

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The share price is a reflection of the success in managing the company. If the price of a company always increases, investors and potential investors will judge that the company is successful in managing the company. The rise and fall of stock prices can occur quickly. This is due to the demand for buyers and seller offers that occur in the stock exchange. Investor confidence and potential investors are important for the company because this trust can increase investors' interest in investing in the company. With the high interest in investing, the investment demand will increase, so that it can increase the company's stock price. However, if the share price decreases, the level of investor confidence in the company will decrease.

Before investing, investors must first look at the company's performance. Investors will only invest in companies with good performance so that they can provide benefits for investors. In general, earnings information is the information that gets the most attention from various investors. To find out the condition and performance of the company, it can be done by analyzing the company's financial statements that require benchmarks. One of the most frequently used benchmarks is the profitability ratio. By relying on earnings information on financial reports, investors can find out the level of profitability ratios that the company obtains.

High profitability reflects the company's ability to earn earnings in the company's operations by utilizing its assets. This reflects the company's good performance so that the company is increasingly attractive for investors to invest in, which in turn will make the company's shares increase.

The liquidity ratio is a ratio that measures the level of a company's ability to meet short-term obligations that are due. In other words, the liquidity ratio reflects how much current assets are available to cover short-term liabilities that are due soon. The current ratio can also be said as a form of measuring the margin of safety of a company. This liquidity ratio is very important when investors want to know the level of liquidity of the company in terms of cash supply because this ratio is a measure of the level of security in meeting short-term debt.

The greater the liquidity a company has, the greater the company's ability to meet its operational needs, especially working capital, which is essential for maintaining company performance. This can give confidence to investors to own the company's shares and affect the price of their shares in the market.

Apart from the profitability and liquidity factors, another factor that can also affect the wrong share price is the capital structure. Investment financing using debt is part of the capital structure so that the risks of making investment decisions can be known. The financial position and share price can be affected by the merits of the capital structure. Large company debt is the impact of bad capital structure, so that it can put a burden on the company. Therefore, an investor usually owns a company with good capital structure management. Companies with a good capital structure can ultimately attract investors to invest in the company, so that in

the end it can affect the company's stock price in the market.

Here are the table phenomena that shows the data of profitability (ROA), Liquidity (CR), and Capital Structure (DER) in the consumer goods sub sector food and beverages companies listed in Indonesia Stock Exchange (IDX) during 2017 to 2020.

**Table 1.1 Table of Phenomena**

Company Code	Year	Profitability (Return on Asset )	Liquidity (Current Ratio )	Capital Structure (Debt Equity Ratio )	Stock Price
MYOR	2017	0.109344	2.386027	1.028168	2,020
	2018	0.100072	2.654598	1.059305	2,620
	2019	0.107123	3.428575	0.923034	2,050
	2020	0.106089	3.694254	0.754652	2,710
ROTI	2017	0.029688	2.258558	0.616809	1,275
	2018	0.028943	3.571241	0.506328	1,200
	2019	0.050516	1.693329	0.513965	1,300
	2020	0.037872	3.830308	0.379374	1,360

Source: Prepared by the writer (2021)

As it can be seen from the Table 1.1, shows that profitability is using return on assets. The liquidity of company is calculated using current ratio and the capital structure is calculated using the formula of debt to equity. PT Mayora Indah Tbk was presented have stable in profitability in the year 2017 to 2020, the liquidity (Current Ratio) of the company had been increasing from 2.386027 in 2017 to 3.694254 in 2020. While, the debt equity ratio is decreased to 0.754652 in 2020 and the stock price increased to 2,710 in 2020. In 2020, PT Nippon Indosari Corpindo Tbk profitability decreased to 0.037872, liquidity increased to 3.830308, capital structure decreased to 0.379374, while the stock price increased to 1,360.

Based on the phenomena described above, the researcher wants to analyze the effect of profitability, liquidity, and capital structure toward stock price of companies in IDX, thus write it in this research entitled **“The Effect of**

## **Profitability, Liquidity, and Capital Structure Toward Stock Price on Consumer Goods Industries in Indonesia Stock Exchange”.**

### **1.2 Problem Limitation**

In this research, problem limitation will be discussed so that the discussion is more focused and is in accordance with the research objectives. The object of this research is limited to consumer goods industries in Indonesia Stock Exchange for year 2017-2020. The independent variables are Profitability proxy with Return on Asset ( $X_1$ ), Liquidity proxy with Current Ratio ( $X_2$ ), Capital Structure proxy with Debt to Equity Ratio ( $X_3$ ), while the dependent variable is Stock Price ( $Y$ ).

### **1.3 Problem Formulation**

Based on the description of the background of study above, the problem formulations in this study are as follows:

1. Does profitability have a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange?
2. Does liquidity have a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange?
3. Does capital structure have a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange?
4. Does profitability, liquidity, and capital structure simultaneously have a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange?

## **1.4 Objective of the Research**

The research objectives are as follow:

1. To discover whether Profitability has a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange.
2. To discover whether Liquidity has a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange.
3. To discover whether Capital Structure has a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange.
4. To discover whether Profitability, Liquidity, and Capital Structure simultaneously have a significant influence toward stock price of consumer goods industries listed on Indonesia Stock Exchange.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

Theoretically, the results of this research are expected to be useful to strengthen the theory in accounting, especially about the influence of profitability, liquidity, and capital structure toward stock price. And also can be used as references for the future researchers who are interested in this related topic.

### 1.5.2 Practical Benefit

The practical benefits expected from this research are as follows:

1. For the reader

This research can an overview and understanding about business and marketing, especially about the influence of profitability, liquidity, and capital structure toward stock price.

2. For the future researchers

The results of this research can be used as a source of references who interested to conduct similar research in the future.

3. For the investors in stock market

The results of this research are expected to be used as a source of information for investors to choose the best companies to invest their assets.

