

CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia is a developing country with lots of natural resources and potential which has successfully attracted many foreign countries to invest and collaborate. Basically, every company would want to run their business for massive profit and for their company to develop rapidly. Investment activities are growing especially in Indonesia Stock Exchange. By listed on stock market, it will be a solution to get more fund as additional capital expenditure, pay off debt and etc.

Nowadays, young people also tend to invest in several investing apps for additional income, which economists finally came up with two techniques to help investors to be competent in making profit for their investments. The first technique is called fundamental analysis that created for short-term investment or also called trading. Also another technique is called fundamental analysis that is created for long-term investment. short-term investment (trade) technique is mainly helps traders to read and know every movement of the stock price.

Meanwhile long-term investment technique is mainly to help investor translate the value of one company by studying and reading their annual report well. Short-term and long-term investment are different in some way and will definitely carry different expectations as well. There is definitely no absolute future result of these two techniques that there might still be many factors to influence stock price.(CFI, n.d.)

Investor seek information and did the analysis before started to invest in the company to find out the market position, which is why stock prices are the basis for investors to invest, because stock prices reflect the value of the company. Therefore, trust of investors is very beneficial for the company, because it will surely effect more people to put their trust in company and resulting more people investing in one company. There are several factors that could affect stock prices in some way which are demand and supply, interest rate, dividends, external factors such as political climate, and for sure the investor as mentioned above. (Wallstreet, 2018).

Market capitalization is one of the methods or tools to facilitate investors in analyzing and accessing company's performance. Market capitalization is categorized into 3 types, which are:

1. Big Capitalization (big-cap) or usually known as Blue Chip, is stocks that the market capitalization worth up to US \$10 billion or equal Rp.145 trillion. This category is mostly aimed by investors as usually stocks in this category has a good fundamental to invest.
2. Middle Capitalization (middle-cap) or usually known as Baby Blue Chip is stocks which its market capitalization worth US \$2 Billion up to 10 Billion or equal Rp.29 trillion up to 145 trillion. This category has its attractiveness to investors as the stock price is usually relatively stable and growing.
3. Small Capitalization (small-cap) is stocks which its market capitalization worth US \$300 million until US \$2billion or equal Rp.4.35 trillion up to Rp.29 trillion. Usually its share price is relatively cheaper than the med-

cap and big-cap. Generally, this category will not fully be affected by financial party policy, but will be affected by its dynamic.

Company with small market capitalization does not mean that the company is unreliable. As a result, stock price with small capitalization is more fluctuating and less liquid compared to mid-cap and big-cap. (Simulasi Kredit, n.d.)

Below are 3 financial companies listed in IDX which are categorized in Big-Cap, Med-Cap, and Small-Cap :

Table 1.1 Market Capitalization (Big-cap) data

Big cap	Market Capitalization (IDR)
BBCA	819 trillion
BBRI	575 trillion
BMRI	284 trillion

Source: Prepared by Author from CNBC Indonesia (2021)

Table 1.2 Market Capitalization (Med-cap) data

Med-cap	Market Capitalization (IDR)
BRIS	119 trillion
BBNI	109,6 trillion
ASBI	97.5 trillion

Source : Prepared by Author from CNBC Indonesia (2021)

Table 1.3 Market Capitalization (Small-cap) data

Small-cap	Market Capitalization (IDR)
BNGA	27.3 Trillion
BNLI	64.2 Trillion
NOBU	3.5 Trillion

Source : Prepared by Author from CNBC Indonesia (2021)

Indonesia Stock Market Index (IHSG) is the average of stocks that are listed in Indonesia Stock Exchange (IDX). Changes of Indonesia Stock Market Index (IHSG) will affect the movement of stock price, especially with the bigger market capitalization. The movement of stock price and Market Index is unseparated. One of the most well-known sectors in stock exchange is financial sector. This sector has successfully reached 184,13%, after the sector of technology.

