

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The capital market plays an important role for the economy of a country. Referring to *Otoritas Jasa Keuangan (OJK)*, a capital market is a place where the loan providers meet with the loan takers with a mutual beneficial relationship. When the loan providers invest their money through investment instruments provided by the capital market, such as stocks and bonds, they get profit from the stocks and bonds return. Besides, once the loan providers and loan takers meet, it will directly run the economic wheels of a country. This is because the funds obtained from investors as the loan providers in the capital market are used for business development, additional production equipment or machines, additional workforce, business expansion, and debt payments by the loan takers.

Apart from the loan providers and the loan takers, it requires other parties to carry out transactions in the capital market. One of which is the Indonesia Stock Exchange (IDX). Quoted from Kompas (2021), Indonesia Stock Exchange (IDX) is the operator as well as the trading regulator on the capital market exchange, which is directly supervised by the *Otoritas Jasa Keuangan (OJK)*. Indonesia Stock Exchange (IDX) plays an important role for society to invest by buying the stocks or bonds issued by public companies. Nowadays, there are so many companies are starting to lead their company to go public. It is not just following the existing trend, but because there are so many benefits that

companies can get when they become go-public companies. The public companies will not only get additional funds for the business development, but also additional working capital for even greater business expansion.

Referring to the new Indonesia Stock Exchange – Industrial Classification, the companies listed on IDX are classified into 12 sectors: energy, basic materials, industrials, consumer non-cyclicals, consumer cyclicals, healthcare, financials, properties & real estate, technology, infrastructures, transportation & logistic, and listed investment product. The food and beverages companies are now classified into 3 sectors namely: basic materials, consumer cyclical, and consumer non-cyclical. Below is the table about stock prices developments of several food and beverages companies listed in Indonesia Stock Exchange from 2017 to 2019.

Table 1.1 The Stock Prices of Food and Beverages Companies for the Period of 2017-2019

Company Name (Code)	Year	Stock Prices (IDR)	Info
Akasha Wira International Tbk. (ADES)	2017	885	Decrease
Akasha Wira International Tbk. (ADES)	2018	920	Increase
Akasha Wira International Tbk. (ADES)	2019	1,045	Increase
Bumi Teknokultura Unggul Tbk.(BTEK)	2017	140	Decrease
Bumi Teknokultura Unggul Tbk.(BTEK)	2018	150	Increase
Bumi Teknokultura Unggul Tbk.(BTEK)	2019	50	Decrease
Mayora Indah Tbk. (MYOR)	2017	2,020	Increase
Mayora Indah Tbk. (MYOR)	2018	2,620	Increase
Mayora Indah Tbk. (MYOR)	2019	2,050	Decrease
Nippon Indosari Corpindo Tbk. (ROTI)	2017	1,275	Decrease
Nippon Indosari Corpindo Tbk. (ROTI)	2018	1,200	Decrease
Nippon Indosari Corpindo Tbk. (ROTI)	2019	1,300	Increase

Source: Prepared by the Writer (2021)

The stock prices seen in Table 1.1 above are obtained from the Dunia Investasi website (www.duniainvestasi.com). The table shows the fluctuating stock prices of food and beverages companies over the years 2017 to 2019. None of these companies had stable stock prices, which is bad because the stock prices affect the stock returns that will be received by investors. Even though there is

company such as Akasha Wira International Tbk. (ADES) which stock prices kept increasing in 2018 and 2019, there were also companies which stock prices were unstable in the period of 2018 to 2019. The stock prices of Nippon Indosari Corpindo Tbk. (ROTI) decreased in 2018 but then increased in 2019. Besides, the stock prices of Bumi Teknokultura Unggul Tbk. (BTEK) and Mayora Indah Tbk. (MYOR) increased in 2018 but then decreased in 2019. In fact, there was company like Bumi Teknokultura Unggul Tbk. (BTEK) which stock prices dropped to the minimum amount of stock price to be listed in the IDX in 2019.

The food and beverages industry plays a vital role in the economy of a country because food and beverages themselves are a primary human need. Based on the Table 1.1, it can be concluded that stock prices always fluctuate even in companies which products are to meet basic human needs. Therefore, the writer is interested in finding out the factors that influence the changes of stock prices on food and beverages companies listed in the Indonesia Stock Exchange.

