CHAPTER I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Consumer goods industry is one of the attractive industrial sectors, because consumer goods products are always needed in people's daily life. Consumer goods industry is an industry that is currently developing and has good prospects for coming years. The individual needs of consumer goods will keep increasing due to the existence of globalization and the increasing number of people. As for goods consumed such as food, beverages, clothes, medicines, cosmetics, household goods, to electronic devices. (Sa'diyah, 2016) in (Damayanti, 2013).

Capital market in Indonesia experiences a satisfactory development. Capital market is a source of financing for companies around the world. A capital market is a financial market in which long-term debt are sold and bought. An investor should consider many things before making an investment. The investors must be good at speculating in order to obtain maximum profit with minimum risks. Therefore, investors need a variety of information that can be used as a basis in investment decision making in the capital market. One of the supporting information is a company's financial statement that will be used as a place to invest. Financial statements are one of the tools that can be used as a media of communication between company management and investors.

Most investors will do an analysis before making a decision to buy, hold or sell stock. The information in the financial statements is also important in seeing how a company's performance and stock prices are in the market. In order to see a company's performance properly, it is necessary to do an analysis, especially to assist investors

in making decisions. The sale of shares in the capital market means the investor is given the opportunity to own and obtain a better profit on the purchase of shares. The purpose of a company to sell shares in the capital market is to acquire the funds that will be used in the development of its business, and for the owners of the capital is to earn income from the purchase of those shares. In the capital market activity, stock price is an important factor because stock price can show the achievement of a company and stock price movement is straightly comparative to the performance of a company. The presence of the capital market in Indonesia can be seen by investors who began to invest their shares in Consumer Goods Industry Companies.

Meanwhile, the only source of information used by investors to know how the condition of a company is from the company's financial statements. Income Statement presents information about net income, the main concern for investors to assess the company's ability in generating earnings per share as expected. Information about net income is very important to assess the prospects for net cash inflows and the ability of the company to pay dividends. Cash flow statement contains information about cash inflows and cash outflows during the accounting period consisting of cash flow from operating activities, investing activities, and financing activities. Thus, investors have a description of the financial condition of the company and interested in buying the company's shares, then the demand for company shares increases which causes increases in stock prices (Sa'diyah, 2016) in (Willianove, 2013).

Justin Padilla (2015) stated that "Net income is a company's total earnings and it is calculated by taking revenues and subtracting the costs of doing business such as depreciation, interest, taxes and other expenses. This number appears on a company's income statement and is an important measure of how profitable a company is over a period of time. Net income is the most important measure of

profitability, as it is the very reason why companies exist in the first place" (Justin Padilla, 2015).

By looking at the income statement, an investor gets an idea of the company's performance or capability in giving returns on investments, and the amount of funds already in use. It is a measure that investors are interested in all the time because it allows them to look at the profitability history of the company and assess risks of investing in that company. Although net income is not comprehensive enough to predict a stock price, but it perfoms a useful purpose and should still be a part of every investor's investment strategy. Thus, it is important for a company to maintain and increase profits. If a company cannot maintan a positive net income in the long run, then the company will not be able to survive. Stock prices tend to rise when reported net income are greater and vice versa. In other words, the greater the net profit generated by a company, the higher the demand for a company's shares, and the impact on increasing stock prices, and vice versa.

Changes on stock prices of a company are influenced by cash flow. Cash flow is important in determining the value of a company. In order to access the company's ability in generating cash and cash equivalents, financial statements users can use the information in cash flow statement. The purpose of cash flow information is to provide historical information about changes in cash and cash equivalents of a company through cash flow statements that are classified in operating, investing, and financing activities during an accounting period. Stock prices are linked to cash flow and it depends on the company's ability to generate cash flow now and future cash flow. During the investment process, investors compare the value of a company which is determined by the stock price. Stock prices tend to rise when a company generates a positive cash flow and vice versa. Other factors that affect stock prices than net income and cash flows are demand

and supply, price to book value, debt to asset ratio, return on investments, earnings per share, dividends, management.

The reason why the writer chooses Consumer goods industry is because companies in the consumer goods industry are frequently looking to expand across geographies and influence the consumers' path to purchase. In other words, companies in the consumer goods industry are supporting technology in effective and innovative ways to improve customer engagement and reach out to markets that can obtain both profitability and sales.

