

CHAPTER I

INTRODUCTION

1.1 Background of Study

Lately the word investment is often discussed among the public but when the word investment is mentioned, it is possible that not everybody would be interested and consider it unimportant. This is due to the public's lack of awareness of the advantages of investing for future financial security. In reality, by only saving is insufficient for future. Thus, investing has become one of the most popular methods for accumulating money. Hidayati (2017) mentioned that investment may be described as the process of locating money into a type of asset in order to create income and/or improve the value of the investment over a certain time. This means that by investing, ones sacrifice their money that can be used in this period for a better result in the future. One of the advantages of investing is that it helps to save money for future needs. In addition, good investments management are necessary in order for the value of the assets to rise without being undermined by inflation. Another advantage of investing is that it can assist in the planning of funds for future needs for those with short, medium and long-term financial objectives such as healthiness, marriage, children's education, retirement, and so on.

The capital market serves as a source of financing for businesses and other organizations (such as the government), as well as a place to invest. Thus, a capital

market provides a place for buying and selling activities as well as other related activities. There are a lot of investment option starting from

1. Capital market investment include stocks, mutual funds, and bonds.
2. Gold investment include gold, precious metals, and gold jewelry; and
3. Property investment such as land, houses, apartments.

Business competition has intensified and become more tough in this era of globalization since all firms are seeking to be the best of the best. As being the greatest, a firm must conduct its operations activities properly and efficiently in order to ensure the organization's long-term existence. The source of capital is the most important element for a company's long-term success. The existence of capital will make the company able to meet short-term obligations that are useful for carrying out daily operational activities. The amount of capital must be sufficient, which is, it must be able to fund all expenses incurred in the company's daily operational activities that have an impact on the company's ability to operate efficiently and avoid financial difficulties.

One source of capital that a company can obtain is through equity by offering stocks. The government has regulated stock investments in Indonesia through the Indonesian Stock Exchange (IDX) that acts as an intermediary for investors in the selection of stocks of a company securities, the management of stock trades from the purchase and sale process, and information about the stocks price movements, trade summary and many other actions. The stocks issued by

company will later be purchased or bought by the public, other companies, institutions, or by the government.

Investors as their investment option than the others often use stock because stock has higher return and it does not require a lot of funds. Even today, many millennials are starting to look for additional income by investing their income in this stock financial instrument. Before releasing their money to buy a stock, investors usually consider the Stock Price. The Stock Price reflects the worth of a corporation. Rahayu & Sari (2018) mentioned that highly priced stocks strengthen company's value and increase investor trust in the company's current as well as its future prospects. Investing decisions, financing, and asset management made by a company are reflected in the Stock Price. Stock Prices fluctuate a lot, much like the prices of goods and services in the market. Because it is primarily driven by supply and demand, the rise and fall of Stock Prices is a particularly popular topic in economics and finance theory. If there is a lot of demand, then the price will definitely go up. The price will decline if there is a large supply. Stock Prices are impacted by a number of factors in addition to supply and demand. Factors might be either internal or external. Internal factors are those that arise from within the company. External factors are those arise outside the company.

Many retailers and professional investors do critical analysis before trading or investing, after knowing the impact of internal and external factors. Technical analysis and fundamental analysis are two of the various forms of analysis that investors can perform. Technical analysis focuses on using strategic tools like graphs and mathematical formulas to analyze past stock market data. Fundamental

analysis is a type of analysis that looks at a company's financial performance, operational activities, and growth expectations. Technical analysis is a valuable tool for determining current market trends and making fast investment. Meanwhile, fundamental analysis is being carried because they are not swayed by short-term Stock Price changes and prefer to invest for the long term. The investors have a high level of trust in the company's profitability, which will determine the company's price. Both technical and fundamental analysis serve the same purpose of predicting the direction of a stock's price movement, and each style of analysis has its own set of benefits and downsides. When determining which stocks to buy, investors utilize their own strategy and weigh the risks and benefits of their own trading strategies.

To be able to choose a company stock that can offer returns that match expectations, of course an investor will see how the company's performance is. One way to find out the performance of a company is to use financial ratio calculated from financial report published by the company. Many financial ratios can be used by an investor to do analysis. The ratios that are often used to analyze are Debt to Equity Ratio (DER), Return on Equity (ROE), and Earning per share (EPS), Price to Earnings Ratio (PER), Return on Asset Ratio (ROA), Current Ratio, and still many other ratios. According to Yusuf (2017), financial ratios are a financial analysis tool used by companies in assessing their company's performance based on comparisons of financial data in the financial statements. This ratio is used to determine which stocks are worth purchasing and which should be sold. With the existence of financial ratios, company management, investors, and creditors will

find it easier to analyze business performance, find out the problem, and financial weaknesses of the company, and make it easier to make decisions.

