CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the time of globalization, competition in the business world is getting tougher. The intense competition between companies will have a very strong influence on company's performance. Its required companies to work efficiently and will be monitored by investors who have invested in the company. (Burhan, 2013)

A company is expected to developing, meanwhile development has required a capital. Capital has become one of the important aspects in the company which in started up company and business development. Most companies prefer the capital market as a choice for increasing company's capital.

The Indonesia Stock Exchange noted the movement of the stock index of the consumer goods industries were decreasing since the beginning of 2018 until the end of March 2019. The degradation of stock index in the big companies might cause slowing the stock index growth. According to Nafan Aji as an analyst at Binaartha Sekuritas that may be caused by stagnant of people's purchasing power, increment in interest rates, rupiah fell off and factors of trade war.

The big companies in the consumer goods industry sector that are still moved slowly with declined percentage at that time was PT Unilever Indonesia Tbk (UNVR), PT HM Sampoerna Tbk (HMSP) and PT Indofood CBP Sukses Makmur Tbk (ICBP) with 5.62 percent, 10.53 and 3,92 percent respectively. (www.kontan.co.id)

Indonesian Central Securities Depository continues to improve infrastructure to develop the Indonesian capital market. Recorded at the end of January 2019, the number of investors in the Indonesian capital market has reached 1,676,606. This amount has increased by 3.53 percent compared to the end of 2018.

Nowadays, investing in capital market becomes high demand for investors. Most companies are offering two benefits which are dividend and capital gains. Dividends are company profits obtained and will be shared with shareholders. However, the regulation of each companies are not the same, some companies will not share profit in the form of dividend but in the form of capital gain. *(*www.cermati.com*)*

According to Hartono (2000), Stock prices are prices that occur on the stock market at certain times determined by market participants, namely market demand and supply. While, Fahmi (2015) said that factors that influence stock prices are micro and macroeconomic conditions, company policy, and company growth.

Companies with good prospects will have high stock prices. Company's performance can be seen in financial statements which published in Indonesia Stock Exchange. Company's Financial Reports are used by investors in making decision in selling, buying or holding shares.

According to Sunariyah (2004), Stock price is reflection of the condition from the company. If stock price are too low, it could probably shows the company's performance isn't going well, otherwise if the stock prices are too high it will reduce the purchasing power from the investors.

One important indicator in measuring company performance is profit. According to Munawir (2014 p. 33) stated that profitability

shows the company's ability to generate profits for a certain period. Profitability ratios are often used to measure the efficiency of capital use in a company which usually used by investor to analysis company performance. Investors who invest their funds in a company in the form of shares expect the profit of shares name as dividend.

The common ratios that use to measure the corporate financial performance are Return on Assets (ROA). Return on Asset measures a company's ability to generate net income based on a certain level of assets (Hanafi, 2008 p. 42). The higher Return on Assets of the company, the greater amount of profit that company achieved. Return on Assets (ROA) can be used for investors as one of tools for measuring the company's efficiency in generating profit by using their assets.

Besides ROA, other ratios that can be used to measure corporate financial performance are Return on Equity (ROE). According to Utami (2018) Return On Equity is a ratio calculation that shows the company's ability to generate net income by using its own capital and generating dividend to investors. ROE is measured by the comparison between net income and total capital. The higher ROE number indicates that shareholders will get higher dividend.

Companies that have good liquidity performance cause an increase in stock prices. Liquidity Ratio is a ratio that measures a company's ability to meet its short-term debt obligations when it is due. This ratio measures the company's ability to pay off its short-term obligations at maturity (Kho, 2017). The liquidity ratio used in this study as one of the independent variables is the Current Ratio. The current ratio is measured by comparing current assets to current liabilities which shows the company's ability to pay current liabilities using current assets (Keown, 2008)

Based on the data shown above, the writer would like to conduct this research with the title **"The Effect of Current Ratio, Return on Asset and Return on Equity Toward Stock Price In Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017"**

1.2   **Problem Limitation**

This research is conducted by analyzing the effect of Current Ratio, Return on Assets and Return on Equity toward Stock price in Consumer Goods Industries. The data is obtained from secondary resources which is Indonesia Stock Exchange within a certain period from 2014 to 2017.

