and during the COVID-19 pandemic. By analyzing this, we aim to contribute to the broader understanding of how banking performance metrics interact with market conditions, providing insights into risk management and investment strategies in uncertain economic environments.

The findings of this research will offer valuable insights for investors, financial analysts, and policymakers by providing empirical evidence on the relationship between financial performance indicators and stock prices. Additionally, the study highlights the importance of maintaining financial health and resilience, particularly in the face of macroeconomic disruptions like the COVID-19 pandemic and its implications for stock market performance in the long run.

## **LITERATURE REVIEW**

Investigating the relationship between financial performance and stock prices in banking institutions has garnered significant interest in the financial literature. Numerous studies have explored how financial ratios influence stock performance, revealing a complex and often debated landscape. This review organizes the findings thematically to highlight three critical areas: liquidity (LDR), capital adequacy (CAR), and profitability and risk management (NIM, NPL, and others). For clarity, we also provide a summary table synthesizing the findings.

### **Liquidity: Loan-to-Deposit Ratio (LDR)**

The Loan-to-Deposit Ratio (LDR), a widely studied financial ratio that reflects a bank's ability to meet its short-term obligations, represents liquidity. Utami (2005) found that LDR negatively impacted stock prices, indicating that higher LDR levels signal potential liquidity risks that may deter investors. Sambul (2016) and Fahlevi et al. (2018) supported this conclusion by observing similar negative effects. However, Putri & Prijati (2017) reported a positive relationship between LDR and stock prices, suggesting that well-managed liquidity levels could enhance investor confidence. On the other hand, studies by Fordian (2017) and Fatma (2020) found no significant relationship. This shows that LDR's importance may change depending on market conditions and investor priorities.

### **Capital Adequacy: Capital Adequacy Ratio (CAR)**

The Capital Adequacy Ratio (CAR) is a key financial stability and resilience metric, often examined in banking sector studies. CAR was found to positively influence stock prices in research by Utami (2005), Putri & Prijati (2017), and Fatma (2020), suggesting that higher CAR levels reassure investors about a bank's solvency and ability to absorb losses. On the other hand, studies like Sambul (2016) and Fordian (2017) found that CAR did not

significantly affect stock prices. The finding suggests that CAR may not have as much effect when banks consistently meet regulatory thresholds. Friantin & Ratnasari (2019) observed a negative but insignificant relationship, further underscoring the variability in CAR's role.

### **Profitability and Risk Management: NIM and NPL**

Profitability, as captured by the Net Interest Margin (NIM), is a crucial determinant of stock performance. Harahap and Hairunnisah (2017), Purwanti (2020), and Alfredo & Nasution (2021) found that NIM positively influenced stock prices, highlighting its importance in demonstrating a bank's ability to generate earnings. Conversely, Wijono et al. (2023) found a negative relationship, indicating that a high NIM might mean lenders are too aggressive, which could raise future risks in some situations. On the other hand, Sari et al. (2018) found that Net Interest Margin (NIM) proved less significant, as investors prioritized safety and expected dividends.

Risk management indicators such as Non-Performing Loans (NPL) also play a significant role. Marwansyah (2016) and Sari et al. (2018) found that NPL negatively affected stock prices, as higher NPL levels signal deteriorating asset quality and increased credit risk. On the other hand, Friantin & Ratnasari (2019) found a positive link between NPL and stock prices. This finding suggests that investors may perceive a manageable level of NPL as an indication of effective risk management. It implies that when banks transparently report and control credit risks within acceptable limits, investors interpret this as a sign of strong governance and the bank's ability to handle potential losses, which enhances their confidence in the institution.

### **The Impact of the COVID-19 Pandemic**

The COVID-19 pandemic introduced new complexities into the relationship between financial ratios and stock prices. Research by Kusumahadi & Permana (2021) demonstrated that domestic COVID-19 cases positively influenced return volatility, with a marked increase observed during the pandemic's onset. Kristianingsih & Agustina (2022) noted significant fluctuations in LDR and NIM during the pandemic, although CAR remained stable. Despite these fluctuations, they observed no significant changes in stock prices before and after the pandemic announcement. The finding aligns with Astuti & Alfie (2021), who documented substantial declines in overall stock performance due to pandemic-related uncertainty. These findings underscore the need to consider macroeconomic shocks when evaluating financial performance metrics and stock prices.

