

CHAPTER I

INTRODUCTION

1.1 Background of The Study

Investment activities have taken place in Indonesia since the 19th century. Its growth makes it easier for Indonesian citizen to participate in investing into companies. Investment refers to an activity where one participates in injecting capital into company in order to support it in reaching their business goal and at the end claim the return. By receiving investments, the company has bigger opportunity in working to their goals. There are some ways of doing investment, but the most favored one is by buying and selling stocks, as it could provide higher benefits compared to other types of investments. Darmaji (2001) stated that stock is a sign of participation or the ownership of a person or entity within a corporation or limited liability company. The person who purchased a stock is partial owner of a company. Thus, if the investor purchases a stock, the investor become owner or shareholder of the company (Widoatmodjo 2004:39). Investment activities bring benefit for both investors and company. The company will gain benefit in form of funds to finance the activities of the company, such as to purchase more assets, to fund the research and development team, and other transactions. It helps the company to reduce the amount of debt, as the company has already gain funds without having to increase their account payable. As for the investors, the benefit will be in the form of dividend. Company distributes dividend to investor, in a certain period of

time in return of the investment received. Aside from dividend, investors could also sell their stocks if needed and gain profit from the sale.

According to Tandelilin (2010), capital market is a meeting platform, where groups who have excess funds connect with groups who need funds by trading securities. In Indonesia, the Indonesia Stock Exchange (IDX) provides a platform for investors to place their investment and companies to obtain funds from investors. IDX also facilitates detailed information about listed companies, including their financial statements. To assist investors to analyze the prospective investment, IDX classifies listed companies into several indexes. One of the indexes is IDX30. According to the information provided in www.idx.co.id, IDX30 measures the stock price performance of 30 companies with a large market capitalization, high rate of liquidity and good fundamentals. The companies included in IDX30 are being evaluated every three months for minor evaluation, and six months for major evaluation to make sure that the companies are still qualified as IDX30 companies. The lists of the companies in IDX30 might changes from time to time based on the evaluation.

However, before making an investment, investor should first analyze the company to make sure that their investments will bring benefit. Investors always seek to invest in a company that shows good performance and have good reputation to decrease the risk of investment. A company with a good performance attracts more investors, as the company is expected to grow along with the time, and at the same time generating more profit. A company with good performance and

reputation is expected to run in long-term and avoided from being in financial distress or bankruptcy.

As the investors, creditors, managers, and any other party rely on economics decisions, firms with higher and more stable financial statements have more earning persistence, hence investors are more interested in predicting the future profitability (Heirany et al., 2014). Investors do prediction of the future financial situation of the company based on the financial statements. Financial statements of the company play an important role in investing activities. It reflects the financial situation of the company, whether the company is managing well, or struggling in some way, and could be used as a tool for the investors to determine whether the investors should keep their stocks or sell them.

Previous research by Yuliza, A. (2018) concluded that both earning per share and firm size have a significant effect on stock price. Shower and Ajlouni (2018) concluded various results on the profitability ratios; ROE and NPM shows insignificant impact toward stock price, while ROA shows a significant impact toward stock price. Kembaren, T. et al. (2019) in their research concluded that dividend payout ratio, net interest margin, interest rate and non-performing loans significantly influence stock price. Chowdhury, T. et al. (2019) used dividend, price earnings ratio, net asset value, earnings per share, dividend payout ratio and the fluctuation of share price to analyze the stock price of financial companies in Bangladesh and the result shows that dividend, earnings per share, price earnings and net asset value positively affects the stock price of the commercial banks. Oppositely, dividend, price earnings ratio and net asset value positively affects the

non-bank financial institutions. Robiyanto (2018) concluded that profitability ratio has a significant positive effect to stock price, both liquidity ratio and solvency ratio has no significant positive effect to stock price, and firm size has a significant positive effect to stock price. Lastly, Alaagam, A. (2019) concluded that there is a positive impact toward stock price in short term but shows no impact in long term relationship.

