CHAPTER I
INTRODUCTION

1.1 Background of Study

The capital market is an effective means of accelerating the accumulation of funds for development financing through the mechanism of collecting funds from the public and channeling these funds to productive sectors. Formally, the capital market can be defined as a market for various long-term financial instruments (securities) that can be traded, whether issued by the government, public authorities, or private companies. With the development of the capital market, investment alternatives for investors are no longer limited to real assets and deposits in the banking system but can invest their funds in the capital market, either in the form of stocks, bonds, or other securities (financial assets). Investors hope that by buying shares, they can receive dividends every year and get capital gains when the shares are resold. But at the same time, they must also be prepared to take risks if the opposite happens. Investing in the capital market not only requires complex information but also faces a relatively large risk when compared to other forms of deposits in the banking system. Therefore, the expected return on stock investments is relatively higher than the interest rate on deposits in banks (Sartono, 1996).

Financial statements are one of the primary sources of information financial statements that are very important to several users in making economic decisions. The company's financial statements can be used by investors to predict stock securities. Stock securities are very influenced by the magnitude of the flow of returns to be obtained company in the future. So that investment decisions can be satisfactory for investors, it is necessary to have a securities analysis to perform fair pricing of securities (Daniati & Suhairi, 2006).

Investors in investing their funds need a variety of helpful information to predict investment returns in the capital market. There are two basic approaches to analyzing and selecting stocks, namely fundamental analysis and technical analysis. Fundamental analysis tries to estimate stock prices in the future by estimating the value of fundamental factors that affect stock prices in the future and applying the relationship between these variables to obtain an estimated stock price. The fundamental factors of the company that can explain the strengths and weaknesses of the company's financial performance include using financial ratios. Through financial ratios, we can make meaningful comparisons in two ways. First, we can compare a company's financial ratios from time to time to observe the current trend. Second, we can compare the financial ratios of a company with other companies that are still operating in the same industry for a certain period (Daniati & Suhairi, 2006).

Investors who will invest by buying shares in the capital market analyze the condition of the company first so that investments can provide benefits (returns). Investors still have difficulty in analyzing the company's condition to choose profitable investments. Earning a return is the main goal of the trading activities of investors in the capital market. Investors use various ways to obtain the expected return, either through their analysis of stock trading behavior or by utilizing the tools provided by capital market analysts, such as brokers and investment managers.

The pattern of stock trading behavior in the capital market can contribute to the pattern of stock price behavior in the capital market. The pattern of stock price behavior will determine the pattern of return received from the stock (Daniati & Suhairi, 2006).

In this case, investors must be able to prepare price estimates securities to be bought or sold from the financial statement information that exists so that the price can reflect the true intrinsic value. The main requirement that investors want to be willing to channel funds through the capital market is a feeling of security for investment and the level of return to be obtained from the investment. This feeling of security of them is obtained because investors obtain clear information, reasonable, and timely as a basis for decision investing. Return allows investors to compare actual or expected benefits provided by various investments at the desired rate of return. On the other hand, return also has a very significant role in determining the value of an investment (Sinaga, 2010).

The capital market has several distinctive characteristics when compared to another market. One of these characteristics is the uncertainty of the quality of the products offered. For example, a company that issued bonds sometime later failed to pay interest and principal debt. Alternatively, the company that was originally not considered turns out to have a high level of profit so that they can pay bond interest loan principal, even being able to provide high dividends for shareholders (Hastuti, 1998).

This situation of uncertainty encourages rational investors to always consider the risk and expected return of each security that is theoretically proportional. The greater the expected return, the higher the level of risk attached is also getting bigger (Kurniawan, 2000).

Involvement of investors in capital ownership by buying shares the company contains risk even though what shareholders expect is profit (return). For this reason, the company is obliged to provide rewards in the form of dividends to employee shareholders, known as stock returns (Hastuti, 1998).

Risk and return are a condition experienced by companies, institutions, and individuals in investment decisions that are both losses and gains in a period accounting. The relationship between risk and rate of return is linear or unidirectional. Linear conditions occur in a normal market, the higher the level of return, the higher the risk, the greater the assets we place in investment decisions (Hastuti, 1998).

The greater the risk arising from the investment. The size of the rate of return and risk lies not only in selling transactions buying in the capital market but also influenced by investment decisions in the type and selected line of business. One of the fields of business that requires accurate feasibility assessment and large investment in mining companies (Hastuti, 1998).

Mining companies are capital-intensive and high-risk industries. Mining has several characteristics, namely non-renewable resources, has a relatively higher risk, and its exploitation has an impact on the environment, both physical and social, which is relatively higher than business other commodities in general (Tandelilin, 2010).

There are several kinds of risks in the mining sector, namely (exploration) which are related to the uncertainty of reserve discovery (production), technological risk associated with cost uncertainty, market risk associated with price changes, and government policy risks associated with changes in domestic taxes and prices (Tandelilin, 2010).

These risks are related to the magnitude that affects business profits are production, prices, costs, and taxes. Effort those who have a higher risk demand a higher rate of return. Return is one of the factors that motivate investors to interact and is also a reward for the courage of investors to bear risk on their investment. (Tandelilin, 2010).

Based on the statements above, this research took the title "**ANALYSIS THE EFFECT OF TOTAL CASH FLOW, CURRENT RATIO, AND ACCOUNTING PROFIT TOWARD STOCK RETURN IN MINING COMPANY LISTED ON INDONESIA STOCK EXCHANGE FROM THE YEAR 2016-2020.**"

1.2 Problem Limitation

In this study, to make it easier to do research to develop knowledge of the object under study, then researchers provide research with the following assumptions:

1. The company that is the object of research is a company of mining companies listed on the Indonesia Stock Exchange from 2016-2020.
2. The profit used here is net profit after tax.

1.3 Problem Formulation

From the description above, the problems in this study are formulated as follows:

1. Does the total cash flow affect stock returns?
2. Does current assets affect stock returns?
3. Does accounting profit affect stock returns?
4. Do the effect of total cash flow, current ratio, and accounting profit on stock returns of mining companies listed on the Indonesia Stock Exchange in 2016-2020?

1.4 Objective of Research

There are several objectives in this research as follows:

1. To determine whether the effect of cash flow on stock returns.
2. To determine whether the effect of the current ratio on stock returns.
3. To determine whether the effect of accounting profit on stock returns.
4. This study aims to determine the effect of the total cash flow, current asset, and accounting profit toward stock returns of mining companies listed on the Indonesia Stock Exchange in 2016-2020.

1.5 Benefit of the Research

There are several benefits in conducting this research as follows:

1.5.1 Theoretical Benefit

Theoretical benefit in conducting this research is as follows:

Theoretically, the results of this study are expected to be useful as an input for science, especially in the field of financial accounting related to the capital market.

1.5.2 Practical Benefit

The practical benefit in conducting this research is as follows:

1. For Investors and Potential Investors

   This research is expected to be useful in assessing and analyzing the condition of the company so that it can make the right decisions and be profitable.

2. For Other Readers and Researchers

   Can provide additional insight and broader knowledge about the capital market. This research can also be used as a reference and study material in broader research.

3. For Writers

   Can add insight and knowledge related to the author in the field of capital markets and research methodologies. In addition, research. This is very useful, especially in developing theories that have been developed obtained in lectures with real conditions that exist in the market capital.

4. For Pelita Harapan University

This research is expected to be able to add references for the University of Pelita Harapan, especially for students majoring in Financial Accounting.