

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF STUDY

Country's capital market is the indicator of economic growth. It is because companies listed on the capital market are large and credible companies that make significant contributions in the country concerned. Capital market place has massive position inside the economy of a country. This can be seen from the two functions that are owned by the capital market, the first function is capital market is stated to have economic functions as it affords facilities for two interests, the one that have excess funds (investors) and need funds (investee). In capital market, parties with excess capital can make investment funds within the desire of getting return, while the company can use the funds for investment function without having to wait for the availability of finances from the organization operations. The Second is the financial function because the capital market contributes possibilities and opportunities to obtain returns for the owner of the fund, in line with the traits of the chosen investment.

The presence of capital markets increases the choice of funding sources, especially long-term funds for companies, as well as increasing investment choices, so the opportunity to each investor's interests becomes greater. The capital market is an alternative for investors in investing their funds. Therefore, investors need relevant information and appropriate performance measurement tools, so that it can be used to determine investment options.

The capital market trades various types of securities, with the most traded one in capital market, which is called as stock. Stock is useful as evidence of participation or ownership of individuals or institutions issued by companies in which the form of Limited Liability Companies. The development and volume of stock trading is an interesting aspect, especially by entrepreneurs, as well as the general public. Therefore, the capital market is to provide information needed by investors in deciding

which investments will be made. The company goal is to issue shares for get funds, expand and maintain the durability of company in the future, this can show the company's prospects. Issuance of shares by companies can finance their investments and be an efficient way to allocate funds for productive and efficient projects. This makes the capital market as a place for buying and selling securities to grow, where there are opportunities for entrepreneurs to add funds and investment opportunities for the community. Investment in shares has risks that are in accordance with the principle of investment, namely high risk high return, low risk low return. The higher the potential profit of an investment instrument, the higher the risk that investors will suffer, and vice versa. The potential profit from investment in the form of shares is relatively greater than investment in other financial assets such as money market instruments, bonds, and mutual funds, therefore the risk of investing in shares is greater than investment in the form of financial assets other than shares.

Stock prices occur in accordance with market demand and supply. Demand for shares is persuade by investor assumption of company issuing shares. The better the financial performance of a company, the higher the expectations of investors are. This causes the shares to be increasingly in demand and the price of these shares will be higher. Conversely, if company's financial performance is not good, then investors' expectations are low, then investors are not attracted to invest in these shares. This makes the stock price decline.

To determine which shares of the company to buy and when to make stock sale / purchase transactions, investors need to do analysts. There are two approaches to analyzing and selecting stocks, which is fundamental analysis, technical analysis.

Fundamental analysis is the observation and assessment of the conditions underlying the price movement of a stock. In stock trading, this means fundamental analysis refers to the company's financial statements, balance sheet, income, etc. that can be used to find out the health of the company concerned. If the company's performance is good, the business

value will be high. With high business value, investors are interested in investing their capital so that there will be an increase in stock prices. Conversely, if the performance of the company bad, it will cause a decrease in stock prices in the company.

Technical analysis is an attempt to estimate stock prices by observing price changes in the past with use published market data such as stock prices, sales volumes, and stock price indices. This technical analysis is based on changes in stock prices in the past. The analysis tool used is a graph.

Financial performance is very important for companies because it is a tool to observe whether the company is experiencing development or conversely. The most widely used financial performance by investors is the company's financial statements (Zuliarni, 2012). In investing capital, investors will consider the best for companies where capital will be invested, which can be seen from their financial statements. The performance of a company can be measured the use of financial ratios. The financial ratios used in this paper which are Return on Equity and Earnings per Share.

Return on Equity (ROE) is a comparison among net income and total equity held of companies. ROE is a ratio measure how much profit is the right of the owner of his own capital shares (Kamar, 2017). Net profit calculated is operating income after deducting foreign capital interest and corporate tax or income tax (EAT = Earning after Tax). The greater the ROE means the more optimal use of a company's own capital in generating profits. The greater the profit, the greater the interest of investors are in investing their funds to own these shares. This ratio becomes the material of analysis for investors who will invest the amount of investment in a company. Investors certainly should calculate the comparison of income that will be obtained, compared to the amount of investment that investors have made in the company.