Market price of stock is crucial for the company as it determine the magnitude of value of a company. In other words, it determines the wealth of a company in issuing stock (Tandelilin, 2010). Stock prices tend to show the achievement or the performance of the company. It reflects the management of the company (Christina, O and Robiyanto, 2018).

Sartono (2008) stated that stock price is established through the supply and demand system in the market. A rise in the demand of stock will cause the price to float, meanwhile an excess of supply will cause the price to fall. If the stock price of a company is steadily increasing, it also indicates that the company is in the correct route. As stated before, investors rely on their prediction on purchasing stock. A profitable company will have better prospect in the future, it attracts more investors as the investors want reassurance in investing their money into a company. The greater demand of the stock will drive up the stock price. On the other hand, the decline value of stock price indicates that the company is in struggle. Once the investors predicts that the company will not have a good prospect in the future, they will be more likely to sell their stocks to minimalize their risk of investing. Hence if the demand decrease, the stock price will as well decrease.

Dividend payout ratio is a measure of the portion of income paid to shareholders in form of dividend, which is calculated by dividing dividends per share with the earnings per share for common stock (Rahardjo, 2009:82). Dividend payout ratio shows the percentage of earnings paid to investors. The remaining percentage not paid to the investors will be reinvested to the company to support its operation. The satisfactory value of dividend payout ratio will be one of the considerations of investors when purchasing or selling the shares that they own (Basir and Fakhrudin, 2005:94). Investors who expect higher growth rate of the company will expect a lower rate of dividend payout ratio, as the remaining income could be used for the growth of the company. On the other hand are the investors who expect higher dividend (Dama, H. et al., 2018).

Gitman (2003) defined profitability as a relationship between revenues and cost as the impact of using firm's asset, both current and fixed, in a productive activity. The ratio of profitability is a ratio that assess the ability of a company to obtain profit (Kasmir, 2012). Generally, a high rate of profitability ratio is preferable as it indicates that the company is able to generate higher number of benefits, and at the same time shows that the company's financial performance is increasing. Profitability could be used as a prediction for the future performance of a company. A profitable company usually have a better prospect in the future, it will attract more interest of the investors, hence increasing their demand. Brigham (2012) stated that companies with good financial performance will cause their stock price to increase. According to Sutrisno (2009), indicators of company financial performance are profitability, liquidity and solvency ratios.

According to Hendriksen (2000), firm size is the value of the asset of the company, which could be seen on the left side of the balance sheet. Firm size is a scale of a company that could be seen from the values of companies and its equity or the results of asset value (Riyanto, 2010). The determinants of company size is based on the amount of total asset owned by the company. A company with a bigger firm size owns more asset. Sujoko (2007) stated that the larger firm size shows good growth of a company, which is seen from the large amount of the corporate asset. Assets includes the equipment used to support the core productivity of the company, the more asset the company owns, the more productive the company could be. A more productive company has a greater chance to grow and to earn more profits. Bigger companies usually generate more profit and have better reputation than smaller companies. Hence, bigger companies usually attract more investors because the investors expect to gain more profit in investing in bigger companies.

Below is the phenomena table that shows the firm size, profitability, dividend payout ratio and stock price on IDX30 companies:

Table 1. 1 Phenomena Table

Company	Year	Firm Size	Profitability (ROE)	Dividend Payout Ratio	Stock Prize (IDR)
Pakuwon Jati Tbk (PWON)	2017	30.7821	0.1464	0.1231	685
	2018	30.8513	0.1660	0.1302	620
	2019	30.8936	0.1502	0.1645	570
	2020	30.9020	0.0528	0.1511	510
Telekomunikasi Indonesia (Persero) Tbk (TLKM)	2017	32.9217	0.1974	1.0829	4,440
	2018	32.9598	0.1537	1.4829	3,750
	2019	33.0301	0.1591	1.3849	3,970
	2020	33.1401	0.1720	1.1074	3,310