This research has been done by Utami Sutisna Putri, Sri Yuliandhari and Juliana Dillak (2017), by using the same independent variabels, Net Income, Cash Flow (Operating, Investing and Financing Cash Flow), and the dependent variable, Stock Price. The results obtained are partially, net income has a significant effect towards stock price, while operating, investing and financing cash flow has an insignificant effect towards stock prices. Simultaneously, all of the independent variables have a significant effect towards stock prices of LQ-45 Companies listed on Indonesia Stock Exchange. This research also conducted by Marwoto (2017), it stated that Net Income and Operating Cash Flow partially has a significant effect towards Stock Price, while Investing and Financing Cash Flow has an insignificant effect towards Stock Price. Simultaneously, Net Income, Operating, Investing and Financing Cash Flows significantly effect the Stock Prices of LQ-45 Companies listed on Indonesia Stock Exchange.

Table 1.1 Table of Phenomenon (in Rupiah)

Name	Year	Net Income	*OCF	**ICF	***FCF	Stock Price
KLBF	2015	2.057.694.281.873	2.427.641.532.150	(801.460.782.255)	(832.144.200.711)	1.320
	2016	2.350.884.933.551	2.159.833.281.176	(1.014.922.828.804)	(941.395.591.980)	1.515
	2017	2.453.251.410.604	2.008.316.536.066	(1.113.563.321.510)	(976.386.871.130)	1.690
TCID	2015	544.474.278.014	120.781.612.127	259.101.689.285	(260.073.948.449)	16.500
	2016	162.059.596.347	264.194.256.792	(98.912.853.157)	(82.435.302.010)	12.500
	2017	179.126.382.068	363.708.428.317	(148.343.616.434)	(82.388.650.104)	17.900
DLTA	2015	192.045.199.000	246.625.414.000	(10.022.026.000)	(156.878.293.000)	5.200
	2016	254.509.268.000	259.851.506.000	(37.684.000)	(96.034.454.000)	5.000
	2017	279.772.635.000	342.202.126.000	(11.675.086.000)	(143.868.508.000)	4.590

Source: www.idx.co.id (2015-2017)
* OCF = Operating Cash Flow
** ICF = Investing Cash Flow
*** FCF = Financing Cash Flow

Based on table 1.1, it can be seen that PT. Kalbe Farma Tbk. (KLBF) in 2015 has Net Income of Rp. 2.057.694.281.873, OCF of Rp. 2.427.641.532.150, ICF of Rp. (801.460.782.255), FCF of Rp. (832.144.200.711) and Stock Price of Rp. 1.320. In 2016, KLBF's Net Income increased to Rp. 2.350.884.933.551, OCF decreased to Rp. 2.159.833.281.176, ICF decreased to Rp. (1.014.922.828.804), FCF decreased to Rp. (941.395.591.980) and Stock Price increased to Rp. 1.515. In 2017, KLBF's Net Income increased to Rp. 2.453.251.410.604, OCF decreased to Rp. 2.008.316.536.066, ICF decreased to Rp. (1.113.563.321.510), FCF decreased to Rp. (976.386.871.130) and Stock Price increased to Rp. 1.690. So, the conclusion is Net Income and Stock Price of KLBF keep increasing from 2015 to 2017 while OCF, ICF, and FCF decreasing.

In 2015, PT. Mandom Indonesia Tbk. (TCID) has Net Income of Rp. 544.474.278.014, OCF of Rp. 120.781.612.127, ICF of Rp. 259.101.689.285, FCF of Rp. (260.073.948.449) and Stock Price of Rp. 16.500. In 2016, TCID's Net Income decreased to

Rp. 162.059.596.347, OCF increased to Rp. 264.194.256.792, ICF decreased to Rp. (98.912.853.157), FCF increased to Rp. (82.435.302.010), and Stock Price decreased to Rp. 12.500. In 2017, TCID's Net Income increased to Rp. 179.126.382.068, OCF increased to Rp. 363.708.428.317, ICF decreased to Rp. (148.343.616.434), FCF increased to Rp. (82.388.650.104), and Stock Price increased to Rp. 17.900. So, the conclusion is Net Income, FCF and Stock Price of TCID are decreasing from 2015 to 2016 and then increasing from 2016 to 2017, while OCF is increasing and ICF is decreasing each year.

