

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Indonesia is a country with generous natural resources, as it is a developing country with a huge potential, it has successfully attracted many foreign investors especially in consumer goods sub-sector. Every company surely wants their business to develop rapidly, to be well known all over the country and even worldwide and the most important aspect is to make massive profit. In order to be a well-known company, it is not enough to be only producing but innovation is needed. Those are the key factors in determining a company in the future.

In the world of stock market, there are two types of investors, they are professional investors and amateur investors (newcomers); there are habits of investors which must be comprehended clearly. For professional investors, they will worship the companies' fundamental information and the stock value than the current market price; most of the time amateur investors are tempted by the rising stock price, afraid of becoming late in buying the rising stock; without considering stock value amateur investors will buy the rising stock as their psychology is affected by the rising price of stock and eventually they are ended up buying junk stocks which usually leads them not to gain profit. Otherwise speaking, nobody wants to buy overpriced things especially it is their investment or one of their source of income (Ellis, 2018).

Considering problems faced by investors, economists came up with two techniques to help investors to be skillful in making profit for their investments. The first technique is called fundamental analysis which is created for long term investors, this technique helps investors to be able to translate the value of a company by reading financial statement and annual report of a company. The second technique is called technical analysis which is created for short term investors or usually known as trader, this technique helps traders to read the meaning of every movement of the stock price which usually presented in form of chart as economists believe that “History will repeat itself”. Still we need to keep in mind that there is no absolute future result of those two techniques as there are still many factors which influence stock price.

Beside companies’ performance, there are several external factors that could affect the stock price, they are demand & supply, interest rate, investors, dividends, company’s management, short-term & long-term investors, macroeconomic factors such as foreign exchange reserves, balance of trade , political climate and etc. (Wall-Street, 2018).

Several external factors could affect a country’s economic condition; directly influence the interest of local and foreign investors to invest. Country with a bad economic condition will give higher risk for investors who invest money in it. One of the most crucial macroeconomic factors that will affect the stock market condition is foreign reserve exchanges. At the end of September 2019 Bank of Indonesia (BI) stated that foreign exchange reserve was US\$124.3 billion, the level of foreign exchange reserve has declined US\$2.1 billion resulting Indonesia Stock

Market Index (IHSG) dropped 1% to level 6,000 in October 2019 (CNN Indonesia, 2019).

Indonesia Stock Market Index (IHSG) is the average of all stock which are listed in Indonesia Stock Exchange (IDX). The fluctuation of Indonesia Stock Market Index (IHSG) will affect mostly by the movement of stock price, especially by companies with big capitalization. Market Index also shows the movement of every stock on average. The movement of stock price is correlated with the fluctuation of market index, meaning that movement of stock price and Market Index will influence each other and it couldn't be separated.

The manufacturing sector especially in consumer goods sub-sector has provided a lot of local employment and reduced unemployment rate. Manufacturing sector has increase employment rate from 2016-2018, this sector has increased 14.67% which is 2.28 million workforce employment. By increasing the level of workforce employment rate, it will also stabilize Indonesia's economy (*Kementrian Perindustrian RI*, 2019). Moreover, consumer goods sector has become one of the most favorite sector for investors as it has mass production and the products are used by people around the country as its products include household needs; as the result target market of consumer goods sector is larger than other sectors. Lastly, there are 58 companies of consumer goods sectors listed in Indonesia Stock Exchange (IDX) with 51% of them are categorized as big capitalization companies.

Return on Equity (ROE) is one of the crucial ratio that measures the effectiveness of a company in generating profits by utilizing its shareholders'

investments in it. Although Return on Equity (ROE) is not as well-known as Return on Asset (ROA). If investors able to comprehend this ratio, they will know how effective a company uses its investors' money when running business and investors also able to picture how much return of their money that they invested in a company. For example, if a company's Return on Equity (ROE) is less than 8%, it is better for investors to put their money in bank as deposit or they could buy government securities which will give a fix return and they are safer choices than putting the money in stock market as stock market is quite volatile compare to bank interest rate and government securities. Besides being useful for investors, this ratio is a crucial ratio for fund managers, as by knowing this ratio a fund manager will be able to figure the best company within the same sector for them to invest in.

Dividend Payout Ratio (DPR) could enlighten investors about the portion of company's return the company share with them and how much the company reinvest for its growth, pay-off debt or add the fund to cash-reserve (Retained Earnings). This ratio is important as investors able to predict or make right investing decision. Since there are 2 types of investors which are short-term investors and long-term investors, this ratio is one of the most crucial ratio that investors will pay attention to. Mostly short-term investors will look for firm with high Dividend Payout Ratio as they are looking for a short-term return. Meanwhile long-term investors are looking for low or stable Dividend Payout Ratio, as their focus is not on the firm's short-term return but focus on a stable and asset expanding firm. Thus Dividend Payout Ratio is a compulsory ratio for investors as they are relying on dividend for their source of income from their investments (Kho, 2018).

