

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The Indonesia Stock Exchange (IDX) is one of the fast-growing stock exchanges that has become a preferred alternative for companies to seek funds. The development of the stock exchange can be seen from the increasing number of companies listed on the Indonesia Stock Exchange (IDX) in the period of 16 companies but in the 2018 period to 18 companies. Changes in stock prices can provide clues about the excitement and lethargy of capital market activities and investors in conducting share sale and purchase transactions. Stocks have become an attractive alternative for investors to become the object of their investment and are one of the most popular financial market instruments besides property, gold and deposit. Stocks have added options for local investors, who previously only invested money in banking institutions.

In general, the expectations of investors investing in shares are to obtain capital gains or dividends. Capital gain is the difference between the stock price when selling and buying shares. Dividend is profit distributed to shareholders. the company will distribute dividends if the company gets a profit. thus the higher profits obtained by the company will be the higher the welfare of shareholders. Safe investment requires careful, thorough analysis and is supported by accurate data so as to reduce the risk for investors in investing. Financial performance evaluation is an alternative for investors to be more careful in knowing the right time to sell or buy shares. Performance evaluation can be carried out using financial statement analysis.

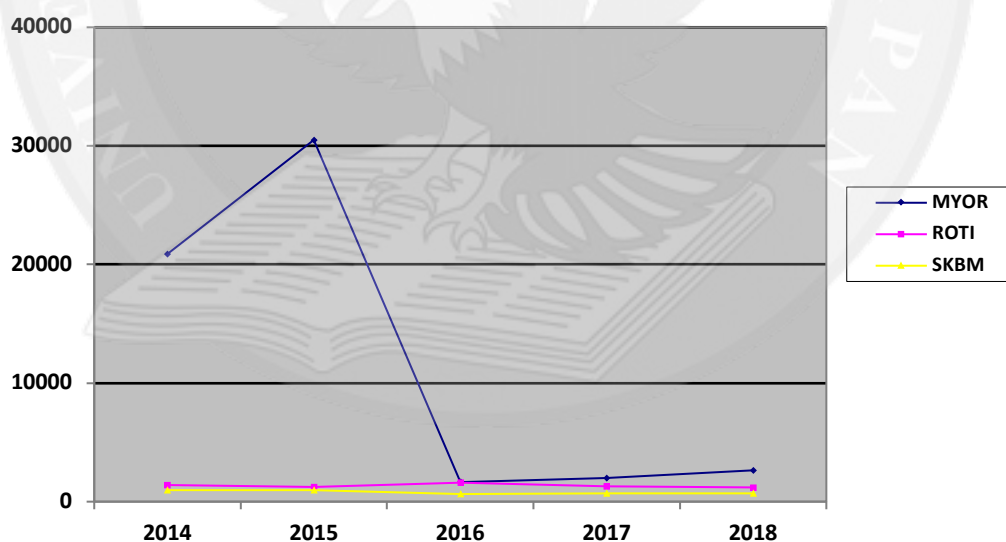
Analysis of financial statements can be done using financial ratios. One of these ratios is the Current Ratio and Return on Equity. The current ratio is one measure of liquidity that aims to measure the company's ability to pay off its short-term liabilities with its current assets. Basically, it can be seen that the low current ratio means that the company's risk of being able to repay short-term debt is high. This can cause concern to investors because in general investors do not want large risks but tend to choose the level of liquidity at a safe limit. So that a

high current ratio can have an impact on the possibility of rising stock prices because the condition of the company's liquidity is considered good.

Return on Equity measures a company's ability to generate net income based on certain capital. The increase in this ratio means that there is an increase in net income of the company concerned, so investors can use the ROE indicator as a consideration in choosing shares or investing capital, because this ratio shows that management performance increases, the company can effectively manage operational funding sources to produce net profit, the company's shares are in great demand by investors.

Stock prices are a very important factor for capital market players, because fluctuations in stock prices will affect investor profits and corporate image. If the stock price increases, investors will get a good profit from the difference in the increase in stock prices and dividends that will be received. Increasing a share price will also make it easier for companies to get capital because of a good image in the eyes of investors.

the following can be seen the phenomenon of the share price of three food and beverage companies:



**Figure 1.1 Stock Price Data**

Source : [www.duniainvestasi.com](http://www.duniainvestasi.com)

Based on the graph above it can be seen if the stock price initially moves up then decreases significantly and it is difficult to go back up.

