

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The development of a country's business sector is one sign of its success in the current era of globalization. In Indonesia, one of the engines of economic mobility is the business sector. And, in this period of globalization, competition in the industrial sector is continuously expanding. In a country like Indonesia, a large number of competitive industrial businesses compete for raw materials or natural resources to turn them into completed goods. A manufacturing firm is one of them. Where the consumer goods industry is a division of a manufacturing corporation that caters to household necessities. People's everyday demands for food, drinks, clothing, soap, and other necessities will always be satisfied because this is one of the requirements that must be addressed. As a result, this industry has the potential to expand and develop. And now, many manufacturing businesses are competing for international market share and developing competitive advantages for their products to entice customers to buy and investors to participate in the company through stock purchases. (Faskafri, 2020)

Investments are money or assets that are put into a business by a person or a company for the purpose of generating future returns over a predetermined period of time. People are choosing stock investments right

now since they are relatively easy and practical compared to other investing products. Investors use stock prices as a benchmark in investing because stock prices can reveal a company's successes. The stock price is the current price on the stock exchange. In the capital market, the stock price is set by market participants as well as the demand and supply of the shares in concern. The higher the stated stock price, the better the company's performance; the better the company's success, the greater investor interest in the company's shares. The financial statements issued by the company can be used to determine whether a company's performance is good or bad. To avoid unwanted losses, investors must be able to forecast future stock values. When calculating stock prices, investors can use financial ratios taken from a firm's financial statements to determine which company shares are good and profitable in the future when calculating stock prices. (Raspati & Welas, 2021)

Investing is done in order to profit from closing prices. When the market closes, the closing price is the stock's closing price. As a result, investors pay attention to companies that have increased their total equity. Every increase in the company's total assets must be accompanied by a rise in the company's total current assets, and companies with consistently increasing total current assets can have an impact on the company's share price. As a result, stakeholders evaluate a company before purchasing shares by assessing its size. (Ariesa et al., 2020)

Company size is a scale that measures a company's size based on its assets, sales, and market capitalization. The total assets, sales levels, and market capitalization of a firm increase as the company grows in size. The stock price of a corporation will be higher if it is big, and lower if it is small. (Siregar, 2017)

Investors should learn about a company's ability to fulfill its short-term financing needs before making an investment. The liquidity ratio, especially the current ratio, will be used in this study to determine this. The working capital ratio, often known as the current ratio, measures a company's liquidity, or its ability to fulfill short-term obligations with short-term assets. A high current ratio shows that the company's day-to-day operations are not affected by cash flow issues. This indicates that the company is in good working order in terms of its operational activities. (Ratnaningtyas, 2021)

Companies that find it easier to pay their short-term obligations will have their performance evaluated favorably by possible investors and investors. This will have an impact on the stock price; if investors think the company's performance is great, the stock price will increase as well. The current ratio can then be used by investors to compare liquidity estimates between companies. (Arifin & Agustami, 2016)

Investors use the debt-to-equity ratio when examining financial statements to look at the business's debt as well as the interest that the company must pay on the debt. In other words, this ratio reflects how much

the company is financed by debt. Debt is a financial activity that some businesses use to finance commercial activities or growth. As a result, the quantity of debt will be a source of concern for some investors, as the debt must be paid on a regular basis, and the company must also pay interest. If the company's debt and interest on the loan are too high, it will have an impact on its profitability and will continue to reduce the profits earned by the company. (Ratnaningtyas, 2021)

The debt-to-equity ratio compares total liabilities to total equity, or net capital. If the debt-to-equity ratio is higher, it indicates that debt is being used more for business capital. Companies require finance to operate. The assets might come from own funds, loans, or debt, and the debt-to-equity ratio is an indicator of this. When a company's debt to equity ratio is low, the market is more likely to respond positively since it indicates that the company can meet its long-term obligations. The danger of using debt-sourced funds will be lessened, and the stock price will rise as a result. However, if a company's debt to equity ratio is high, investors will be hesitant to acquire its stock; as a result, demand for shares will fall, and the stock price will fall as well. (Lestari, 2018)

The LQ45 business is one of the sectors listed on the Indonesia Stock Exchange. The LQ45 index, which is revised every six months, includes 45 stocks that are the most actively traded. At the beginning of each month, updates are made. February and August are the best months to visit. On February 24, 1997, the LQ45 Index was introduced. The fundamental

reasons, according to (Suhartono & Qudis, 2009) for the inclusion of shares in the LQ45 index are based on market liquidity and capitalization criteria for the last 12 months of its share average entry order, which is among 60 largest in the regular market. Over the last 12 months, an average value of 3 of its market capitalization is in the top 60 in the regular market and it has been listed on the Indonesia Stock Exchange for at least 3 months.

Based on the previous research results, (Ariesa et al., 2020) stated that the current ratio has no effect on stock prices and firm size has a positive and significant effect on stock prices. Meanwhile, the current ratio and debt to equity ratio, according to (Raspati & Welas, 2021) and (Ratnaningtyas, 2021), have a significant impact on stock prices. According to research findings (Siregar, 2017), debt to equity and current ratio have a positive but insignificant effect on stock prices, whereas business size has a positive and significant effect. In contrast to (Siregar, 2017), according to research results from (Lestari, 2018) the current ratio has a negative and insignificant effect on stock prices, and the debt-to-equity ratio has a negative but significant effect on stock prices. And the same thing was also stated by (Arifin & Agustami, 2016) that the current ratio and debt-to-equity ratio have a negative effect on stock prices, while firm size has a positive influence on stock prices.