Based on the background explained above, the researcher will state some of the companies listed in consumer goods industry sector regarding the risen phenomena.

**Table 1. 1 Net Income, Total Equity, Return on Equity (ROE), Share price of three companies of consumer goods sector (In Rupiah)**

No	Company	Year	Net Income (in million)	Total Equity (in million)	ROE	Share price
1.	PT. Indofood CBP Sukses Makmur TBK (ICBP)	2016	3.631.301	18.500.823	19.6%	8.575
		2017	3.543.173	20.324.330	17.4%	8.900
		2018	4.658.781	22.707.150	20.5%	10.40
2.	PT. Hanjaya Mandala Sampoerna TBK (HMSP)	2016	12.762.229	34.175.014	37.3%	3.830
		2017	12.670.534	34.112.985	37.1%	4.730
		2018	13.538.418	35.358.253	38.3%	3.710
3.	PT. Unilever Indonesia TBK (UNVR)	2016	6.390.672	4.704.258	135.8%	38.800
		2017	7.004.562	5.173.388	135.4%	55.900
		2018	9.109.445	7.578.133	120.2%	45.400

Sources: Prepared by author (2020)

Based on the table 1.1 above, it shows a phenomenon that is faced by 3 companies listed on Indonesia Stock Exchange (IDX) for the period of 2016-2018. There are a lot of theories out there which states that ratio can predict the stock price of a company. In this research, researcher is going to testify some of the theories which stated so.

In the period of 2016-2017, PT. Indofood CBP Sukses Makmur, Tbk had lost Rp88,128,000,000 of profit. The declining profit in year 2017 was not in line with the share price of the firm which is increased from Rp8,757 per share in 2016 to Rp8,900 per share, it has increased 1.63% from the price in the last 2016. Phenomenon went against the statement stated that company's profit or income could influence market price of a stock as it can boost the investors' perspective and confidence towards the company (Lane, 2019). In the same period of year there

was also increasing of Rp1,823,507,000,000 of total equity of the firm. The increasing total equity in year 2017 was not in line with the share price of the firm which is increased from Rp8,757 per share in 2016 to Rp8,900 per share, it has increased 1.63% from the price in the last 2016. Still in the same period of year, company's Return on equity rate was 19.6% while in year 2017 the ratio dropped to 17.4%. The drop of 2.2% is quite significant for investors but conversely the price of the stock went up from Rp8,560 in 2016 to Rp8,900 in year 2017 it was 3.97% of increasing in stock price. This phenomenon was against the idea out there which stated that the decreasing ROE will cause the price of the stock to drop.

In period of 2016-2017, PT. Hanjaya Mandala Sampoerna had lost of Rp91,695,000,000 of profit. The declining profit in year 2017 was not in line with the share price of the firm which is increased from Rp3,830 per share in 2016 to Rp4,730 per share, it has increased 23.5% from the price in the last 2016. The available statement cannot be testified in this phenomenon. In the same period of year there was also a declining of Rp62,029,000,000 of total equity of the firm. Despite the declining of total equity in year 2017, still the reducing net profit in 2016 was greater than the declining of total equity. Still in the same period of year, company's Return on equity rate was 37.3% while in year 2017 the ratio dropped to 37.1%. The price reflect conversely the price of the stock went up from Rp3,830 in 2016 to Rp4,730 in year 2017 it was 23.50% of increasing in stock price, this is a huge leap of stock price. This phenomenon was against the idea out there which stated that the decreasing ROE will cause the price of the stock to drop.

In period of 2016-2017, PT. Unilever Indonesia, Tbk had an increasing of Rp2,404,745,000,000 on total equity of the firm. The increasing total equity in year 2017 was not in line with the share price of the firm which is increased from Rp38,800 per share in 2016 to Rp55,900 per share, it has increased 44% from the price in the last 2016. Still in the same period of year, company's Return on equity rate was 135.8% while in year 2017 the ratio dropped to 135.4%. The price reflect conversely the price of the stock went up from Rp38,800 in 2016 to Rp55,900 in year 2017 it was 44% of increasing in stock price, this is a huge leap of stock price. This phenomenon was against the idea out there which stated that the decreasing ROE will cause the price of the stock to drop.

After observing the stated phenomenon above, it could be concluded that not every theory available can be applied in the real life. As there are many other factors that can influence the movement of stock price, either it is external or internal factors. Moreover, stock price is very volatile on any arising sentiment or news that available in public. But a positive sentiment will not directly raise up the stock price as well.

There are many phenomena existing in market place, the table below shows external factor (Foreign Exchange Reserves) fluctuation that influence the stock price of several companies.

