

CHAPTER I

INTRODUCTION

1. BACKGROUND OF THE STUDY

Property and real estate sector has an important role in driving the growth of the Indonesia economy. The activity of the sector is inseparable from the existence of derivative industries in the sector. As an illustration, in building a house, developers will certainly work with various other industries, ranging from cement, iron, sand, glass and others. At least there are around 210 derivative industries that are in the property sector, so the property sector supports many other industries and contributes to Indonesia's economy as a whole.

Indonesia's property sector has been developing rapidly since 2012. This development has made twenty six out of forty five companies listed in Indonesia Stock Exchange during the year to record more than fifty percent net income growth. The increased in Indonesia's property sector is influenced by Indonesia GDP growth rate of +6% point (year-on year). The GDP growth rate and purchasing power are related and imply that more Indonesia citizens are capable to purchase property. Middle class consumers are increasing especially the consumers for property sector such as, houses, apartments, and condominiums. Indonesia's demographic condition is also the factor that influences growth of property sector with around two hundred fifty million citizens in 2015). During the year. Indonesia has classified the consumers class based on their purchasing power, and the increased of middle class consumers have been increasing steadily (Setianto, 2016).

Under the administration of the current president, Mr. Joko Widodo, the initiative to focus on the development of infrastructure has also been increasing rapidly. The development of infrastructure might also ask for the involvement of public companies. Other than that, the development of

infrastructure might also increase the price of property in some sectors due to ease of access and strategic reason. There is a belief that the sector will have a significant growth in 2017-2018 as President Jokowi's economic policy to focus on infrastructure since 2015 begin to take effect. (Global Business Guide Indonesia, 2016).

In property business, developers do not wait for demand to increase before switching on developments, developers find the opportunity to create supply in property when finance is available to try to anticipate upcoming demands. With demographic of a country is increasing during time, houses will be demanded and the price of property will increase accordingly (Baum & Hartzell, 2012). Considering the needs for property and there are still many developments possible in Indonesia, there is a bright prospect of this sector in the future and it might open up opportunities for investors, especially in the form of shares.

The capital market connects companies and potential investors. For companies, to obtain the sufficient fund in supplying for upcoming demands, they need to attract potential investors to invest their fund in the company. For investors, the purpose of an investment is to obtain a high level of return with a certain level of risks. Higher return is expected to increase the value of the firm and increasing shareholders' wealth. When companies are able to generate profit by using the company's resources efficiently, the company will attract potential investors to invest or buy the company shares (Bustami & Heikal, 2018).

The formation of stock prices occurs because of the demand and supply of the stock. Supply and demand occur because there are many factors, both of which are the shares (the performance of companies and industries where the company is moving) and macro factors such as interest rates, inflation, exchange rates and factors non-economics such as social and political conditions and other factors.

Before investing, investors need to make a good assessment to find out and decide which stocks can provide high returns in the future, and need

to think about the risks that might occur. There are two main types of analysis which are widely used in the financial markets, technical analysis and fundamental analysis (Jamsandekar, 2018). Technical analysis focus on the movement of stock price in the past, this analysis believe that the past movement of stock price might be reflected again in the future. Fundamental analysis is a stock analytical technique that studies fundamental finance and economic facts of the company as a step valuation of the company's stock price.

The used of fundamental analysis utilize the financial information which is mainly contained in the financial statements. Information of income statement and balance sheet, are that being utilized through financial ratios which have been providing the basic financial information for investors or analysts related to decision making Analysis of financial ratios reflect many aspects of firms' activities such as liquidity, assets' efficiency, expense control, leverage, profitability, and dividends (Bhakar & Mehta, 2011).

The selection of these factors as independent variables is based on the idea that these factors describe the return that investors will receive on their investment in shares. The company's liquidity and profitability are important, because these ratios will provide information that is very important for the company's growth and development in the short term. The liquidity ratio shows the company's ability to pay its financial obligations immediately. This ratio is useful to find out how much ordinary liquid assets are converted into cash to pay unexpected bills. If the company cannot pay the debt, the company is threatened with bankruptcy.

Liquidity ratio that will be used in this study is the Current Ratio. Current Ratio is an illustration of the ability of all current assets to guarantee their current debt. Current Ratio can be used as the basis for calculating short-term liquidity the most important because it covers all components of current assets and all components of debt smoothly without discrimination level of liquidity. According to Fahmi (2016: 250), in order to minimize

liquidity risk the company must strengthen the value of the liquidity ratio. Because companies that have high liquidity ratios will be attractive to investors and will also impact stock prices which tend to rise due to high demand. If the current assets exceed the current debt, it can be estimated that at some point conducted liquidity, current assets have enough cash or even can be converted into cash in a short time, so that they can fulfill their obligations..