Earning per Share (EPS) is a form of giving benefits to the shareholders of each share held (Barus & Sudjana 2014). This ratio

compares between after-tax income and the number of shares outstanding. EPS information of a company shows the amount of net profit per share of the company that will be received by the shareholders investors. EPS is a ratio that is considered by many prospective investors, because EPS information is information that is considered the most basic and useful that can describe the company's earnings prospects in the future. By knowing EPS, investors will find out how much the company's ability to pay dividends to shareholders. So, it can be said that if Earning per Share is high, more and more investors would be attentive in buying these shares so that the stock price would be increase.

Company were established for the main purpose of seeking profits, while for investors to invest a certain amount of funds into the company and get more returns in the future, which call as profits. The company used in this study is a company engaged in the property and real estate sector which is listed on the Indonesia Stock Exchange. The reason the researchers chose to use property and real estate sector companies as the object under study is because this sector is one sector that has good opportunities in Indonesia. Indonesia is a country with ranked fourth as the largest population in the world with 260 million inhabitants ([www.ilmupengetahuan.com](http://www.ilmupengetahuan.com)) with this large population; of course, the demand for residential dwellings also will increase. The development in the sector of property and real estate of course will invite the interest of investors because the rising of land value and buildings. The supply of land is a permanent, while demand will always grow bigger with the increasing of population and also the growing needs of human's beings for residences, offices, shopping centers, etc. Thus, researcher takes the object of research in the field of property and Real Estate Company.

The following some from sample company data relating to Return on Equity (ROE), Earning Per Share (EPS), and Stock Prices of property and real estate companies in the period 2015-2017:

**Table 1.1 Data of Variable ROE, EPS and Stock Price  
By Several Property & Real Estate Company 2015 - 2017**

Company	Year	ROE (%)	EPS (Rupiah)	Stock Price (Rupiah)
<b>ASRI</b>	2015	10	30,36	343
	2016	7,1	25,90	352
	2017	16	70,23	356
<b>BSDE</b>	2015	10	112,44	1.800
	2016	8,3	93,32	1.755
	2017	17	255,64	1.700
<b>KIJA</b>	2015	6,6	16,39	247
	2016	7,5	21,13	292
	2017	2,5	4,08	286

Source: Prepared by the Writer (2019)

Based on table 1.1 above, PT. Alam Sutera Realty Tbk. (ASRI). In 2015 the ROE ratio is 10%, the EPS ratio is Rp. 30,36 and which is the share price is Rp. 343. In 2016, ROE, EPS decreased while ASRI stock prices increase, which is ROE decreased by 7,1% while EPS is Rp. 25,90 and the share price increases to Rp. 352. Then in 2017 the ROE and EPS increased by 16% and Rp. 70,23 and it's also followed by an increase in stock price to Rp. 356.

At PT. Bumi Serpong Damai Tbk. (BSDE), in 2015 has a ROE and EPS ratio of 10% and Rp. 112,44 and also the stock price is Rp. 1,800. But in 2016 there was decrease in ROE, EPS and also the stock prices. In 2016, the ROE ratio decreased to 8.3% and EPS was Rp. 93,32 and followed by a decrease in stock price to Rp. 1,755. While in 2017 it increase again in ROE of 17%, EPS of Rp. 255,64 and also the increase in stock prices which is become Rp. 1,700.

At PT. Jababeka Industrial Estate Tbk. (KIJA) in 2015 had Return on Equity of 6.6% while Earnings per Share was Rp. 16,39 and the share price is Rp. 247. In 2016, there was an increase in Return on Equity, Earnings per Share and share price. The ROE increased to 7,5% EPS which was Rp. 21,13, and the share price is Rp. 292. But in 2017 there was



a decreased in Return on Equity, Earnings per Share and the price of its shares, which is the ROE become 2,5%, EPS was Rp. 4,08 and the share price of Rp. 286.

From the data provided above, it can be seen that the movement of the ROE ratio, EPS and stock price changes from time to time according to the economic fluctuations of the company, so an investor must pay attention to a company's financial statements before take a decision for investment, because an investor is faced with the desire to obtain a maximum rate of return from the value of investment, and various risks of uncertainty that are difficult to predict. Thus to reduce uncertainty in getting profits and bear the risks that occur, investors need a variety of information as a guide for deciding investments in the capital market.

This study is a replication of the research which conducted by Budiyo & Arlengga 2018 entitled Analysis on Financial Ratio Effects on Stock Price on Manufacturing Company in IDX year 2014 to 2016. The difference in this research is the independent variable, which only uses ROE and EPS as well as differences in objects and years of research. In this study, we are using property and real estate in 2015 to 2017.

