CHAPTER 1

INTRODUCTION

1.1. Background of the Study

The stock exchange is the marketplace where many types of financial instruments are traded. Many companies use stock exchanges as a tool to raise the company's capital. These companies have tried to raise their capital through stock by issuing their stocks so that they can grow quickly. The more investment that is put into the company, the easier it is for the company to grow. The determination of the stock prices is by the supply and the demand of the stocks where it is usually affected by the investors' willingness to either buy or sell. Usually, the investors will be more interested in buying the stocks that they think will grow in term of value in the future. The company that has the capability to grow is usually the company that have a good performance during its operation.

In Indonesia, many companies public including the mining companies try to grow by relying on the stocks by issuing their stocks to the. The existence of mining companies in Indonesia has been contributing to Indonesia's economic growth over the years. The contribution from the mining companies to Indonesia's economy include the improvement in the Gross Domestic Products (GDP), exports, employment, and Government revenue. One of the key aspects of the operation of the mining companies is the initial establishment cost that can be high. However, when the company have been able to operate, the operational cost of the company tend to be low.

The public will consider buying the stocks of the mining companies when they think that the company is performing well. In order to know which stock to buy, many investors will use the indicators. The usage of indicators will help the investors to see whether a company is performing well or not. Indicators can also be used by the investor to know the stability of a company so that the investors will be able to know that they are not risking their investments in a risky company. Some of the indicators that are used by the investors involve the Return on Equity (ROE) and Debt to Equity Ratio (DER).

One of the processes of calculating a company's profitability is to count the company's Return on Equity. Many investors will calculate the Return on Equity to see if the company will be able to generate profit from the equity of the company. The calculation of Return on Equity comes from the Net Income of a company that is divided by the shareholder's equity. A high Return on Equity of a company can indicate that the company is performing well. As a result, more investors will be interested in investing in the company.

According to Putri (2016), a good level of Return on Equity for the companies in the mining sector industry is between 0.1 and 0.2. A mining company can be considered to have a low Return on Equity level when the company has a Return on Equity level that is below 0.01. If a mining company has shown the Return on Equity that is at a low percentage, it may indicate that the company does not have the efficiency in utilizing the equity of the company. To sum up, the higher the Return on Equity of a company, the more profit that can be generated by the company and make the company has high profitability. This can give the company the opportunity to attract more investors as the investors will believe that the company will be able to utilize the investments are given to it.

Even though Return on Equity is the indicator that has been widely used by the investors as one of their considerations in buying stocks, there are still some drawbacks from the indicators such as the share drawbacks where some companies may repurchase the shares in the market to gain more control of the company. This will cause the number of shareholder equity to be reduced. As a result, the company will be able to show a good Return on Equity. There, investors will need to use several other reliable indicators in making their investing decisions.

According to Kamar (2017), one of the indicators that are often used by investors to check a company's performance is the Debt to Equity Ratio. The calculation of Debt to Equity Ratio involves the total liabilities of a company that is divided by the shareholder equity of the company. The usage of Debt to Equity Ratio can show the capital structure of a company. A company can be considered to be a highly leveraged company when the company if the company has a high Debt to Equity Ratio. The high debt-to-Equity Ratio can be caused by the activity of the company that borrows too much money to run its operation. Investors will not have the tendency to invest in companies that are highly leveraged as investing in a highly leveraged company can be considered a risky investment. As the company will eventually need to pay its debt and if the company do not possess the capability to pay the obligation, the company will experience bankruptcy.

When a company shows that it has a low Debt to Equity Ratio, the company can be considered as a stable company. The low Debt to Equity Ratio will tell the investors that the company is not highly leveraged and there is enough shareholder equity that can be used to run the company's operation. In conclusion, Debt to Equity Ratio showed a comparison between the total debt and the shareholder equity that is owned by the company. A low Debt-to-Equity Ratio will show that a company is stable and not highly leveraged. As a result, more investors will trust the company and put investment in the company. According to Putri (2016), for mining companies, a good level of Debt to Equity Ratio is around 0.40 – 0.69. When a mining company reach a level of Debt to Equity Ratio that is above 1, the company can be considered to have a high level of Debt to Equity Ratio.

There is another factor other than fundamental analysis that can influence the investing activities of the investors. The factor that also needs to be taken into consideration is the macroeconomic analysis. With macroeconomic analysis, investors will know the economic condition of the country where a company is operating. A good economic condition will give the companies in the country the opportunities to grow and perform better. On the other hand, a bad economic condition can result in companies that underperform. This can make the investors be unwilling to invest in mining companies in a bad economic condition as it could result in a bad investment.

One of the indicators that can be used to illustrate the economic condition of a country is the Inflation Rate in the country. The value of a country's currency will never reach a stable condition. Therefore, Inflation can happen in a country as the economy of the country is getting weaker. A high Inflation Rate can indicate that the purchasing power of the people in the country is decreased as the price of the goods and the services in that country will be higher.

A high Inflation Rate can cause the mining companies in Indonesia to suffer as the demand for goods in the country will decrease. The decrease in demand for goods can lead to a decrease in the sales of the mining companies. As a result, the profits of the company will also decrease. To sum up, Inflation in Indonesia can influence the performance of mining companies in Indonesia. A high Inflation rate can cause the performance of mining companies in Indonesia to deteriorate.