This study emphasized on independent variables which are Current Ratio, Return on Asset and Return on Equity and dependent variable which is Stock Price. This study was conducted to examine The Effect of Current Ratio, Return on Asset and Return on Equity Toward Stock Price .

The indicators for Current Ratio is : (Current Assets) / (Current Liabilities). The indicators for Return on Asset is : (Net income after Tax) / (Total Asset). The indicators for Return on Equity is (Net income after Tax) / (Total Equity) and Stock Price. The required target population for the research is available in the study area. The research focuses on financial statements of the company.

1.3   **Problem Formulation**

The existing problems can be formulated as follow:

1. Does Current Ratio partially have significant effect toward Stock Price in Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017?

2. Does Return on Asset partially have significant effect toward Stock Price in Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017?

3. Does Return on Equity partially have significant effect toward Stock Price in Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017?

4. Do Current Ratio, Return on Asset and Return on Equity simultaneously have significant effect toward Stock Price in Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017?

1.4   Objective of the Research

The study will achieve the following objectives:

1. To test and analyze the significant effect of Current Ratio partially towards stock price in Consumer Goods Industries listed in the Indonesia Stock Exchange 2014-2017.

2. To test and analyze the significant effect of Return on Asset partially towards stock price in Consumer Goods Industries listed in the Indonesia Stock Exchange 2014-2017.

3. To test and analyze the significant effect of Return on Equity partially towards stock price in Consumer Goods Industries listed in the Indonesia Stock Exchange 2014-2017.

4. To test and analyze the significant effect of Current Ratio, Return on Asset and Return on Equity simultaneously toward stock price in Consumer Goods Industries Listed In the Indonesia Stock Exchange 2014-2017.

1.5   Benefit of the Research

1.5.1   Theoritical Benefit

This research is expected to provide theoretical benefits for academics such as:

1.   For student

The result of this study is expected to provide facility to learn and as literature for a better understanding about the factors that influence stock price of the company.

2.   For future researchers

Writer is expected that the result can be able to provide information of the relation of current ratio, ROA and ROE toward Stock price as literature for future researchers who wish want to conduct similar research.

1.5.2   Practical Benefit

This research is expected to provide practical benefits for practitioners such as:

1.   For companies

Writer is expected to provide insight to the company's management according to the importance of factors that influence the stock price. So, they can use as consideration for future decision making.

2.   For investors

This result of study is expected to provide more understanding in making a decision before investing in companies.

1.6   Systems of Writing

In the systematics 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

In this chapter, It is the outline, the direction of purpose. and the encouraging research grounds the

authors do research and include: Background of the study . Problem limitation. Problem formulation. Objective of the research. Benefit of the research (Theoretical and Practical benefit). The section of background of the study discusses the problem, the reason for the research and the phenomenon regarding the object of the study and inconsistency result of previous research. The objective of the research outlined the purpose of the research which is expected to be achieved.

CHAPTER II **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This chapter is explaining about grand theory which is signaling theory where it is used to formulate hypothesis, definition of each variable, theoretical background and the impact theory further about independent and dependent variables, whereas previous research will be briefly explained in order to support the research and Hypothesis development which is concluded from literature review. This chapter also contains Research model and framework of thinking.

CHAPTER III **RESEARCH METHODOLOGY**

In this chapter it describes about Research design by using quantitative method. Population and sample, data collection method, variable definition, variable measurement and data analysis method show how the description of the analysis model use in this research.

CHAPTER IV   DATA ANALYSIS AND DISCUSSION

This chapter will explain the result of research with Descriptive statistic, Classical Assumption test, Multicollineaury test, Autocorrelation test, Heteroscedasticity test, Multiple Linear Regression and Hypothesis test.

CHAPTER V   CONCLUSION

In this chapter will discuss about conclusion, and Recommendation in the future.