### **Summary of Findings**

The table below summarizes the key findings from the reviewed studies, highlighting the direction of the relationships between financial ratios and stock prices.

**Table 1. Summary of Findings**

Study	Period	Relationship with Stock Price
Utami (2005)	2000–2003	LDR (-), CAR (+)
Marwansyah (2016)	2008–2015	NPL (-), CAR (ns), LDR (ns)
Harahap & Hairunnisah (2017)	2010–2014	NPL (+), NIM (+), CAR (+), LDR (ns)
Sambul (2016)	2012–2014	LDR (-), CAR (ns), NPL (ns)
Alfredo & Nasution (2021)	2012–2015	CAR (ns), NIM (+), LDR (+), NPL (-)
Putri & Prijati (2017)	2012–2015	CAR (+), LDR (+)
Fordian (2017)	2012–2016	CAR (ns), LDR (ns)
Fahlevi et al. (2018)	2012–2016	CAR (+), LDR (-)
Sari et al. (2018)	2012–2016	CAR (-), NPL (-), LDR (-), NIM (ns)
Friantin & Ratnasari (2019)	2015–2017	NPL (+), CAR (ns)
Fatma (2020)	2015–2019	CAR (+), NPL (+), LDR (ns)
Purwanti (2020)	2015–2019	NIM (+)
Wijono et al. (2023)	2016–2022	NIM (-)
Susilo & Dwiyanto (2023)	2016–2023	LDR (ns), NPL (ns)
Kristianingsih & Agustina (2022)	COVID-19 Period	CAR (ns), LDR (s), NIM (s)

Note: (+) Positive relationship, (-) Negative relationship, (ns) Not significant

## METHODS

This study analyzes the financial ratios and closing prices of PT Bank Central Asia Tbk (BCA). We obtained the financial data for this study from PT Infovesta Utama via the Investpro application, a subscription-based platform that provides comprehensive financial data and analytics. The collected data consists of financial ratios, including the Capital Adequacy Ratio (CAR), Net Interest Margin (NIM), Non-Performing Loans (NPL), and Loan-to-Deposit Ratio (LDR). These data points were selected based on their relevance in assessing the financial performance of banks and their established influence on stock prices in prior studies.

The study employs quarterly time series data from 2016 to 2023. We chose quarterly data due to their availability. While monthly data might provide a finer temporal resolution, not all financial ratios are consistently available monthly. Conversely, using annual data would significantly reduce the number of observations, potentially limiting the robustness of the statistical analysis. Using quarterly data provides enough detail while ensuring the dataset is complete, allowing for a thorough analysis of how financial ratios relate to stock prices over time.

We set the closing stock price of BCA as the dependent variable, with four independent variables: capital adequacy ratio (CAR), net interest margin (NIM), non-performing loans (NPL), and loan-to-deposit ratio (LDR). Additionally, we include a dummy variable for COVID-19 (COV). The research model, which employs multiple linear regression, is represented by the following equation:

$$BBCASP_t = \alpha_0 + \beta_1 CAR_t + \beta_2 NIM_t + \beta_3 NPL_t + \beta_4 LDR_t + \beta_5 COV_t + \varepsilon_t$$

Where:

t = period

BBCASP = closing price of PT Bank Central Asia Tbk (BBCA)

CAR = Capital Adequacy Ratio

NIM = Net Interest Margin

NPL = Non-Performing Loan

LDR = Loan to Deposit Ratio

COV = Covid-19 (Dummy Variable)

1 = Covid-19's case > 0

0 = Covid-19's case = 0

$\varepsilon$  = Error term

We include a binary dummy variable for COVID-19 (COV), sourced from Our World in Data, where 1 represents periods with reported cases and 0 represents periods without cases. While this effectively segments the timeline into pre- and during-pandemic periods, it has limitations. The binary approach simplifies a complex phenomenon, which may overlook important differences in how COVID-19 affected various sectors, periods, and regions. It also fails to capture the complex nature of the pandemic, such as changes in consumer behavior, supply chain disruptions, and evolving policy responses (Anh & Gan, 2020; Khan et al., 2020; Takyi & Bentum-Ennin, 2021). Future research could address these issues by adopting other methods, like interaction terms or time-varying coefficients. Nonetheless, including the COVID-19 dummy variable in this study is a practical adjustment to account for the pandemic's broader effects during the study period.