Table 1.1 Table of Phenomenon

Company	Year	Inflation Rate	Return on Equity	Debt to Equity Ratio	Stock Price
PT. ADARO ENERGY TBK	2016	3.02	0.089	0.722	1695
	2017	3.61	0.131	0.665	1850
	2018	3.13	0.110	0.641	1215
	2019	2.72	0.109	0.811	1560
	2020	1.68	0.040	0.614	1490
PT. HARUM ENERGY TBK	2016	3.02	0.050	0.163	2140
	2017	3.61	0.140	0.160	2070
	2018	3.13	0.103	0.204	1400
	2019	2.72	0.050	0.118	1320
	2020	1.68	0.132	0.096	3080

Source: Prepared by the writer (2021)

As it can be seen from the table of phenomena, PT. Adaro Energy Tbk experienced a downtrend in term of their Stock Price from the period 2016 to 2020. Even though the Inflation Rate in Indonesia had experienced a downtrend over the years, the Return on Equity of the company had been decreasing from 0.089 in 2016 to 0.050 in 2020. This shows that the company had become less profitable over the years. On the other hand, the Debt to Equity Ratio of the company remained to be below 0 which indicate the company is still mostly funded by equity instead of debt.

On the other hand, PT Harum Energy Tbk has also experienced a downtrend of Stock Price from the year 2016 to 2019. However, the company has successfully increased its stock price in 2020. It can be seen that the Return on Equity of the company had a downtrend from the year 2017 to 2019 and in the year 2020, the Return on Equity of the company raised back. In term of the company's Debt to Equity Ratio, PT. Harum Energy Tbk has successfully decreased it to the lowest level from the past 5 years in 2020.

There are also some inconsistencies from previous research regarding the impact of Inflation Rate towards the Stock Price. Based on the research by Mochammad Fahlevi (2019) shows that Inflation Rate does not have significant influences on stock price. On the other hand, based on the research by Imron Mawardi, Tika Widiastuti, Puji Sucia Sukmaningrum (2019), it is stated that Inflation Rate has a significant impact on Stock Prices.

Based on the previous research that is conducted by Herlina Lusiana (2020) shows that Return on Equity has significant impact on stock prices. If Return on Equity has increased, then it can be predicted that Stock Prices will increase. However, the research that is conducted by Mohamad Rianto Talamati and Sifrid S. Pangemanan (2015) shows that Return on Equity does not have partial significant effect on Stock Price.

Based on similar previous research by Hari Gursida (2017) shows that Debt to Equity Ratio has no effect on Stock Price as the result of the research concluded that the increase of Stock Price of a coal company cannot be achieved by fixing or increasing the value of Debt to Equity Ratio. On the other hand, in the research that is conducted by Dwi Fitrianingsih and Yogi Budiansyah (2019) shows that Debt to Equity Ratio (DER) has significant Influence towards Stock Price. It can be seen that the previous researches show inconsistent results regarding the effect of Inflation Rate, Return on Equity and Debt to Equity Ratio toward the Stock Price. Therefore, this research will be titled "**The Influence of Inflation Rate, Return on Equity and Debt to Equity Ratio toward Stock Price of Mining Companies Listed on Indonesia Stock Exchange**".

1.2. Problem Limitation

The problem limitation of this research involves:

1. The variables that are used in this research will consist of Return on Equity, Debt to Equity Ratio, Inflation Rate, and Stock Price.
2. The mining companies that are listed on Indonesia Stock Exchange from 2016 – 2020.

1.3. Problem Formulation

Some of the problems that are formulated in this study involves:

1. Does Inflation Rate have significant influence towards the Stock Price of mining companies listed on Indonesia Stock Exchange?
2. Does Return on Equity have significant influence towards the Stock Price of mining companies listed on Indonesia Stock Exchange?
3. Does have Debt to Equity Ratio significant influence towards the Stock Price of mining companies listed on Indonesia Stock Exchange?
4. Do Inflation Rate, Return on Equity, and Debt-to-Equity Ratio simultaneously have significant influence toward the Stock Price of mining companies listed on Indonesia Stock Exchange?

1.4. Objective of Research

The objectives that are involved in this study are:

1. To identify the influence of Inflation Rate towards the Stock Price of the mining companies listed on Indonesia Stock Exchange.
2. To identify the influence of Return on Equity towards the Stock Price of the mining companies listed on Indonesia Stock Exchange.
3. To identify the influence of Debt to Equity Ratio towards the Stock Price of the mining companies listed on Indonesia Stock Exchange.
4. To identify the influence Inflation Rate, Return on Equity, and Debt to Equity Ratio simultaneously toward the Stock Price of the mining companies listed on Indonesia Stock Exchange.

1.5. Benefit of Research

1.5.1. Theoretical Benefit

The benefits that are given from this research include the benefit in providing information regarding the influence of Inflation, Return on Equity, and Debt to Equity Ratio toward the Stock Price of mining companies listed on the Indonesia Stock Exchange. This research can also be used as a good reference for the researchers who are interested in performing the research that is related to the title of this research.

1.5.2. Practical Benefit

Some of the practical benefits that can be provided by this research can be used by some parties such as:

1. Investors

   Investors can use the information that is provided from this research to help them in making their investment decision. The investors that read this study will be able to fully understand the influence of Inflation, Return on Equity, and Debt to Equity Ratio toward the stock price of mining companies that are listed on the Indonesia Stock Exchange. With the knowledge regarding this topic, the investors will be able to make better analyses before investing in a company.

2. Companies

   For the businesses that are trying to grow and increase their stock price, the information in this research can help the people who operate the businesses to understand some of the factors that can cause the change in their company's stock price. As a result, they will be able to take better action at managing their businesses.