Based on the objective, financial ratios can be divided into four categories, which are liquidity ratios, profitability ratios, solvency ratios and efficiency ratios. According to Sembiring (2019), liquidity ratio is the ratio used to measure how well the company is able to meet short-term obligations. Profitability ratios are used by investors and creditors (banks) to measure and evaluate a company's ability to make profit in relation to revenue, assets, operational costs, and shareholder equity over time. The solvency ratio measures a company's ability to pay off all of its obligations, both short and long term, with its assets held by the company before it closes or liquidates. The efficiency ratio is a measure that determines how efficiently an organization utilizes all of its resources.

The variables used in the research were chosen because each one represents a different category of ratio in the financial ratios, with the Debt to Equity Ratio represents the solvency ratio, the Return on Assets is a measure of profitability and the Current Ratio represents the liquidity ratio.

The Consumer Goods sector company is the object of this study, which spans four years, from 2017 to 2020. The reason behind selecting a Consumer Goods sector company as the research topic is that Consumer Goods Sector Company plays a vital role in Indonesia. Because the Consumer Goods sector is a sector that fills companies that produce the daily needs of the general public and are required to fulfill the needs of the community. To live daily life, humans

certainly need various needs. Consumer Goods firms in Indonesia operate in a variety of industries (starting from food and beverages, Housewares, Tobacco Manufactures, Pharmaceutical, to Cosmetic and Household goods), the majority of it can assist Indonesia in improving its economic situation. The capital market's prospects in this business sector continue to expand, and it generates profits through selling Consumer Goods. Furthermore, even when Indonesia's economy weakened, the Consumer Goods sector remained largely steady, with some even improving.

The following shows data on Debt to Equity Ratio, Return on Asset Ratio, Current Ratio and Stock Prices in Consumer Goods Sector companies in 2017-2020.

Table 1.1 The Debt to Equity Ratio , Return on Asset, Current Ratio and Stock Prices of Consumer Goods Sector Companies Listed in Indonesia Stock Exchange for the period 2017-2020

Companies	Year	DER	ROA	CR	Stock Price
KLBF (PT. Kalbe Farma Tbk)	2017	0.1959	0.1476	4.5089	1690
	2018	0.1864	0.1376	4.6577	1520
	2019	0.2131	0.1252	4.3547	1620
	2020	0.2346	0.1241	4.1160	1480
DVLA (PT. Darya-VariaLaboratoria Tbk)	2017	0.4699	0.0989	2.6621	1960
	2018	0.4020	0.1192	2.8890	1940
	2019	0.4011	0.1212	2.9133	2250
	2020	0.4980	0.0816	2.5191	2420

Source: Prepared by Writer (2021)

From the table, DER of PT. Kalbe Farma (KLBF) is increasing from year 2019 to 2020 with 0.2131 in 2019 and 0.2346 in 2020 followed by decreasing Stock Price from 1,620 in 2019 to 1,480 in 2020. DER of PT. Darya-VariaLaboratoria Tbk (DVLA) is decreasing from year 2018 to 2019 which is from 0.4020 in 2018 to 0.4011 in 2019 and increasing amount of Stock Price from 1,940 in 2018 to 2,250

in 2019. KLBF's DER in 2019-2020 and DVLA's DER in 2018-2019 shows an inverse relationship towards Stock Price. While, KLBF's and DVLA's DER in 2017-2018 has decreasing amount. However, the DER in 2017-2018 is in line with the Stock Price which is also decreasing in Stock Price.

Other inconsistent result also occur for Return on Asset Ratio. Decrease in KLBF's 2017-2018 ROA is in line with decreasing Stock Price. On contrary, KLBF in 2018-2019 and DVLA in 2019-2020 ROA decrease from 0.1376 to 0.1252 for KLBF and 0.1212 to 0.0816 for DVLA, but the Stock Price is increasing from 1,520 to 1,620 for KLBF and 2,250 to 2,420 for DVLA.

Inconsistent result also happen for Current Ratio. Decrease in KLBF 2019-2020 Current Ratio from 4.3547 to 4.1160 is followed by decreasing in Stock Price from 1,620 to 1,480. On the other hand, KLBF's and DVLA's Current Ratio increase in 2017-2018 but Stock Price decrease.

Based on previous study conducted by Dede Hendra (2019) with the title "*Pengaruh Debt to Equity Ratio (DER), Current Ratio (CR), Return on Asset (ROA) Dan Return On Equity (ROE) Terhadap Harga Saham Dan Implikasinya Terhadap Return Saham Pada Industri Penerbangan*" conclude that DER has an impact on Stock Prices. CR, ROA, and ROE has no impact on the Stock Price. While DER, CR, ROA and ROE simultaneously affect the Stock Price. DER, CR, ROA and ROE affect 96.17% of the Stock Price, while 3.83% is impacted by the type of variables that are not examined and Stock Price has no impact on Stock Return.