According to Luky Alfirman (2020), the financing ministry of Republic Indonesia, said that in the last several years, government has taken step to strengthen financial sector, especially for the financial supervision and the management in critical times. Supporting financial sector in Indonesia such as expanding the scope of market, will increase the opportunity access for both individual and companies. Also, to increase the efficiency of creating more transparent finance, and technology based which will surely prosper the investor to invest in more productive and efficient way. (Worldbank, 2020).

The financial sectors contain all listed companies that are engaged in Indonesia Stock Exchange's financial sector consists of banking, financing association, insurances, etc. There are 106 of total companies in financing sector listed in Indonesia Stock Exchange (IDX). One indicator used by investors is to access company's stock price through the company's financial performance such as financial ratios. There are several financial ratios named Liquidity Ratio, Profitability Ratio, Leverage Ratio, Efficiency Ratio, and Market Value Ratio.

Liquidity ratio that are often linked in stock price is Current Ratio (CR). Current ratio is one the effective measurement to measure the significance of the

company's ability to meet the operational needs such as working capital that is very important to maintain the performance of company which is surely affects stock price. The higher the current ratio shares, the stock price will be higher as well. (Dimas, 2018)

Profitability Ratio such as Return on Asset (ROA) are ratios that are often used by investors to measure one company's financial ability to keep in control, and very sensitive toward problems that will affect company's financial problem. (Binus, 2020)

Return on Equity (ROE) shows the advantage that could be used for the effectivity of the equity for the operation activity to expand one company which mean if the value of Return on Equity is high, then the performance of the company's profit after tax is good. (Edusaham, 2019)

Therefore, in this research, financial ratios are used as a research to measure the efficiency of the company operations for achieving goal which is profit maximization. The author will be focusing on factors that are thought to effect the stock price, such as Current Ratio, Return on Asset, and Return on Equity. The researcher is interested to research under the sector of financial which are banking, service and insurance companies that has an impact on stock price in Indonesia, which let readers to understand how to calculate more accurately before investing in Indonesia companies. Thus, author is interested in doing the research with the title **“The Influence of Current Ratio, Return on Asset and Return on Equity toward Stock Price in Financial Companies Listed in Indonesia Stock Exchange.”**

1.2 Problem Limitation

Problem limitation is as follows:

1. The research object is financial companies listed on Indonesia Stock Exchange.
2. Current Ratio (CR), Return on Asset (ROA) and Return on Equity (ROE) are the independent variables and Stock Price is the dependent variable.
3. The research period is 2017-2019.

1.3 Problem Formulation

Based on the background of study and problem limitation above, the problem identified by the researcher are:

1. Does Current Ratio have significant influence towards Stock Price in financial companies listed on Indonesia Stock Exchange?
2. Does Return on Asset has significant influence towards Stock Price in financial companies listed on Indonesia Stock Exchange?
3. Does Return on Equity has significant influence towards Stock Price in financial companies listed on Indonesia Stock Exchange?
4. Do Current Ratio, Return on Asset and Return on Equity simultaneously have significant influence toward Stock Price in financial companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

1. To determine the influence of Current Ratio on Stock Price in Financial companies listed on Indonesia Stock Exchange.
2. To determine the influence of Return on Asset on Stock Price in Financial companies listed of Indonesia Stock Exchange.
3. To determine the influence of Return on Equity in Financial companies listed on Indonesia Stock Exchange.
4. To determine the influence simultaneously of Current Ratio, Return on Asset and Return on Equity toward Stock Price in Financial companies that listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

Based on the problems and objective found during this research, it has two kinds of benefit which can be contributed to the users, they are:

1.5.1 Theoretical Benefit

There are several theoretical benefits of this research, which are:

1. As a guidance in accounting fields especially in financial accounting concerning in financial ratios and stock price.
2. For researcher who are doing some research related to this topic, for reference or as additional information to complete their study.
3. For investors to have deeper level of understanding towards some ratios that are affected stock price.

4. For testifying the previous conclusion which have been done by other researcher related to this topic.