The stationarity of the time series data is assessed using the Augmented Dickey-Fuller (ADF) test. The hypothesis for this test is as follows:

$H_0 : \delta = 0$  Indicating a unit root problem

$H_1 : \delta \neq 0$  Indicating stationarity

Using McKinnon's critical value at  $\alpha = 5\%$ , we reject  $H_0$  if the ADF statistic exceeds the critical value (Widarjono, 2009).

Hill et al. (2018) employ the Johansen Cointegration Test to determine the long-term relationship among non-stationary variables. We compare the trace statistic or maximum eigenvalue against a critical value of 0.05. If the statistic exceeds the critical value, we confirm cointegration among the variables. The Error Correction Model addresses short-term imbalances while preserving the long-term relationship among variables after

establishing cointegration. The model's validity relies on a negative Error Correction Term (ECT) coefficient with significant probability values.

Hypothesis testing is conducted using multiple linear regression analysis. The T-test evaluates the individual impact of each independent variable on the dependent variable, with the significance level set at  $\alpha = 5\%$ . The hypothesis are as follows:

- Right-tail test for CAR, NIM, and LDR
  - $H_0 : \beta \leq 0$
  - $H_1 : \beta > 0$
  - Reject  $H_0$  if T-statistic  $> 1.96$
- Left-tail test for NPL
  - $H_0 : \beta \geq 0$
  - $H_1 : \beta < 0$
  - Reject  $H_0$  if T-statistic  $< -1.96$
- Two-tail test for COV
  - $H_0 : \beta = 0$
  - $H_1 : \beta \neq 0$
  - Reject  $H_0$  if T-statistic  $> 1.96$

The F-test evaluates the joint impact of independent variables on the dependent variable, utilizing the following hypotheses:

$$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$$

$$H_1 : \text{at least one of } \beta_1; \beta_2; \beta_3; \beta_4 \neq 0$$

We measure the model's explanatory power using the coefficient of determination (R-squared), which indicates the proportion of variance in the dependent variable that independent variables explain.

## RESULTS

Based on the results presented in Table 2, the p-value of the model is below the  $\alpha = 5\%$  threshold, indicating that the null hypothesis is rejected. This confirms that the model does not exhibit unit root problems and is stationary at the degree of integration 1, or I(1). The cointegration test results in Table 3, reveal that the trace statistic exceeds the 0.05 critical value. This confirms a long-term cointegration relationship among the variables at a 5% significance level. Consequently, the model exhibits cointegration, suggesting a long-term relationship between the variables.

**Table 2. The Results of Unit Root Test**

Variabel	ADF test	Probability
BBCASP	-8.905247	0.0000
CAR	-6.012765	0.0000
NIM	-3.526613	0.0141



Variabel	ADF test	Probability
NPL	-4.681470	0.0008
LDR	-3.421876	0.0180
COV	-5.291503	0.0002

Table 3. The Result of Johansen Cointegration Test

Hyphothesis	Eigen value	Trace statistic	0.05 critical value
$r = 0$	0.848914	150.7588	95.75366
$r \leq 1$	0.696995	94.06170	69.81889
$r \leq 2$	0.619778	58.24151	47.85613
$r \leq 3$	0.514145	29.23153	29.79707
$r \leq 4$	0.204242	7.576177	15.49471
$r \leq 5$	0.023792	0.722379	3.841466

Table 4 presents the error correction term (ECT) results, which satisfy the required conditions. The ECT coefficient is negative and significant, with a p-value of 0.0045 below the 0.05 threshold. However, the short-term analysis indicates that CAR, NIM, NPL, LDR, and COVID-19 do not significantly influence the stock price of PT Bank Central Asia Tbk, as their respective p-values are all greater than 0.05. This finding suggests that the observed effects primarily manifest in the long term.

Table 4. Estimation of ECM

Variable	Coefficient	t-Statistic	Prob.
C	250.1321	2.782396	0.0103
D(CAR)	97.24079	1.114702	0.2760
D(NIM)	845.6103	1.300771	0.2057
D(NPL)	-659.8065	-1.750021	0.0929
D(LDR)	-26.52504	-0.533871	0.5983
D(COV)	183.4922	0.506651	0.6170
ECT (-1)	-0.411480	-3.135496	0.0045

Table 5. Long Term Estimation

Variable	Coefficient	t-Statistic	Prob.
C	-6012.111	-1.059625	0.2991
CAR	518.1230	7.083411	0.0000
NIM	-1410.491	-2.433602	0.0221
NPL	530.9100	1.028549	0.3131
LDR	94.26110	2.178676	0.0386
COV	382.7179	0.899699	0.3765
F-statistic		38.89183	
Prob (F-statistic)		0.000000	

