

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Agriculture sector in IDX is divided into five sub-sectors which are crops, plantation, animal husbandry, fishery and forestry. Plantation is the sub-sector that has the most companies, with 16 companies in the year 2016 while the other sub-sectors have under five companies (Factbook, 2017). The fair contribution of plantation sub-sector toward Indonesia's GDP is supported by some plantation commodities which have important and strategic value in Indonesia (GAPKI, 2016). These plantation commodities are mainly palm oil, rubber, cocoa, woods, coconuts, etc. As the basic input for productions all around the world, the dependence of these natural resources have been increasing through its supply-demand equilibrium.

Indonesia is the world's largest producer and exporter of palm oil (Indonesia Investments, 2019). Rapid growth of palm oil commodities is generally associated with the demand of both upstream and downstream productions. To fulfill the demands, companies will try to keep up by expanding its business. Companies could expand their plantation areas or even increase the production capacity in their mills. Basically, companies always need funds to finance its operation. This fund could be obtained through loans from the banks. For some companies that have go public, funds can be obtained by issuing stock to investors through stock market.

According to Kapson (2016), stock price is always fluctuating. Stock price of a company fluctuates according to the performance of the business and the economy as a whole. This includes the company's financial performance and the risk of a company that can be seen from company's durability in facing economic cycle such as a condition of economic growth, interest rates, inflation rate, exchange rate or the price of major commodities.



**Figure 1.1 Average Stock price of agriculture sector in Indonesia**

Source: Indonesia-Investments (2019)

The graph above is the average stock price of agriculture sector in Indonesia, which is mainly represented by sub-sector plantation. Based on the graph above, stock price movement of agriculture sector has been declining significantly since 2015. The occurring phenomenon is the currency exchange rate fluctuation, which is indicated by the weakening of Rupiah against US Dollar (Ayudya *et.al*, 2017). The other phenomenon is declining price of Crude Palm Oil (CPO), which is affected by declining price of world oil price in CPO export target countries (GAPKI, 2016). As a whole, it will affect the share prices of agricultural sector traded in the Indonesia Stock Exchange (IDX).

In stock market, there are several factors that affect stock price, they are external factors and internal factors (Samatova *et al*, 2013). External factors are generally related to inflation rate, exchange rate, and interest rate and government policies. The other is internal factors, which are generally related to company's policy, management and performance. Companies do not have the ability to fully control external factors because its effect is in the scale of a country's economy, but company is able to control internal factors. Companies could maximize its performance to show a good prospect for investors, hence increase its stock price. Companies reflect its progress in a year through annual report. It contains

the information of company's profile, achievement during the year, prospect in the future, and financial statement.

The establishment of stock price cannot be separated from accounting information, Accounting information are presented in financial statement. Stakeholders such as creditors, investors, managers apply financial statement analysis based on each group importance to evaluate company's performance. Creditors measure the ability of borrowers in paying its obligation, investors measure the revenue their potential investments can bring, and managers measure the effectiveness of management for company's development. Despite the difference in motivation, there is a similar method that is generally used in financial statement analysis, which is financial ratio.

Stock price is positively related to expected earnings but negatively related to higher risk (Brigham and Houston, 2015). According to Setianto (2016), Return on Equity (ROE) is one of the most important financial ratios because ROE is a combination of three important ratios which are return on sales, asset turnover and financial leverage. Generally, investors like a high ROE, which shows company is effectively generating income from its equity and are generally correlated with high stock price (Brigham and Houston, 2015). Another important ratio is Debt to Equity Ratio (DER), which is used to answer the question of whether firms obtain capital through banks or through equity has important implications for firms. Investors would prefer to see a very small amount of debt, which means earnings growth is being generated mainly from shareholders' equity and lower the risk of bankruptcy which might affect stock price (Brigham and Houston, 2015). Besides Return on Equity and Debt to Equity Ratio, another important ratio is Earning Per Share (EPS). Stockholders follow EPS closely because it represents the amount that the firm has earned on behalf of each outstanding shares of common stock. Increasing EPS means better capital productivity and shows a good track of profitability which is seek by investors.

**Table 1.1 PT.Astra Agro Lestari 2013-2017 stock price, DER, ROE, EPS**

Name	Year	Stock Price (Close)	DER	ROE	EPS(Rp.)
PT. Astra Agro Lestari	2013	Rp25,100	45.80%	19.40%	1,144.43
	2014	Rp24,250	56.83%	23.73%	1,590.40
	2015	Rp15,850	83.89%	5.91%	393.15
	2016	Rp16,775	37.70%	14.44%	1,135.85
	2017	Rp13,150	34.52%	11.70%	1,044.50

Source: Prepared by writer (2019)

PT. Astra Agro Lestari's data during the period 2013 to 2017 is collected in Table 1.1. In the year 2013 to 2014, stock price decreased even though ROE and EPS increased, increased DER might show that company is depending more on debt financing during the year. Then in 2015, DER increased while ROE and EPS decreased. This led to decreased in stock price and it happened the other way round in 2016. However in 2016-2017, stock price decreased along with ROE and EPS decreased, even though DER also decreased.

