CHAPTER I

INTRODUCTION

1.1 Background of the Study

One of the places for companies to get funds to support their operations and maintain their survival in the increasingly fierce business competition is the capital market. In other words, the capital market is also one of the sources of economic progress because it can be an alternative for companies to obtain capital at a relatively cheap cost easily and also serve as a place for short or long-term investment. However, the place where the activities of security buying and selling occur is named the stock exchange.

Based on Fabozzi (2002, p.56) in Gita Inda Andini (2019) stated that there are two types of approaches that can be used to analyze the price of company shares. The first is the fundamental approach, while the second is the technical approach. Fundamental analysis is a way of valuing stock prices based on two basic models of securities, namely company profits and company asset value, while technical analysis generally assesses stock prices that focus on changes in the volume and market price of the shares.

Based on Husnan (2009, p.151) in Gita Inda Andini (2019) stated that stock price can be defined as the present value of the income that investors will receive in the future. The value of a company is reflected in its stock price. This can be seen from how assets are managed so that it generates profits. When a company achieves good performance, the company's value will also increase. As a result, investors will become interested in making an investment as they will earn a higher level of return in the form of dividends and capital gains. Apart from that, the stock price is a significant factor and must be considered by investors in investing because the stock price shows the performance of the issuer. Stock prices in the capital market consist of three categories: the highest price, the lowest price, and the closing price. The highest or lowest price is the highest or lowest price that occurs on one trading day. The closing price is the last price at the end of trading hours.

The consumer goods industry is there to offer daily-needs products that are hard to avoid by Indonesian citizens in terms of buying and consuming, such as cosmetics and household, food and beverages, housewares, pharmaceuticals, tobacco manufacturers and others. The population consists of all citizens of the complete geographic territory of Indonesia, who have stayed for six months or longer, and people who are supposed to live despite the fact that their period of life turned into much less than six months.

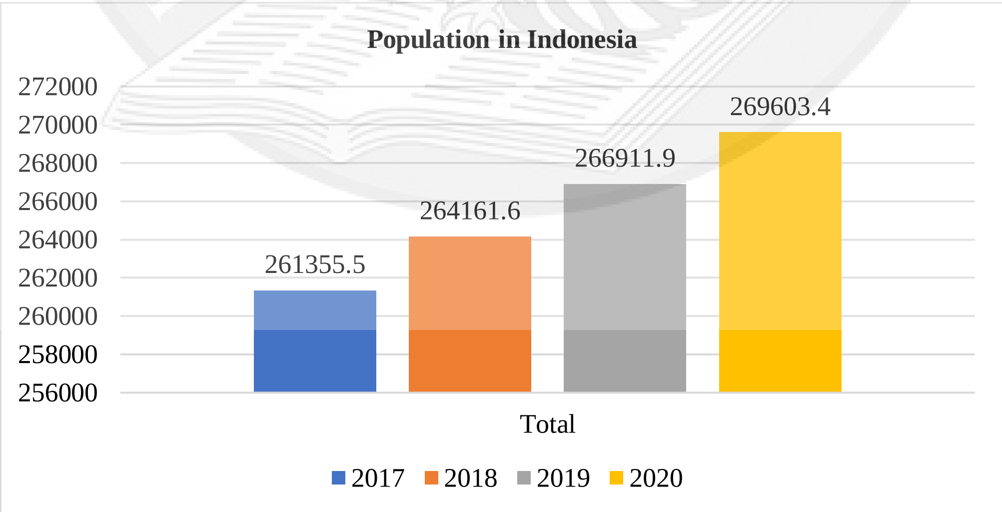

Figure 1.1 Population inIndonesia
Source: Prepared by the writer (2021)

Based on Setiawan and Ariadni (2011), having a large population provides benefits to the increasing number of consumers who use various consumer goods products. An example provided there stating that Indonesia will continue to experience an increase in food demand due to the increase in the population. For that reason. The figure above can be used as a comparison of the population level each year which will then be used to portray the consumption levels made throughout the years. It can be seen that every year, the population in Indonesia keeps increasing. If this is to be implemented to the theory mentioned above, the increasing population will result in an increasing level of consumption of daily-need products.