Profitability Ratio is the capability of a company to earn profits related to total assets, sales and own capital. According to Kasmir (2012: 201), ratio that shows the value (return) of the amount of assets used in the company also known as Return on Asset (ROA). ROA can provide a better measure of company profitability because it can show the result of effectiveness management in applying assets to gain income. Return on Assets (ROA) is a comprehensive measure of company performance, because this ratio shows the return that could be obtained from the use of its total asset. The Profitability Ratio (ROA) has a positive effect in stock prices because the higher the Profitability Ratio (ROA) of the company, the higher the level of profit achieved by the form and better the efficiency in utilizing the company's total asset. This indicates that company is efficiently utilizing its total asset to generate profit and show a good signal for investors to buy the stock and with more demand, stock price of the company will increase.

Table 1.1 PT. Agung Podomoro Land Tbk. and PT. Ciputra Development Tbk. Current ratio, return on Asset, Stock price, 2012-2017

Code	Year	Current Ratio	Return on Asset	Stock price
APLN	2012	1.565	0.055	370
	2013	1.679	0.047	215
	2014	1.832	0.041	335
	2015	1.389	0.045	334
	2016	1.068	0.037	210
	2017	1.306	0.065	151

CTRA	2012	1.560	0.057	800
	2013	1.363	0.070	737
	2014	1.427	0.076	1229
	2015	1.500	0.066	1451
	2016	1.871	0.040	1335
	2017	1.949	0.032	875

Based on Table 1.1, decrease in APLN and CTRA Return on Asset during 2015-2016 also followed by decrease in stock price. While APLN during 2013-2014, and CTRA during 2014-2015 Return on Asset shows an inverse relationship toward stock price. Similar inconsistent also apply to current ratio. Increased in APLN and CTRA current ratio during 2013-2014 is followed by increase in stock price, while the increase during 2016-2017 is followed by decrease in stock price

Based on the background above, the researcher is interested in conducting a research with the title **“The Influence of Current Ratio and Profitability Ratio on Stock Prices in Property, Real Estate and Building Construction Companies Listed in IDX 2012-2017”**

1.2 PROBLEM LIMITATION

The research is conducted at Property, Real Estate and Building Construction Companies Listed in IDX 2012-2017. The reason the writer would like to choose this sector is that there is a high contribution of this sector toward Indonesia's GDP and there has been a high development in this sector which shows a bright prospect for investors. The writer focuses on the period year 2012 to 2017 because financial statements of some companies in 2018 have not yet been published. This study emphasized on independent variable Current Ratio and Return on Assets (profitability) and dependent variable the Stock Prices.

1.3 PROBLEM FORMULATION

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

1. Does Current Ratio significantly influence stock price partially?
2. Does Return on Asset significantly influence stock price partially?
3. Do Current Ratio and Return on Asset significantly influence stock price simultaneously?

1.4 OBJECTIVE OF THE RESEARCH

The study will achieve the following objectives:

1. To analyze the influence of Current Ratio towards stock price partially.
2. To analyze the influence of Return on Assets towards stock price partially.
3. To analyze the influence of Current Ratio and Return on Assets towards stock price simultaneously.

1.5 BENEFIT OF THE RESEARCH

The benefits of this study are expected to be beneficial in two following ways, theoretical benefits and practical benefits.

1.5.1 THEORETICAL BENEFIT

1. For academicians, this research is expected to provide deeper information and knowledge especially in the effect of current ratio and return on asset toward stock price.
2. For writers, this research is expected to be beneficial for writers as way to improve understanding regarding the effect of current ratio and return on asset toward stock price.

1.5.2 PRACTICAL BENEFIT

1. For companies, this research is expected to be beneficial as an insight or knowledge to understand the used of financial ratio that influence stock price.
2. For investors, this research is expected to be beneficial as an insight or knowledge to utilize financial ratio in investment decision.

1.6 SYSTEMS OF WRITING

In the systems of writing, the author will briefly describe the chapter by chapter in sequence. The order of writing the chapter to be presented is as follows:

CHAPTER I. INTRODUCTION

It is the outline, the reason to conduct the research described in the background of the study. Problem limitation. Problem formulation. Objective of the research. Benefit of the research (Theoretical and Practical benefit) and Systems of writing

CHAPTER II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Explaining further about the theory on which the author is based, which cover: Theoretical background, Previous

Research, Hypothesis Development. Research model and Framework of Thinking

CHAPTER III. RESEARCH METHODOLOGY

Describe about: Research design, Population and sample, Data collection method, Operational variable definition and variable measurement, and Data analysis method.

CHAPTER IV. DATA ANALYSIS AND DISCUSSION

Describe about: General view of “Research Object”, Data analysis (Descriptive statistic. Result of data quality testing and Result of the hypothesis testing), and Discussion

CHAPTER V. CONCLUSION

Describe about: Conclusion, Implication and Recommendation

