CHAPTER I

INTRODUCTION

1.1   BACKGROUND OF THE STUDY

In this globalization, the presence of many developing companies as well as growing manufacturing companies triggers the development of trading industry causing competition among those companies.

Companies need to improve the performance of the company in order to face competition and develop the business sector. One of the fast-growing businesses is wholesale and retail. The trading sector affects each level of the business class, ranging from wholesale to wholesale, wholesale to retail, and retail to retail, from competition among large companies, until competition among middle scale companies with micro level companies. The competition not only has risen in local but also global area, so those companies have to increase their potential and take opportunities effectively and efficiently in their operational activities in order to improve company performance. Companies need a lot of fund or resources in order to be able to compete with other companies in the capital market.

The capital market plays an important role in country's economy. It can be one of the major alternative funding sources for companies to gain more capital for business development (Nasution, 2015). The development of an industry is supported by some factors, one of which is the availability of funds. The availability of funds is in form of loans, and on the share issued in the capital market. Shares are most commonly traded in the capital market and sold by companies to the public to be traded in the stock exchange market. It is the Indonesia Stock Exchange (IDX) that plays an important role in

sale and purchase of share transactions in Indonesia. When it comes to the sale and purchase transaction of shares, share price become the main point of concern among investors because it reflects the value of a company. So, in other words, maximizing company's value is identical to increasing shareholders'wealth (Alipudin & Oktaviani, 2016).

Investors can acquire the company's shares in the capital market as one of the investment instruments in order to gain profit in the future. In investment, there are two types of important factors that have to be considered, which are return and risk. This means when the capital market provides high return, it is related to potentially high risk meaning that an investor can get huge profit in an instant, but along with fluctuating share price, the share also causes investors to lose heavily in a short time (Zahroh, 2015). Share investment contains risks because it is very sensitive to changes that occur both domestically and internationally. Some issues like socio-political issues, monetary policies, and economic changes bring impact to the share price (Bulutoding, Parmitasari, & Dahlan, 2018).

Through investment, the investors expect to obtain earnings in form of dividend or capital gain which will increase their wealth in the future. For that reason, information about a company's performance is very essential for investors' assessment and consideration. Also, this information is beneficial for investors to consider the purchase of shares. For this consideration, fundamental analysis which focus on the related company's financial statements are prioritized (Alipudin & Oktaviani, 2016).

Investors usually use financial ratios based on company's performance to predict share price. The financial ratios in this research are Earning Per Share (EPS), Return On Equity (ROE), and Debt to Equity Ratio (DER). To elaborate it, EPS measures the net income of a company earned by each ordinary shares (Kieso, Weygandt, &

Warfield, 2014). According to Hery (2016), ROE determines how much equity yields net income, and DER provides basis to assess the total liabilities to equity.

Related with financial ratios explained before, there are contradictory gaps arise which are phenomenon gap and research gap. First, the phenomenon gap is EPS. When EPS increases, it will attract investors to invest, which may cause share price increases (Gilbertson, Lehman, & Passalacqua, 2014). However, there was a case when EPS increased while the company had a low return. For instance, Kevin, Head of Research Paramitra Alfa Sekuritas, who gave an example of PT Matahari Department Store (LPPF) weakened 36,96% when high EPS occured (Kontan, 2017). The higher ROE, the higher the investors' interest in investing share price (Primento, 2013). In fact, not all shares with high ROE are worth investing. According to Setiawan, an analyst at Phintraco Securities, said that the LPPF share was less attractive to investors because conventional retail industry was rivaled by the presence of various online shopping sites or e-commerce which made LPPF share unable to sustain growth. Moreover, according to Hans, director of Investa Saran Mandiri, investors must also pay attention not only to the economic conditions, but also the company's fundamentals before choosing share to be put into their investment portfolios. These factors affect share's performance and the company's ability to deliver results to investors (Kontan, 2018). In some cases, if DER is high, investors will not be interested in investing the share, so that the demand of share decreases, which results in the decrease of share price (Eugene F. Brigham, 2014).

The following table presents the phenomenon gap data of wholesale and retail companies listed in Indonesia Stock Exchange in the period of 2015 to 2017.

Table 1.1 Phenomenon Gap

Year	Company	EPS	ROE	DER	Share Price
2015	PT. Midi Utama Indonesia Tbk. (MIDI)	48.75	0.09	3.39	780
2016		68.01	0.22	3.76	810
2017		35.67	0.11	4.29	1,050
2015	PT. Millennium Pharmacon International Tbk. (SDPC)	16.36	0.90	3.71	69
2016		15.26	0.08	4.12	94
2017		18.89	0.07	3.41	110
2015	PT. Tigaraksa Satria Tbk. (TGKA)	200.64	0.22	2.14	2,750
2016		217.10	0.21	1.85	3,280
2017		266.11	0.23	1.71	2,600

Source : idx.com (2019)

From the table 1.1 above shows phenomenon gap among EPS, ROE, and DER on share price. As it can be seen in 2017, EPS of PT. Midi Utama Indonesia Tbk. (MIDI) decreased to 35.67, ROE decreased to 0.11 and DER increased to 4.29, while the share price increased to 1,050 in 2017.

The phenomenon gap of PT. Millennium Pharmacon International Tbk. (SDPC) occured in 2016, when its EPS decreased to 15.26, ROE decreased to 0.08, and DER increased to 4.12 while share price increased to 94.

Furthermore, EPS in PT. Tigaraksa Satria Tbk. (TGKA) in 2017 increased to 266.11, ROE had increased to 0.23, and decreased on DER to 1.71 with share price decreased to 2,600.

The second problem is the research gap states that there are differences in independent and dependent variables from each of the previous existing research studies. In the EPS variable, according to Khairani (2016), EPS did not affect share price. However, different research results by Mussalamah and Isa (2015) stated that there was a positive and significant effect of EPS on share price.