Based on the background above, the authors conducted this research with the title **"The Influence Return on Equity and Earning per Share on Stock Price of Property and Real Estate Company Listed in Indonesia Stock Exchange)".**

## **1.2 PROBLEM LIMITATION**

Problem limitation in this study:

Due to time limitation and knowledge of author, the author limits the problem to focus on two factors effect stock price which is ROE and EPS. This research limits the shares of a property and real estate company listed on the Indonesia Stock Exchange with the research period 2015 until 2017. In the study it is assumed that the stock price is influenced by ROE and EPS.

### **1.3 PROBLEM FORMULATION**

Based on the background on above, the research questions are formulated as follows:

1. Does Return on Equity partially have a significant effect on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange?
2. Does Earning per Share partially have a significant effect on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange?
3. Do Return on Equity, Earning per Share have simultaneously effects on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange?

### **1.4 OBJECTIVE OF RESEARCH**

Based on the formulation problems above, then the purpose of this study is:

1. To find out whether Return on Equity partially have a significant effect on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange.
2. To find out whether Earning per Share partially have a significant effect on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange.
3. To find out whether Return on Equity and Earning per Share have a simultaneously effect on stock price of Property and Real Estate Company listed in Indonesia Stock Exchange.

### **1.5 BENEFIT OF RESEARCH**

#### **1.5.1 THEORETICAL BENEFIT**

Theoretically, this research is expected could be used as scientific knowledge, especially in the field of financial accounting, by comparing existing theories with the results of the research. It can also be used as theoretical reviews for further research, especially on the same field of discussion.

### 1.5.2 PRACTICAL BENEFIT

Based on the objective research, the research is expected to generate practical benefit as follows:

1. Investor

In addition to information to be appropriated into deliberation in making investment decisions in a company, so they can make the right decision that makes a profit.

2. Company

For companies, it can be input and consideration in improving the company's financial performance as well as implementing a company financial performance measurement tool that reflect the right value of the company.

3. Future researcher

This research is expected to be used as an additional input and reference material for future researchers and the academic world, especially in the field of analysis of the relationship of financial ratios with stock prices.

## 1.6 SYESTEM OF WRITING

As a direction in understanding this paper, the author uses systematics as follows:

### CHAPTER I INTRODUCTION

This chapter, the author describes about the background of study, problem limitation, problem formulation, objective of research, benefit of the research, and system of writing. The background of study is about ROE and EPS play the important role on stock price. Problem limitations limit the ROE, EPS and Stock Price in Property and Real Estate Company for 2015 to 2017. Problem formulation consists of how ROE and EPS affect the company stock price. The research objective is to gain



understanding, knowledge and experience on this research. Benefit of this research is divided into two such as theoretical and practical benefit, and also system of writing that provide overview on introduction, literature review, and hypothesis development, research method, data analysis and

## **CHAPTER II                    LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

In chapter two the author describes about theoretical background, previous research, hypothesis development, research model and framework of thinking. Theoretical review consists of ROE , EPS and Stock Price. This research is using is using six previous research. In hypothesis development, there are three different hypotheses are developed form the background of study, research problem, literature review, and prior research. This research consists of ROE and EPS as independent variable and stock price as dependent variable in the research model. Framework of thinking apperance the process of the research form the background of study, research problem, the grand theories and hypothesis development.

## **CHAPTER III                    RESEARCH METHODOLOGY**

This chapter, the author describes about research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method. The research is using quantitative research with the population of Property and Real estate Company for the year 2015 to 2017. The purposive sampling is the sample that are using in this study. The data

used in this research is secondary data which is obtained from IDX. Data analysis method use in this research includes descriptive statistic method, classic assumption test, and hypothesis testing by using multiple regression analysis.

#### **CHAPTER IV**

#### **DATA ANALYSIS & DISCUSSION**

This chapter, the author describes about general view of object, data analysis, and discussion. Research object describes general information about IDX and Property and Real Estate Company. Data analysis using Statistical Package Social Science (SPSS) version 25 It shows the SPSS result of descriptive statistic method, classic assumption test, and hypothesis testing by using multiple regression analysis. Discussion describes more clearly the results obtained from SPSS results.

#### **CHAPTER V**

#### **CONCLUSION**

In This chapter contains the conclusion as the results of the whole study and the problems facing in this research. It also includes recommendation to overcome the problem and the limitations in doing research.