In 2015, PT. Delta Djakarta Tbk. (DLTA) has Net Income of Rp. 192.045.199.000, OCF of Rp. 246.625.414.000, ICF of Rp. (10.022.026.000), FCF of Rp. (156.878.293.000), and Stock Price of Rp. 5.200. In 2016, DLTA's Net Income increased to Rp. 254.509.268.000, OCF increased to Rp. 259.851.506.000, ICF increased to Rp. (37.684.000), FCF increased to Rp. (96.034.454.000), and Stock Price decreased to Rp. 5.000. In 2017, DLTA's Net Income increased to Rp. 279.772.635.000, OCF increased to Rp. 342.202.126.000, ICF decreased to Rp. (11.675.086.000), FCF decreased to Rp. (143.868.508.000), and Stock Price decreased to Rp. 4.590. So, the conclusion is Net Income, OCF of DLTA is increasing each year, while ICF and FCF are increasing from 2015 to 2016 but decreasing from 2016 to 2017, and Stock Price is decreasing each year.

Based on the explanation and conclusions above, the writer is motivated in conducting further research that can provide empirical evidence based on the information carried by Net Income and Cash Flow (Operating, Investing, and Financing) and its effect towards Stock Price of Consumer Goods Industry. Samples used in this research is Consumer Goods Industry listed in IDX year 2015-2017. Therefore, the writer is interested in discussing it and will pour it in a

scientific paper in the form of thesis with the title: **"The Effect of Net Income and Cash Flow Components towards Stock Price on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015 – 2017"**

1.2   PROBLEM LIMITATION

Research is limited to as following:

1. The companies that will be examined is Consumer Goods Industry Companies listed in Indonesia Stock Exchange during year 2015-2017 based on factbook 2015-2017.
2. The companies issued complete set of financial statements during year 2015-2017.
3. The financial report that will be examined is net income and cash flow components: cash flow from operating, investing and financing activities during year 2015-2017.
4. Variables that will be studied, independent and dependent variables.

1.3   PROBLEM FORMULATION

According to the background of the study, there are three research questions:

1. Is there a significant effect of Net Income partially to Stock Price?
2. Is there a significant effect of Operating Cash Flow partially to Stock Price?
3. Is there a significant effect of Investing Cash Flow partially to Stock Price?
4. Is there a significant effect of Financing Cash Flow partially to Stock Price?
5. Is there a significant effect between Net Income and Operating, Investing and Financing Cash Flows simultaneously to Stock Price?

1.4   OBJECTIVE OF THE RESEARCH

The purpose of this research is:

1. To test and provide empirical evidence about the effect of Net Income to Stock Price.
2. To test and provide empirical evidence about the effect of Operating Cash Flow to Stock Price.
3. To test and provide empirical evidence about the effect of Investing Cash Flow to Stock Price.
4. To test and provide empirical evidence about the effect of Financing Cash Flow to Stock Price.
5. To test and provide empirical evidence about the effect of Net Income and Operating, Investing and Financing Cash Flows to Stock Price.

1.5   BENEFIT OF THE RESEARCH

The benefit of this research consists of theoretical benefit and practical benefit.

1.5.1   THEORETICAL BENEFIT

This research is expected to improve knowledge and insight for the development of accounting that is related to the effect of Net Income and Cash Flow Components on consumer goods industry companies Stock Price. Also, this research can be taken as a consideration in the preparation of further research.

1.5.2   PRACTICAL BENEFIT

a. For Companies

The results of this study are expected to be used as a reference for companies, especially companies is consumer goods industry to create policies and actions in maximizing the company's stock price.

b. For Researcher

The results of this study are very helpful in obtaining an actual illustration between theory and practice regarding the problem of the research, the effect of Net Income and Cash Flow Components on a Company's Stock Price.

c. For Investors and Creditors

The results of this study are expected to be able to provide information and expanding insights especially in analyzing the effect of Net Income and Cash Flow Components on a Company's Stock Price that is used as a consideration in making investment decisions.

1.6 SYSTEMS OF WRITING

Chapter I   Introduction

A brief description of this research, consists of background of the study, problem limitation, problem formulation, objective of the research, benefit of the research and systems of writing.

Chapter II   Literature Review and Hypothesis Development

Consists of theoretical background, previous research, hypothesis development, research model and framework of thinking.

Chapter III   Research Methodology

Consists of research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

Chapter IV   Data Analysis and Discussion

Consists of General View of "Consumer Goods Industry", Data Analysis, Descriptive Statistic, Result

of Data Quality Testing, Result of Hypothesis Testing, and Discussion.

Chapter V   Conclusion

Consists of Conclusion, Implication, and Recommendation

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