The stock prices of a company will affect the investors in investing their money in the company or for society to buy the issued stocks. This is because the changes of stock prices periodically are influenced by the image of the company (Pratama et al., 2019). By improving the image of the company, the market stock price is potentially increasing too. The better the image of the company, the more the trust of society on the company so that automatically the company's products will be sold wider. In short, if the image of the company improves, the value of the company will also increase as it is assessed by the market stock prices multiplied by the number of stocks sold on the capital market.

Pratama et al. (2019) also stated the stock prices are influenced by the financial performance of a company. The better financial performance of the company results higher number of investors who want to own the shares of the company. This will then cause the stock prices to increase. The financial performance of a company can be measured using financial ratio analysis. The ratio is a comparison between two elements of financial statements that indicates the financial health of a company in a certain period.

This research will use two financial ratios which are earnings per share (EPS) and debt to equity ratio (DER). EPS evaluates how much money made by the company for each issued stock. High EPS indicates more money made by company for the stockholder. Besides, DER evaluates the company ability to cover all the outstanding debts using the shareholder's equity. The high DER indicates the higher risk of the company experiencing financial distress and the more likely the stock prices will drop (Hutajulu & Simbolon, 2020).

Taxes are the main contributor to the revenue of a country. In relation to taxes, if the tax expenses are high, the company will also have high debt, resulting in high DER of the company. In order to minimize the risk of the company experiencing financial distress and the possibility of the drop in company stock price due to high taxes and debt to equity ratio, there is an effort called tax avoidance. Tax avoidance reduces the tax burden by taking advantage of the weaknesses of a country's taxation provisions so that it is considered valid and does not violate the law (Sihotang & Hutabarat, 2020).

Many types of research have been conducted regarding the factors that influence stock prices. However, there is inconsistency in the results of the researches. Hence, further research is needed to clarify the inconsistency. This research is one of the further researches to contribute for that issue. Thus, the writer will do a research with the title of **“The Effect of Earnings Per Share, Debt to Equity Ratio and Tax Avoidance on the Stock Prices of Food and Beverages Companies Listed in Indonesia Stock Exchange”**.

1.2 Problem Limitation

The variables of this research are limited to three independent variables and one dependent variable. The independent variables of this research are earnings per share, debt to equity ratio and tax avoidance, while the dependent variable of this research is stock prices. Besides, the object of this research is the food and beverages companies that listed in Indonesia Stock Exchange from 2017 to 2019.

1.3 Problem Formulation

Based on the background of the research described above, the research problem formulations are as follows:

1. Does earnings per share have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange?
2. Does the debt to equity ratio have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange?

3. Does tax avoidance have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange?
4. Do earnings per share, debt to equity ratio and tax avoidance have significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange?

1.4 Objectives of the Research

The purpose of this research is to find out the solution from the problem formulation that have been mention above:

1. To determine whether the earnings per share have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange.
2. To determine whether the debt to equity ratio have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange.
3. To determine whether the tax avoidance have a significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange.
4. To determine whether the earnings per share, debt to equity ratio and tax avoidance have significant effect on stock prices of food and beverages companies listed in Indonesia Stock Exchange.

1.5 Benefit of the Research

The writer expects this research can provide not only theoretical benefits but also practical benefits, such as:

1.5.1 Theoretical Benefit

1. For Researcher

This research is expected to give the researchers a better understanding about the effect of the earnings per share, debt to equity ratio and tax avoidance on stock prices of companies. Therefore, this research can be a guide for further research on factors that affect stock prices in manufacturing companies, especially food and beverages companies.

2. The Academicians

This research is expected to give deeper information and contribute to the development of accounting and tax knowledge regarding the effect of the earnings per share, debt to equity ratio and tax avoidance on stock prices of companies. Additionally, the completion of this research is expected to be used as a theoretical review in further studies and be applied to the upcoming manufacturing company, especially a company that goes public or got listed in Indonesia Stock Exchange.

1.5.2 Practical Benefit

1. For Companies

This research is expected to be useful in providing information for the company that want to go public or got listed in Indonesia Stock Exchange. Giving them information about what factors that can affect the stock prices

so that it won't have a bad impact on the company and leading the company in making a better decision. This research is also expected to give knowledge to the company to take care of the information that they will publish, because it will affect the decision of investors.

2. For Stakeholders

This research is also expected to be useful in providing information to investors about what things need to be considered from the company they are investing in. There many aspects that an investor must pay attention to. The earnings per share, debt to equity ratio and tax avoidance can be related to the stock price of the company, which means it will affect the benefits of stakeholders.