Furthermore, according to Egam, Ilat, and Pangerapan (2017), ROE had no influence on share price. On the contrary, Subhan and Pardiman (2016) stated that ROE proved a positive effect on share price. Moreover, DER had no impact to the share price (Muksal, 2017; Pranajaya and Putra 2018). In contrast, Munira, Merawati, and Astuti (2018) stated that DER had influence on share price.

Based on the results of the phenomena and research gaps above, the researchers are needed to be reviewed so that the result of this research later will reinforce and strengthen existing theories. Hence, the topic of this paper is "**The influence of Earning Per Share (EPS), Return On Equity (ROE), and Debt to Equity Ratio (DER) on share price in wholesale and retail industry**".

1.2 PROBLEM LIMITATION

In this research, problem limitation will be discussed so that the discussion is more focused and is in accordance with the objectives to be achieved with regard to the influence of EPS, ROE and DER on share price in wholesale and trading industry. The object of this research is the 54 financial statements of wholesale and retail trading companies listed in Indonesia Stock Exchange (IDX) during period of 2015 to 2017.

1. This research focuses on independent variable (X) and dependent variable (Y). The independent variables include EPS (X1), ROE (X2), DER (X3) while the dependent variable (Y) is share price.

2. The research data on the independent variable (X) is obtained from the financial statements in the wholesale and retail industry in the period of 2015 to 2017 while for the dependent variable (Y) is the closing share price that has been published by accessing IDX.

1.3 PROBLEM FORMULATION

Starting from the background of the problem, it needs to be explained clearly in the form of formulations to give direction to the next discussion. The formulations of the problem in this research are as the following:

1. Does Earning Per Share (EPS) influence share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017?

2. Does Return On Equity (ROE) influence share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017?

3. Does Debt to Equity Ratio (DER) influence share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017?

4. Do Earning Per Share (EPS), Return On Equity (ROE) and Debt to Equity Ratio (DER) simultaneously influence share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017?

1.4 OBJECTIVES OF THE RESEARCH

Based on the formulation of the above problems, this study aims:

1. To study the influence of EPS on share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017.

2. To study the influence of ROE on share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017.

3. To study the influence of DER on share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017.

4. To study the influence of EPS, ROE, and DER on share price in wholesale and retail companies listed in Indonesia Stock Exchange (IDX) in the period of 2015 to 2017.

1.5   BENEFIT OF THE RESEARCH

1.5.1   THEORETICAL BENEFIT

This research is expected to be able to give insight and knowledge for the researcher about the influence of EPS, ROE and DER on share price in wholesale and retail companies listed in Indonesia Stock Exchange. Apart from that, it is also expected to develop knowledge which is theoretically perceived in the university.

1.5.2   PRACTICAL BENEFIT

The practical benefits are as the following:

1. Public

    It is expected to give benefit and provide useful information for the general public in making an investment decision.

2. Researchers

    It can benefit researchers in the area of knowledge by broadening insights about the influence of earning per share, return on equity, and debt to equity ratio on the share price. And for upcoming researchers, it is a benefit for them to reinforce research and to add as a reference for further depth research in the future.

3. University

    The results of this research can add the reference to library collections.

1.6   SYSTEMS OF WRITING

The systematic of this research cover the contents of the entire research consisting of the beginning part, the content part, and the ending part.

The beginning part consists of the cover page, title page, the statement of originality of paper, approval page, validity page, abstract, preface, table of content, list of figure and others.

The content part consists of five chapters, namely:

1. Chapter 1 (Introduction)

    This chapter consists of:

    a. Background of study that helps in understanding problem where the ratios of EPS, ROE, and DER show influence on share price.

    b. Problem limitation that restricts the boundaries of scope that will be assessed.

    c. Problem formulation that includes the research questions in accordance with the research area.

    d. Research objective that mentions the aim of the research vividly.

    e. Benefit of the research that provides practical and theoretical benefits.

    f. Systems of writing that overview the paper from chapter to chapter.

2. Chapter 2 (Literature Review and Hypothesis Development)

    This chapter consists of:

    a. Theoretical background that gives narrower explanation to the focus of the research problem.

    b. Previous research that contains differences and similarities conducted by previous researchers.

    c. Hypothesis development that states the logical relationship between variables.

      d. Research model that depicts in the chart to prove the validity of the hypothesis.

      e. Framework of thinking that is illustrated in a chart.

3. Chapter 3 (Research Methodology)

   This chapter shows:

      a. Research design that describes whether the research is using quantitative or qualitative method.

      b. Population and sample accounting for population that includes overall research while sample only covers part of the population.

      c. Data collection method that states how the data is collected.

      d. Operational variable definition that shows how a variable is measured.

      e. Variable measurement that is a set of rules allowing data to be measured.

      f. Data analysis method that explains the steps of raw data to be ready-to-use data to be analyzed.

4. Chapter 4 (Data Analysis and Discussion)

   This chapter consists of:

      a. General view of "wholesale and retail industry" that shows a brief explanation of the research object.

      b. Data analysis that shows the result of data analysis.

      c. Descriptive statistics that are methods of collection and display of data in the form of tables, graphs, etc.

      d. Result of data quality testing that shows the result of questionnaire-based testing to assure data collected can be accounted for.

      e. Result of hypothesis testing that is the decision-making process resulted from data analysis.

      f. Discussion that describes the result from data analysis.

5. Chapter 5 (Conclusion)

This chapter consists of:

    a. Conclusion that briefs summary based on the results of the research that has been carried out.

    b. Implication that contains the impact of the research outcome.

    c. Recommendation that contains suggestions to the parties.

The final part of this research contains a bibliography, and appendices.