The analysis highlights several key insights regarding the economic implications of the results. First, the Capital Adequacy Ratio (CAR) has a significantly positive relationship

with BCA's stock price, as indicated by the t-stat value of 7.083, exceeding the critical threshold of 1.96. The result suggests that a higher CAR reassures investors about the bank's resilience against risks, thereby boosting investor confidence and stock valuation. This underscores the importance of maintaining robust capital buffers for bank risk management, as they enhance market perceptions of stability and reliability. Similarly, the Loan-To-Deposit Ratio (LDR) demonstrates a positive and significant effect on stock prices, with a t-stat value of 2.178. This result suggests that an efficient allocation of deposits toward loans positively influences profitability, attracting investor interest and driving stock price growth.

Interestingly, the Net Interest Margin (NIM) does not affect stock price significantly, with a t-stat value of -2.433 failing to meet the significance threshold. One possible explanation is that while NIM reflects the profitability of a bank's core lending activities, its influence may be overshadowed by external market factors or other non-interest revenue streams. For instance, BCA's diversification into digital banking and fee-based income streams might dilute the impact of NIM on its overall performance and, consequently, its stock valuation. The Non-Performing Loan (NPL) ratio similarly shows no significant relationship with the stock price, with a t-stat value of 1.029 below the threshold. Investors might perceive the bank's NPL levels as well-managed and within acceptable limits, reducing their relevance as a determinant of stock price.

The estimation results shown in Table 4 show that COVID-19 does not significantly affect short-term changes in stock prices, reflected in its p-value of 0.6170 and a t-statistic of 0.506651. This result indicates that the pandemic did not lead to substantial short-term fluctuations in the stock price. In the long term, COVID-19 also has no significant relationship with the stock price, as shown in Table 5, with a t-statistic of 0.899 and a p-value of 0.3765. Despite the lack of significance for the COVID-19 variable, the Error Correction Term (ECT) in Table 4 provides important insights into the adjustment process. The negative and significant ECT coefficient (-0.411480, p-value: 0.0045) demonstrates the market's ability to correct short-term deviations and maintain long-term equilibrium.

The results highlight the resilience of PT Bank Central Asia Tbk (BCA) during the pandemic. As a prominent banking institution, BCA likely implemented effective strategies to mitigate the economic disruptions caused by the pandemic, helping to maintain the stability of its stock performance. Furthermore, the dummy variable approach effectively captures the broader impact of the pandemic on the stock price. However, it is worth noting that the dummy variable approach simplifies the pandemic's multifaceted impact into binary categories, which may not fully capture short-term fluctuations or trends.

The F-test assesses whether the independent variables collectively influence the dependent variable. The decision rule for the F-test is based on comparing the F-statistic and  $\alpha = 0.05$ . In Table 5, the F-statistic p-value of 0.000 is less than 0.05, leading to the rejection of the null hypothesis. This implies that CAR, NIM, NPL, LDR, and COVID-19

simultaneously have a significant long-term effect on the stock price of PT Bank Central Asia Tbk.

**Table 6. Coefficient of Determination**

<b>R-squared</b>	<b>Adjusted R-squared</b>
0.882770	0.860226

Table 6 reports an adjusted R-squared value of 0.882064, representing the model's coefficient of determination. This suggests that changes in the independent variables (CAR, NIM, NPL, LDR, and COVID-19) explain 85.93% of the variability in the stock price of PT Bank Central Asia Tbk. Other factors not included in this study account for the remaining 14.07% of the variability.

In summary, while CAR and LDR significantly influence BCA's stock price, NIM and NPL show no significant long-term effect. The COVID-19 pandemic also demonstrates no significant impact on the stock price during the study period, underscoring the resilience of BCA's stock amidst external shocks. These findings provide valuable insights into the economic implications of financial ratios and external events on stock market performance.

## DISCUSSION

The results show that the CAR ratio significantly and positively affects stock prices, consistent with previous studies (Utami, 2005; Harahap & Hairunnisah, 2017; Fahlevi et al., 2018; Fatma, 2020). The CAR variable's coefficient indicates that higher CAR levels increase stock prices, reinforcing that adequate capital buffers enhance investor confidence. PT Bank Central Asia Tbk maintained a CAR ratio well above the regulatory minimum of 8% throughout the study period, signaling robust capital adequacy. This result supports theories about the positive impact of financial health on market performance, as higher capital levels reduce risk and provide stability for operations. Investors are naturally drawn to companies with strong fundamentals, further amplifying stock price growth.