The decline in purchasing power and the tight competition make food and beverage companies unable to gain multiple profits. Even the 2018 Asian Games title which is expected to encourage purchasing power does not occur. This can be seen from their respective performance, for example, PT Fast Food Indonesia Tbk (FAST), which in the third quarter of 2018 recorded a revenue increase of 13.94% to Rp 4.43 trillion from the same period last year of Rp 3, 89 trillion. However, the increase in revenue was not in line with the net profit which fell 7.47% to Rp 96.77 billion from last year's Rp 104.59 billion. While other issuers recorded growth in revenue and net income, PT MAP Boga Adiperkasa Tbk (MAPB) said 24.0% revenue growth and net profit rose 49.70% from the year-ago period. Revenue from PT Sarimelati Kencana Tbk (PZZA) grew 17.8% and profit for the period rose 20.51% from a year ago. While the new IPO company also in 2018, PT Jaya Bersama Indo Tbk (DUCK) still has not released the third quarter 2018 financial performance. Panin Sekuritas analyst William Hartanto assessed that the performance of food and beverage issuers has indeed declined slightly due to sluggish public purchasing power.

Increasing competition with the emergence of a variety of similar businesses makes profits diminish. As well as it seems that the issuers have not found a strategy to win market share. "The performance of the third quarter of 2018 does not match expectations, where the Asian Games were expected to be a positive sentiment for helping financial statements grow significantly," William said, Thursday (11/15). William said, because competition is getting tougher and at the end of the year even though public spending is increasing, it is not expected in the food and beverage industry. MAPB, PZZA and DUCK shares were considered quite good, while FAST was excluded because it was illiquid. DUCK entered a correction and there has been no indication of a technical rebound and buy PZZA and MAPB shares at a price of Rp 1,200 and Rp 2,000 respectively.

Based on the background of the problem described, the researcher is interested in conducting research with the title: "**The Impact of Current Ratio and Return on Equity towards Stock Prices on Food and Beverage Companies Listed in Indonesian Stock Exchange**".

## **1.2 Problem Limitation**

Due to limitation of time and budget, the writer would like to limit the research which are this study has 2 independent variables, namely the current ratio and return on equity and 1 dependent variable, namely the stock price. The company studied was restricted to the food and beverage sector Listed in Indonesian Stock Exchange for the 2014-2018 period.

## **1.3 Problem Formulation**

The formulation of the problems in this study are:

1. What is the effect of the current ratio on the stock price on Food and Beverage Company Listed in Indonesian Stock Exchange?
2. What is the effect of the Return on Equity on stock price on Food and Beverage Company Listed in Indonesian Stock Exchange?
3. What is the influence of Current Ratio and Return on Equity on stock price on Food and Beverage Company Listed in Indonesian Stock Exchange?

## **1.4 Objective of The Research**

The purpose of these studies is:

1. To find out the effect of Current Ratio on stock price on Food and Beverage Company Listed in Indonesian Stock Exchange.
2. To find out the effect of Return on Equity on stock price on Food and Beverage Company Listed in Indonesian Stock Exchange.
3. To find out the effect of Current Ratio and Return on Equity on stock price on Food and Beverage Company Listed in Indonesian Stock Exchange.

## **1.5 Benefit of The Research**

### **1. Theoretical Benefit**

1. This research can be used as a reference for future researchers who want to do the same research.
2. Can be used as information in knowing the effect of Current Ratio and Return on Equity on stock prices on Food and Beverage Companies Listed in Indonesia Stock Exchange.

### 1.5.2 Practical Benefit

1. For Food and Beverage companies, research results are useful as information in improving financial performance so that it is expected to increase the company's stock price.
2. For investors, the results of this study can provide a reference for making investment decisions in Food and Beverage companies.

### 1.6 Systems of Writing

#### **Chapter I Introduction**

This chapter explains about the background of the study, problem limitation, problem formulation, objective of research, benefit of research, and system of writing.

#### **Chapter II Literature Review and Hypothesis Development**

This chapter elaborates the theories of current ratio, return on equity and stock price, previous research, hypothesis development, research model and framework of thinking.

#### **Chapter III Research Methodology**

This chapter is the method and way used in conducting the research. The writer will present research design, research object, data collection method and data analysis method.

#### **Chapter IV Data Analysis and Discussion**

This research is analysis of data from the company. This chapter consists of general view of research object, data analysis and discussion.

## **Chapter V Conclusion**

This chapter is conclusion of the research. The writer will present conclusion after conducting the research, implication of this research and recommendation for the company.