**Table 1. 2 Foreign Exchange Reserves & Stock Price of two companies of Consumer Goods sector**

No	Company	Year	Foreign Exchanges Reserve (in USD Billion)	Share price
1.	PT. Ultrajaya Milk Industry Tbk (ULTJ)	2016	116.4	1,140
		2017	130.2	1,295
		2018	117.2	1,350
2.	PT. Mayora Indah Tbk (MYOR)	2016	116.4	1,640
		2017	130.2	2,015
		2018	117.2	2,620

Source: Prepared by author (2020)

In the year 2017 to 2018, Indonesia Foreign Exchanges Reserve dropped from \$130.2 Billion to \$117.2 Billion, it was 10% of drop and it was counted as quite a huge drop but conversely the stock price of PT. Ultrajaya Milk Industry Tbk went up from Rp1,295 to Rp1,350 it was 4.25% of increment, also for PT. Mayora Indah Tbk stock price went up from Rp2,015 to Rp2,620, it was 30% of increment which is a huge increment of a stock price. Those phenomena mentioned broke the logic saying which claimed that a bad economic condition of a country could affect the stock price especially for the big capitalization companies.

Therefore, in this paper, the writer will conduct a research titled: **“The Effect of Return on Equity (ROE), Dividend Payout Ratio (DPR) and Foreign Reserve Exchange towards Stock Price in Companies Listed in Consumer – Goods Sub – Sectors on Indonesia Stock Exchange (IDX) period 2016-2018”**.

## **1. 2 Problem Limitation**

This research is emphasized in companies listed in the consumer goods sub-sector on Indonesia Stock Exchange (IDX) period 2016-2018. The researcher uses 16 companies as sample out of 30 big capitalization companies listed on Indonesia

Stock Exchange (IDX) as the population of this research. The author takes stock price of consumer goods companies as dependent variable and Return on Equity (ROE), Dividend Payout Ratio (DPR) and Foreign Reserve Exchange as independent variables. Both Return on Equity (ROE) and Dividend Payout Ratio (DPR) are achieved from companies' annual report in Indonesia Stock Exchange (IDX). While Foreign Exchange Reserves (FER) is obtained from Bank Indonesia. In order to get the result, the author uses Statistical Product Service Solutions (SPSS) to test the normality of the data and to test the hypothesis of this research.

### **1.3 Problem Formulation**

This research will concentrate on assessing the effect of Return on Equity, Dividend Payout Ratio and Foreign Exchange Reserve towards stock price with some problems which the researcher needs to analyze:

1. Does Return on Equity (ROE) partially or significantly affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018?
2. Does Dividend Payout Ratio (DPR) partially or significantly affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018?
3. Does Foreign Exchange Reserve partially or significantly affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018?

4. Do Return on Equity (ROE), Dividend Payout Ratio (DPR) and Foreign Reserve Exchange simultaneously affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018?

#### **1.4 Objective of the Research**

There are several objectives of this research to solve the problems found in companies listed in the consumer-goods industry sector on Indonesia Stock Exchange (IDX), which are as follows:

1. To find out whether Return on Equity (ROE) affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018.
2. To find out whether Dividend Payout Ratio (DPR) affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018.
3. To find out whether Foreign Reserve Exchange affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018.
4. To find out whether Return on Equity (ROE), Dividend Payout Ratio (DPR) and Foreign Reserve Exchange affect stock price in companies listed in the consumer – goods industry sector on Indonesia Stock Exchange (IDX) period 2016-2018.

## **1.5 Benefit of Research**

Based on the problems and objectives found during this research, there are two kinds of benefit which can be contributed to the users, they are:

### **1.5.1 Theoretical Benefit**

There are several theoretical benefits of this research, which are:

1. As guidance in the accounting field especially in financial accounting, concerning the fluctuation of stock price in the capital market.
2. Provide a theoretical basis for future researchers who are interested to conduct researches with similar or related topic.
3. To testify the replicability of previous conclusions which have been conducted by other researchers.
4. To compare whether theories out there could synchronize with the real life fact and the real and current stock market condition.

### **1.5.2 Practical Benefit**

This research will provide practical benefits for several parties, which are:

1. To financial analyst such as fund manager, it is expected that the result of this research can be useful to decide is there any influence of the independent variables towards the stock price so that they could analyze deeply on the annual financial statement of consumer – goods companies.
2. To an investor, it is expected that the result of this research can enlighten new investors that financial ratio and macroeconomic factors can be helpful in making investment decisions.

3. To other researcher, it is expected that the result of this research could help researcher to decide the variable that they wanted to use in their future research about the factors that could influence the stock price of companies in consumer goods sector listed in Indonesia Stock Exchange (IDX).