Unilever Indonesia Tbk (UNVR)	2017	30.5705	1.3539	0.9476	11,175
	2018	30.6026	1.2020	0.7663	9,075
	2019	30.6587	1.3996	1.2433	8,400
	2020	30.6531	1.4508	1.0331	7,350
United Tractors Tbk (UNTR)	2017	32.0409	0.1557	0.3436	35,400
	2018	32.3870	0.1950	0.3490	27,350
	2019	32.3469	0.1851	0.4332	21,525
	2020	32.2341	0.0950	0.6394	26,600

Source: Prepared by the Writer (2022)

The phenomena table above shows the firm size, profitability, dividend payout ratio and stock price of the four companies, which are PT Pakuwon Jati Tbk (PWON), PT Telekomunikasi Indonesia (Persero) Tbk (TLKM), PT Unilever Indonesia (UNVR) and United Tractors Tbk (UNTR) from year 2017 to 2020. The data is calculated based on financial distress provided on IDX website.

According to the table, TLKM has the greatest firm size compared to the other three companies, but the value of the stock price is not the highest. The highest rate of profitability is UNVR on 2020, but the stock price is the lowest compared to the previous years. The highest rate of dividend payout ratio is TLKM, but the stock price is lower than the previous year and compared to the other companies.

Based on the result of the phenomena table above and various results from previous research, the author is interested in conducting research using dividend payout ratio, profitability and firm size as the independent variables, and stock price as the dependend variable. Hence, the title of this research will be **“THE IMPACT OF FIRM SIZE, PROFITABILITY AND DIVIDEND PAYOUT RATIO TOWARD STOCK PRICE ON IDX30 COMPANY LISTED ON THE INDONESIA STOCK EXCHANGE”**.

1.2 Problem Limitation

In this research, there are some limitations in conducting this research, which are:

1. This research will only include company that listed in IDX30 listed on the Indonesia Stock Exchange from year 2017 to 2020.
2. This research will only include companies with Indonesia Rupiah (IDR) as their currency in the financial statement.
3. This research will only include companies that consistently pay dividend from 2017-2020.
4. This research will only include companies that consistently generate profit from 2017-2020.

IDX30 company is chosen for this research because it only includes companies which has large market capitalization, high rate of liquidity and good fundamentals, and the companies are being evaluated every certain period of time, proving that the companies have good financial performance.

1.3 Problem Formulation

Referring to the background of problems written above, the problems identified are:

1. Is there any significant impact of Firm Size on the stock price of IDX30 companies listed on the Indonesia Stock Exchange?
2. Is there any significant impact of Profitability on the stock price of IDX30 companies listed on the Indonesia Stock Exchange?

3. Is there any significant impact of Dividend payout ratio on the stock price of IDX30 companies listed on the Indonesia Stock Exchange?
4. Are there any significant impact of Firm Size, Profitability and Dividend Payout Ratio silmutaneously on the stock price of IDX30 companies listed on the Indonesia Stock Exchange?

1.4 Objective of The Research

As is described in the problem formulation that has been mentioned above, this research is conducted with the aim of the following list:

1. To identify whether there is any significant impact of Firm Size to Stock Price on IDX30 companies listed on the Indonesia Stock Exchange.
2. To identify whether there is any significant impact of Profitability to Stock Price on IDX30 companies listed on the Indonesia Stock Exchange.
3. To identify whether there is any significant impact of Dividend Payout Ratio to Stock Price on IDX30 companies listed on the Indonesia Stock Exchange.
4. To identify whether there are any significant impact of Firm Size, Profitability and Dividend Payout Ratio silmutaneously to Stock Price on IDX30 companies listed on the Indonesia Stock Exchange.

1.5 Benefit of The Research

1.5.1 Theoretical Benefit

1. This research is expected to enlighten analysts in analysing companies.
2. This research is expected to be reference for financial studies.

1.5.2 Practical Benefit

1. For investors, this research is expected to bring insight in decision making for future investments.
2. For company managers, this research is expected to be a guidance in managing and decision making for the company.