The consumer goods industry is said to be affected by the population. The higher the population is, the higher the consumption is made on the consumer goods' products. This is a result of the fact that the consumer goods industry produces daily necessities. This research will focus on variables that impact the stock price of the consumer goods industry, including current ratio, debt to asset ratio, as well as return on equity. The calculation of the stock price can be seen through the use of the company's current assets and current liabilities. These current assets and current liabilities are part of the current ratio. Based on Saman (2019) stated that the current ratio is a comparison of current assets and current liabilities that determines the number of assets owned by the company has to meet its current liabilities. This ratio is calculated to see how much debt from short-term creditors can be guaranteed by the company's current assets. The higher the ratio, the more secure the company's short-term debt payments to creditors. To assess the performance of a company, an analysis of financial statements can be carried out using financial ratios. In ratio analysis, there are several types of ratios that can be used to assess the performance of a company. The ratio which is utilized to examine stock price is the debt to asset ratio. This ratio is a debt ratio that measures the proportion between the total debt with the total assets. In other words, it measures the proportion of a company's assets that are financed by the use of debt or how much the company's debt can affect asset management. Companies with high debt to asset ratio values are said to be in a bad state,which will then affect the level of stock prices. If the ratio is found to be high, it portrays that debt funding is utilized more, and it will be more difficult for the company to secure future loans since the company has the probability of not being able to cover its debts by using its assets. Similarly, if the ratio is found to be low, debt funding is less to be utilized. Based on Ariana Widji Pangesty (2016), return on equity is one of the profitability statistics which can be used to measure a company's ability in providing returns to shareholders on their investment. Most investors use return on equity as one of the main tools for valuing a stock. The higher the return on equity, the company will have a positive impact on investors, resulting in an increase in the stock price. When the ratio is high, it means the company is making much money. High profits indicate the ability of the company to pay a higher level of dividends. As a result, this will be a benefit for investors, so investors will be more interested in investing their funds in stocks. This will be accompanied by an increase in stock prices and an increase in demand for shares.

From the background presented above, the writer decided to conduct the research with the title **"THE IMPACT OF CURRENT RATIO, DEBT TO ASSET RATIO, AND RETURN ON EQUITY TOWARD STOCK PRICE OF CONSUMER GOODS INDUSTRY LISTED IN INDONESIA STOCK EXCHANGE".**

1.2 Problem Limitation

This research will focus only on the consumer goods industry listed in Indonesia Stock Exchange, and the period of the study is limited from 2017-2020. The author also limits the variables which will be used in the research. For the independent variables, it is limited only to the current ratio, debt to asset ratio, as well as return on equity. These ratios will be used as a measurement of the stock price of the consumer goods industry listed on the Indonesia Stock Exchange.

1.3 Problem Formulation

In accordance to the background of study which is explained above, there are some problems formulated in the research, including:

1. Does the Current Ratio (CR) have an impact towards stock price of the consumer goods industry listed on the Indonesia Stock Exchange?
2. Does the Debt to Asset Ratio (DAR) have impact towards stock price of the consumer goods industry listed on the Indonesia Stock Exchange?
3. Does the Return on Equity (ROE) have impact towards stock price of the consumer goods industry listed on the Indonesia Stock Exchange?

4. Do the Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) simultaneously have impact towards stock price of the consumer goods industry listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

The objective which is expected to be found in this research are as follows:

1. To analyze whether the Current Ratio (CR) have an impact towards stock price of consumer goods industry listed on the Indonesia Stock Exchange.
2. To analyze whether the Debt to Asset Ratio (DAR) have impact towards stock price of consumer goods industry listed on the Indonesia Stock Exchange.
3. To analyze whether the Return on Equity (ROE) have impact towards stock price of consumer goods industry listed on the Indonesia Stock Exchange.
4. To analyze whether the Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) simultaneously have impact towards stock price of consumer goods industry listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the research is expected to generate benefits as follows:

1. This research paper is expected to act as a reference and give benefits for students to improve their knowledge about the stock price, especially when it comes to the impact of Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) towards the stock price of consumer goods.
2. This research paper is also expected to act as a reference and give benefits for the next researchers who will conduct research under the scoop of finding the impact of Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) towards the stock price of consumer goods.

1.5.2 Practical Benefit

The research is expected to generate some practical benefits, which can be seen as follows:

1. This research paper can act as an insight for the investors about the impact of the Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) towards the stock price of consumer goods.
2. This research paper can also give benefits for the management of the company, especially in improving the company's performance, especially on the impact of Current Ratio (CR), Debt to Asset Ratio (DAR), and Return on Equity (ROE) towards the stock price of consumer goods.