On the other hand, another researches by Lestari and Suryantini (2019) with the title "*Pengaruh CR, DER, ROA, Dan PER Terhadap Harga Saham Pada*

Perusahaan Farmasi Di BEP concluded that The CR, DER, ROA partially has no significant impact on the Stock Prices of Pharmaceutical Companies on the IDX for the 2014–2016 period. While the Price Earnings Ratio has a positive and significant impact on the Stock Prices of pharmaceutical companies on the IDX for the 2014–2016 period.

While, another researches by Siti Nur'aidawati (2018) with the title “*Pengaruh Current Ratio (CR), Total Asset Turnover (TATO), Debt to Equity Ratio (DER) Dan Return on Asset (ROA) Terhadap Harga Saham Dan Dampaknya Pada Nilai Perusahaan*” concluded that on Stock Prices, CR and DER have a negative and no significant impact. On Stock Prices, TATO has an insignificant positive impact. ROA has a positive and significant impact on Stock Prices. Stock Prices are impacted by the CR, TATO, DER, and ROA ratios all at the same time.

Looking at the uncertain and inconsistent result, the researcher is going to analyze the impact on the dependent variable in the Consumer Goods companies listed in IDX of the independent variables with title “**THE IMPACT OF DEBT TO EQUITY RATIO, RETURN ON ASSET AND CURRENT RATIO TOWARD STOCK PRICE OF CONSUMER GOODS COMPANIES LISTED ON INDONESIA STOCK EXCHANGE**”.

1.2 Problem Limitation

It is critical to understand the research problem's limitations in order to acquire a better understanding of the discussed topic. There is no ambiguity in interpreting the research results. The purpose of the study limitation is to establish the object limits. To explain the scope of the study, it is limited to Consumer Goods

companies listed on the Indonesian Stock Exchange (IDX) from 2017 to 2020. The various variables studied were the Debt to Equity Ratio (DER), Return on Asset (ROA), and Current Ratio (CR) as independent variables and Stock Prices as dependent variables.

1.3 Problem Formulation

The following problems can be formulated on the basis of the above background description:

1. Does the Debt to Equity Ratios (DER) have significant impact towards Stock Prices of Consumer Goods Sector Companies listed on Indonesian Stock Exchange (IDX) for 2017-2020?
2. Does Return on Asset (ROA) have significant impact towards Stock Prices of Consumer Goods Sector Companies listed on Indonesian Stock Exchange (IDX) for 2017-2020?
3. Does Current Ratio (CR) have significant impact towards Stock Prices of Consumer Goods Sector Companies listed on Indonesian Stock Exchange (IDX) for 2017-2020?
4. Do Debt to Equity Ratio (DER), Return on Asset (ROA) and the Current Ratio (CR) have significant impact toward Stock Prices of Consumer Goods Sector Companies listed on the Indonesian Stock Exchange (IDX) for 2017-2020?

1.4 Objective of the Research

Based on the problem formulation as listed above, the aims to be accomplished in this study should be identified:

- a. To find out the impact of Debt to Equity (DER) towards Stock Prices of the Consumer Goods Companies listed on IDX for 2017 to 2020.
- b. To find out the impact of Return on Asset (ROA) towards Stock Prices of the Consumer Goods Companies listed on IDX for 2017 to 2020.
- c. To find out the impact of the Current Ratio (CR) towards Stock Prices of the Consumer Goods Companies listed on IDX in 2017-2020.
- d. To find out the simultaneous impact of Debt to Equity (DER), Return on Asset (ROA), and Current Ratio (CR) toward Stock Price of the Consumer Goods Companies listed on IDX for the year 2017-2020.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The results of the study can be utilized as a complement and reference in future research on the same issue or problem to better understand the impact of Debt to Equity, Return on Asset, and Current Ratio on Stock Prices of Consumer Goods companies.

1.5.2 Practical Benefit

The benefits of research expected by the authors from this study are:

- a. For Investors

The results of this study can be offered to investors with specifics on the necessity of knowing financial ratios such as Debt to Equity (DER), Return on Asset (ROA) and Current Ratio (CR) in order to minimize the potential risks associated with the purchasing of stocks in the capital market.

b. For Company

For companies listed on Indonesian Stock Exchange (IDX), and in particular the Consumer Goods Companies, the elements that affect Stock Prices, such as Debt to Equity Ratio, Return on Asset, and Current Ratio, must be determined.