Regarding NIM, the results show no significant influence on stock prices, consistent with findings from Sari et al. (2018). The finding aligns with studies such as Nureny (2019) and Sudarno et al. (2021), highlighting that while NIM is a critical measure of bank profitability, its contribution to stock price movements is often negligible. These findings suggest that investors prioritize other financial metrics, such as return on assets (ROA) or broader macroeconomic factors when making investment decisions.

The complex nature of price determination and market perception explains the weak relationship between NIM and stock prices. Nureny (2019) noted that NIM when analyzed collectively with other financial ratios, might influence stock prices, but its isolated impact remains minimal. Similarly, external factors, such as macroeconomic conditions or regulatory changes, often overshadow NIM's significance. For instance, Kapusuzoglu

(2011) and Lawal et al. (2016) highlighted how external shocks, such as oil price fluctuations, can amplify stock price volatility, reducing the relative weight of profitability ratios like NIM. Moreover, the banking sector's unique characteristics further diminish the impact of NIM on stock prices. Ligocká & Stavarek (2019) emphasized that financial systems' liquidity and structural orientation can influence how investors perceive financial metrics. While NIM remains a valuable measure of operational efficiency, its limited role in stock price determination reflects the broader dynamics of the banking sector.

The findings for PT Bank Central Asia Tbk reveal that NPLs do not significantly impact stock price movements. The probability value of 0.3131 exceeds the 0.05 significance threshold, indicating that NPL levels are not a primary concern for investors. This result aligns with studies by Sambul (2016) and Susilo & Dwiyanto (2023), concluding that NPLs have a negligible effect on stock prices. Although NPLs are commonly viewed as indicators of financial distress, their influence on stock prices appears limited in contexts where overall financial stability is maintained.

Boussaada et al. (2022) argue that external conditions such as economic growth and liquidity risk management can mitigate the adverse effects of high NPL levels on investor sentiment. Investors may interpret NPLs as short-term challenges rather than systemic risks, notably when the banking system demonstrates resilience, as highlighted by Koju et al. (2018). Additionally, the unique characteristics of PT Bank Central Asia Tbk—including its high-quality assets and steady financial performance—may help explain why NPLs are not seen as significant factors affecting stock price changes. This finding shows the importance of looking at financial metrics in the bigger picture. For investors, operational health and market confidence are more important than single indicators like NPLs.

The study found a significant positive relationship between LDR and stock prices, consistent with previous studies (Alfredo & Nasution, 2021; Putri & Prijati, 2017). A higher LDR reflects the bank's ability to effectively utilize its deposits for lending, thereby boosting profitability through increased interest income. For PT Bank Central Asia Tbk, the LDR improved from 62% during the pandemic to 70% in 2023, supported by a 13.9% year-on-year increase in loan growth, particularly in the SME credit segment. This performance demonstrates the bank's capability to optimize its loan portfolio while maintaining a balanced liquidity position, which enhances investor confidence.

However, while a higher LDR supports profitability, excessively high levels could pose liquidity risks, as Sobana (2021) emphasized. Maintaining LDR within the optimal range of 78–92% is crucial to balancing profitability and risk, ensuring long-term stability. External economic conditions further influence the LDR-stock price relationship. People perceive a higher LDR positively during periods of economic growth, as it suggests robust lending activity and profitability. Conversely, a high LDR may signal potential liquidity constraints or default risks in recessionary conditions, as Ha (2021) noted.

The study also investigated the impact of the COVID-19 pandemic on stock price fluctuations. The results indicated that PT Bank Central Asia Tbk maintained stock price stability despite the economic disruptions caused by the pandemic, as there was no significant difference in stock prices during and outside the pandemic period. The result aligns with research by Kristianingsih & Agustina (2022), which found that well-capitalized banks with strong fundamentals can absorb external shocks more effectively.