**Table 1.2 PT.Sampoerna Agro 2013-2017 stock price, DER, ROE, EPS**

Name	Year	Stock Price (Close)	DER	ROE	EPS(Rp.)
PT. Sampoerna Agro	2013	Rp1,740	48.00%	4.49%	63.03
	2014	Rp2,100	56.00%	12.26%	180.03
	2015	Rp1,700	91.00%	7.96%	133.88
	2016	Rp1,910	96.00%	12.80%	242.97
	2017	Rp2,570	86.00%	7.81%	158.18

Source: Prepared by writer (2019)

PT. Sampoerna Agro's data during the period 2013 to 2017 is collected in Table 1.2. Comparing Table 1.1 and Table 1.2, in the year 2013 to 2014, DER, ROE, and EPS in both companies increased, but PT. Sampoerna Agro's stock price increased. Then in 2016 to 2017, both companies also have similar decreased in ratios, but PT. Sampoerna Agro, stock price increased.

Based on the comparison of the two tables above, the general idea of Return on Equity (ROE), Debt to Equity Ratio (DER), and Earning Per Share (EPS) effect toward stock price is still questionable having seen the different results. Previous researches have also shown different results on the effect of Return on Equity (ROE), Debt to Equity Ratio (DER), and Earning per Share (EPS) toward stock price. Previous research by Hartini (2017) on the effect of DER and EPS toward stock price in food and beverage companies listed in IDX year 2012 to 2016, shows that Earning per Share (EPS) and Debt to Equity Ratio (DER) have a positive and significant effect on stock price partially, and both earning per share and debt to equity ratio have a positive and significant effect on stock price simultaneously. Another previous research by Fitriyas (2017) shows that ROE has a positive and significant effect on stock price partially based on the study in food and beverage companies listed in IDX year 2013 to 2016

On the other hand, previous research by Utamia and Darmawan (2019) shows that DER and ROE do not have a significant effect toward stock price partially in Indonesia Sharia Stock Index year 2012 to 2016. Another previous research by Novenia (2018) shows that Earning per share does not have a significant effect on stock price partially based on the study in food and beverages companies listed in IDX 2011-2015.

After comparing the data in the tables above and gathering some different results from the previous research, the effect of ROE, DER, and EPS toward stock price are still uncertain. The writer finds that there is a need to conduct this research to prove the result with the same variables in different period of time. Thus, the writer conduct a research with the title **“The effect of Return on Equity, Debt to Equity Ratio, and Earning Per Share toward stock price of sub-sector plantation companies listed in Indonesia Stock Exchange (IDX) for the period year 2013-2017”**.

## 1.2. Problem Limitation

The writer chooses the sub-sector plantation as the object of research because this sector's performance is highly affected by the external factors and internal factors where this research focus on the effect of financial ratio toward stock price. This research only focus on the effect of Return on Equity (ROE), Debt to Equity Ratio (DER), and Earning Per Share (EPS), as these ratios are considered to be important for investors in measuring earning and risk. The period of the research is limited from 2013 to 2017. The reason writer does not include year 2018 is because some companies financial statements have not yet published.

## 1.3. Problem Formulation

To attain the objectives of this study, the researcher has the main research questions:

1. Does return on equity (ROE) significantly affect stock price partially?
2. Does debt to equity ratio (DER) significantly affect stock price partially?
3. Does earning per share (EPS) significantly affect stock price partially?
4. Do return on equity (ROE), debt to equity ratio (DER) and earnings per share (EPS) significantly affect stock price simultaneously?

## 1.4 Objective of the Research

The main objectives of this research are:

1. To analyze the effect of return on equity (ROE) toward stock price partially.
2. To analyze the effect of debt to equity ratio (DER) toward stock price partially.

3. To analyze the effect of earning per share (EPS) toward stock price partially.
4. To analyze the effect of return on equity (ROE), debt to equity ratio (DER) and earnings per share (EPS) toward stock price simultaneously.

## **1.5 Benefit of the Research**

This research is expected to be beneficial theoretically and practically as following:

### **1.5.1 Theoretical Benefit**

1. For academicians, this research is expected to provide deeper information and knowledge especially in the effect of return on equity, debt to equity ratio and earnings per share toward stock price. Other than that, this research is also expected to be beneficial for academicians as reference or comparison in conducting similar research on the effect of financial ratio toward stock price.
2. For writers, this research is expected to be beneficial for writers as way to improve understanding regarding the effect of return on equity, debt to equity ratio and earnings per share toward stock price.

### **1.5.2 Practical Benefit**

1. For companies, this research is expected to be beneficial as an insight or knowledge to consider fundamental analysis, especially financial ratio when making decision for the sake of companies.
2. For investors, this research is expected to be beneficial as an insight or knowledge in analyzing financial ratios effect toward stock price and make a more valuable investment

## **1.6 System of Writing**

To provide a comprehensive picture of the contents of this study, the paper is divided into five chapters as follows:

## CHAPTER I. INTRODUCTION

This chapter describes the background of the study. By describing the reason to conduct this research and limit the research to some extent in problem limitation, then the problem is formulated. This chapter also determines the objectives and benefits of the research, as well as system of writing.

## CHAPTER II. LITERATURE REVIEW

This chapter describes the fundamental theories of the research in theoretical background and gathers some previous researches to support hypothesis development. Hypothesis development is then simplified in a research model and the framework of thinking.

## CHAPTER III. RESEARCH METHODOLOGY

This chapter describes the methodology of the research. Determining the population and sample, followed by defining the variables in the research, and the method used to collect the data and the data analysis.

## CHAPTER IV. DATA ANALYSIS AND DISCUSSION

This chapter consists of research findings which consist of data classification, data analysis, descriptive statistic, result of data quality testing, the result of hypothesis testing and discussion.

## CHAPTER V. CONCLUSION

This chapter consists of conclusion, implication and recommendation