The table below shows the condition of several LQ45 index companies.

Table 1.1 Phenomena Table

Company	Year	Debt to Equity Ratio	Current Ratio	Firm Size	Stock Price
PT. Astra International Tbk. (ASII)	2016	0.871650	1.239383	33.198812	8,275
	2017	0.891178	1.228632	33.320184	8,300
	2018	0.976973	1.147183	33.473728	8,225
	2019	0.884517	1.291071	33.494533	6,925
	2020	0.730346	1.543202	33.454667	6,025
PT. Gudang Garam Tbk. (GGRM)	2016	0.591125	1.937891	31.773388	63,900
	2017	0.582451	1.935536	31.832124	83,800
	2018	0.530959	2.058063	31.866536	83,625
	2019	0.544200	2.061906	31.995994	53,000
	2020	0.336092	2.912284	31.990181	41,000
PT. Indofood CBP Sukses Makmur Tbk. (ICBP)	2016	0.562198	2.406782	30.994930	8,575
	2017	0.555747	2.428285	31.084796	8,900
	2018	0.513495	1.951733	31.168122	10,450
	2019	0.451358	2.535695	31.287101	11,150
	2020	1.058671	2.257613	32.271446	9,575

Source: Prepared by the Writer (2022)

As previously indicated, the lower the debt-to-equity ratio, the more attractive the company will be to investors. Meanwhile, the higher the current ratio and the larger the firm size, the more interested investors will be, and the stock price will rise. However, as can be seen from table 1.1, these three factors do not always have an impact on stock prices. Even though it has the largest firm size compared to other companies, PT. Astra International Tbk has the lowest share price in the table above. Also, if we look at PT. Gudang Garam Tbk, which has the highest stock price in 2017, but the lowest debt to equity value in 2020, as well as a high current ratio value and a large firm size value, however, in 2020, PT. Gudang Garam Tbk has the lowest stock price. PT. Indofood CBP Sukses Makmur Tbk, on the other hand, had the highest share price in 2019 due to the lowest debt to

equity ratio and the highest current ratio value. Although the value of firm size is lower than in 2020, it is higher than in previous years.

Based on the phenomenon and inconsistency findings from each of the studies that have been revealed, the writer is interested in conducting research on the manufacturing company that is listed on the LQ45 Index stock price using the three variables mentioned above as independent variables. The goal is to see how the company's stock market activities will influence investors to invest in the company, as shown by the high and low volume of stock trading, the company's success, and the impact of the variable capital structure, working capital ratio, and firm size on the stock price. As a result, the title of this study will be **“THE EFFECT OF CAPITAL STRUCTURE, WORKING CAPITAL RATIO, AND FIRM SIZE TOWARDS STOCK PRICE IN MANUFACTURING COMPANIES LISTED ON THE LQ45 INDEX (2016-2020)”**.

## **1.2 Problem Limitation**

This research will only be limited to companies that are listed on the LQ45 index that are manufacturing companies. This is due to the fact that the companies listed on the LQ45 are the most liquid companies on the Indonesia Stock Exchange. It indicates that the company's financial performance is exceptional. The years will be limited to five years, from 2016 to 2020. The stock price will be examined as the dependent variable. Capital structure, working capital ratio, and firm size would be the independent variables.

### **1.3 Problem Formulation**

Referring to the description in the background study, the following problems can be defined as follows:

1. Is there any significant impact of Capital Structure towards Stock Price in Manufacturing Companies listed on the LQ45 Index?
2. Is there any significant impact of Working Capital Ratio towards Stock Price in Manufacturing Companies listed on the LQ45 Index?
3. Is there any significant impact of Firm Size towards Stock Price in Manufacturing Companies listed on the LQ45 Index?
4. Is there any significant impact of Capital Structure, Working Capital Ratio and Firm Size towards Stock Price simultaneously in Manufacturing Companies listed on the LQ45 Index?

### **1.4 Objectives of the Research**

As stated in the above-mentioned problem formulation, this research was conducted with the aim of the following list:

1. To analyse whether there is any significant impact of Capital Structure towards Stock Price in manufacturing companies listed on the LQ45 Index.
2. To analyse whether there is any significant impact of Working Capital Ratio towards Stock Price in manufacturing companies listed on the LQ45 Index.

3. To analyse whether there is any significant impact of Firm Size towards Stock Price in manufacturing companies listed on the LQ45 Index.
4. To analyse whether there is any significant impact of Capital Structure, Working Capital Ratio and Firm Size towards Stock Price in manufacturing companies listed on the LQ45 Index.

## **1.5 Benefit of the Research**

This study is being carried out in the hopes of benefiting a variety of parties, including companies, investors, the writer, and future academicians, in various ways.

### **1.5.1 Theoretical Benefit**

1. For the writer, this research is intended to aid potential writers in comprehending the concepts of Stock Price and the effect of capital structure, working capital ratio, and firm size on it.
2. For the future academicians, this research is intended to serve as inspiration for potential academicians in their research, complementing current research and expanding academic knowledge.

### **1.5.2 Practical Benefit**

1. For the company's management, this research is intended to provide insight into their decision-making, allowing them to enhance their stock price.
2. For the investor, this research is intended to provide knowledge or advice in deciding what investments they can make in the future based on other investors' typical market responses.