Figure 4 illustrates the 200-week moving average of PT Bank Central Asia Tbk's stock prices from 2016 to 2023, showing that the stock price remained above the moving average. Despite a temporary decline in March 2020, the stock price rapidly rebounded. This resilience demonstrates the significance of robust finances, efficient risk management, and proactive interventions by financial authorities in mitigating the impacts of a pandemic. PT Bank Central Asia Tbk's ability to sustain liquidity and investor confidence during the pandemic reinforces the role of financial robustness in ensuring stock market stability.



**Figure 4. MA 200 Indicator of PT Bank Central Asia Tbk 2016-2023 (weekly)**

Source: TradingView

### **Implication of The Findings**

The findings of this study offer several implications for investors, policymakers, and the banking sector. The results show investors how important financial indicators are, especially CAR and LDR, when looking for banking investment opportunities. The positive relationship between CAR and stock prices suggests that investors view well-capitalized banks as safer investments, as higher capital levels indicate financial stability and resilience. Similarly, an optimally managed LDR enhances shareholder value by demonstrating the bank's ability to efficiently allocate funds for lending while maintaining sufficient liquidity.

From a regulatory perspective, the findings emphasize the critical role of financial policies in maintaining market stability. Financial authorities must ensure banks comply with capital adequacy requirements while balancing credit expansion and liquidity management

to prevent systemic risks. Since macroeconomic conditions significantly influence stock price movements, well-designed macroprudential policies can help strengthen the banking sector's resilience against economic fluctuations. Regulators may also consider policies reinforcing capital buffers and providing incentives for banks to allocate credit effectively, fostering sustainable economic growth and financial stability.

The results underscore the need for a well-balanced financial management strategy for the banking sector that prioritizes profitability and risk mitigation. While profitability metrics such as Net Interest Margin (NIM) remain essential in evaluating operational efficiency, their limited influence on stock prices suggests that investors emphasize broader financial strength indicators more. Similarly, the lack of a significant relationship between Non-Performing Loans (NPLs) and stock prices indicates that credit risk is not always the primary concern for investors, particularly when banks demonstrate strong asset quality and effective risk management.

Additionally, the study provides insights into the banking sector's resilience during external shocks, such as the COVID-19 pandemic. Despite initial market volatility, PT Bank Central Asia Tbk's stock price remained stable in the long term, highlighting the importance of robust capitalization and risk management strategies in weathering financial crises. This finding reinforces the idea that short-term disruptions do not necessarily translate into long-term instability, as well-capitalized banks with sound financial strategies are more likely to retain investor confidence even during economic downturns.

The study emphasizes that sustainable banking practices require a careful balance between growth and financial stability. If the LDR is managed well, banks can increase the amount of loans they can give out without affecting their liquidity. Adequate CAR levels protect banks from unexpected financial risks. For policymakers, these findings reinforce the need for regulatory frameworks that support banking flexibility while safeguarding financial stability. Meanwhile, a deeper understanding of key financial ratios can facilitate more informed and data-driven investment decisions for investors.

### **Limitations of The Research**

This study offers valuable insights into how financial ratios influence stock prices, particularly in the case of PT Bank Central Asia Tbk. However, further exploration of specific aspects could enhance the generalizability of the results. Since the analysis focuses on a single bank, future research could examine multiple banks to see if the same patterns apply across different institutions and market conditions. Additionally, while this study emphasizes financial ratios, broader economic factors such as interest rates and inflation influence stock prices. Incorporating these variables in future studies could provide a more comprehensive understanding of stock price movements.

The research methodology effectively captures key relationships, but alternative approaches could offer additional validation, such as testing different statistical models or extending the time frame. Given the stability of PT Bank Central Asia Tbk during the COVID-19 pandemic, future studies may also explore how banks respond to other external challenges, such as regulatory changes or economic downturns. Expanding on these areas, future research can deepen insights into stock price behavior and provide practical recommendations for investors, policymakers, and the banking sector.

## CONCLUSION

Based on the analysis, this study concludes that capital adequacy (CAR) and loan-to-deposit ratio (LDR) significantly positively affect its stock price. In contrast, net interest margin (NIM) and non-performing loans (NPL) do not significantly influence a stock price of PT Bank Central Asia Tbk. Furthermore, the COVID-19 pandemic did not substantially impact the stock price, likely due to the bank's resilience and strong financial fundamentals. These findings emphasize banks' importance in maintaining healthy capital reserves and balanced liquidity, ensuring stability and investor confidence even during external economic shocks. For investors and policymakers, the study underlines the critical need for robust financial management and prudent liquidity strategies to sustain long-term growth and stability in the banking sector.

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