

THE ROLE OF FINANCIAL LEVERAGE IN PREDICTING EARNINGS PER SHARE: A PANEL DATA APPROACH

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Abstract

This study aims to analyze the role of financial leverage in predicting earnings per share (EPS) using a panel data approach. Leverage is measured using the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), while EPS is used as the main indicator of the company's profitability performance. The research sample consists of non-financial sector companies listed on the Indonesia Stock Exchange during the period 2018–2023, selected using purposive sampling technique. The analysis method used is panel data regression with the Fixed Effect Model (FEM) approach, which was chosen based on the results of the Hausman test. The research results indicate that leverage has a negative and significant impact on EPS, which suggests that excessive use of debt can reduce earnings per share due to high interest expenses. These findings have important implications for company management in optimally managing capital structure and for investors in assessing the company's financial risk.

Keywords: Financial Leverage, Earnings Per Share, EPS, Panel Data.

INTRODUCTION

Earnings per Share (EPS) is one of the important indicators in analyzing a company's financial performance. EPS information is highly needed by investors to assess the profit prospects of the shares they own. EPS reflects the company's ability to generate net income available to shareholders (Sridhar & Sundar, 2022). Therefore, EPS is often used as a basis for investment decision-making, including decisions to sell, buy, or hold shares. Additionally, EPS is also used by management to evaluate financial performance internally. The accuracy in predicting EPS becomes important for all stakeholders of the company.

One of the factors believed to influence earnings per share is the company's financial leverage. Financial leverage measures the extent to which a company uses debt in its capital structure. Effective use of debt can increase profitability through the leverage effect, but it also risks increasing interest