

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Stock is one of the many types of investments that investors can invest into. Investors can earn money from stocks through dividends which are the distribution of some of the company's profits to shareholders . Another way that investors can earn money from stocks is through capital gain where investors sell the stock when the price becomes higher than the price that the investors originally paid for (Herold , 2017). The demand and supply of the stocks is one of the factors in determining the stock price. If there is high demand (many people want to buy the stock) but low supply (less people want to sell their stock) then the price will tend to increase and vice versa (Desjardins Online Brokerage ,n.d.).

Before buying stocks, investors will want to know whether the company's performance is good, if a company's performance is good, then more investors will be interested to buy the stock which can lead to an increase in demand for the stock. According to Green (2019), increased confidence of investors about a company's potential positive development can cause investors to probably want to buy the stock which can lead to an increase in stock prices. On the contrary, stock prices can decrease if investors sell the stock due to the loss of confidence.

Financial ratios can be used to assess a company's performance , the numbers from the company's financial statements are used in calculating the

financial ratios. So if investors see that this particular company is doing well by looking at the ratios, then it might increase demand for the stocks which can cause an increase in the price of the stock. Liquidity ratios, activity ratios (also called as efficiency ratios), and profitability ratios are some of the types of financial ratios that can be used in assessing a company's financial performance.

Net Profit Margin is one of the profitability ratios. Net Profit Margin measures the company's effectiveness in operating the business and shows the company's ability in turning its sales into profits (Carlson, 2020). Companies that have higher Net Profit Margin indicates that the company has an effective performance in managing profit and cost of sales linked to earned sales which make investors confident to invest into the company and also cause an increase in the stock price of the company (Harjayanti & Isdanti, 2021).

Total Asset Turnover Ratio is one of the activity ratios. Total Asset Turnover (also called as Asset Turnover Ratio) evaluates the company's overall ability to make revenues with a given level of assets. A higher Total Asset Turnover Ratio shows greater efficiency while a low Total Asset Turnover ratio can be a sign of inefficiency (Robinson et al., 2020) . A high Total Asset Turnover shows that the company has a good management of its resources and also shows that the company earns high sales from the assets invested which will make investors more confident to purchase the company's shares which contribute to the increase in the stock prices (Albertus, 2021).

Current Ratio is one of the liquidity ratios that measures the company's ability in using its current assets to pay its short-term liabilities (LESSAMBO, 2019). The higher the Current Ratio, the higher the company's ability to pay its short-term liabilities. Investors will be attracted to invest in the company when the Current Ratio is higher so it will have a good impact on the company's stock price. The stock price will rise in accordance to the amount of investors that invest into the company. When the Current Ratio is low, investors will not be attracted to invest in the company (Hasanah & Sulistiyo, 2021).

Indonesia is a country that is going through rapid economic growth, industrialization, and urbanization which causes an increase in demand for energy. The energy sector is an important sector because it is impossible to go after economic and social development without energy. When economic growth is encouraged by growing demand for domestically manufactured goods and services from the domestic market, electricity and fuel demand grows too because factories need energy (electricity and fuel) to increase production and transport more goods to the customers (Indonesia Investments, 2020) .

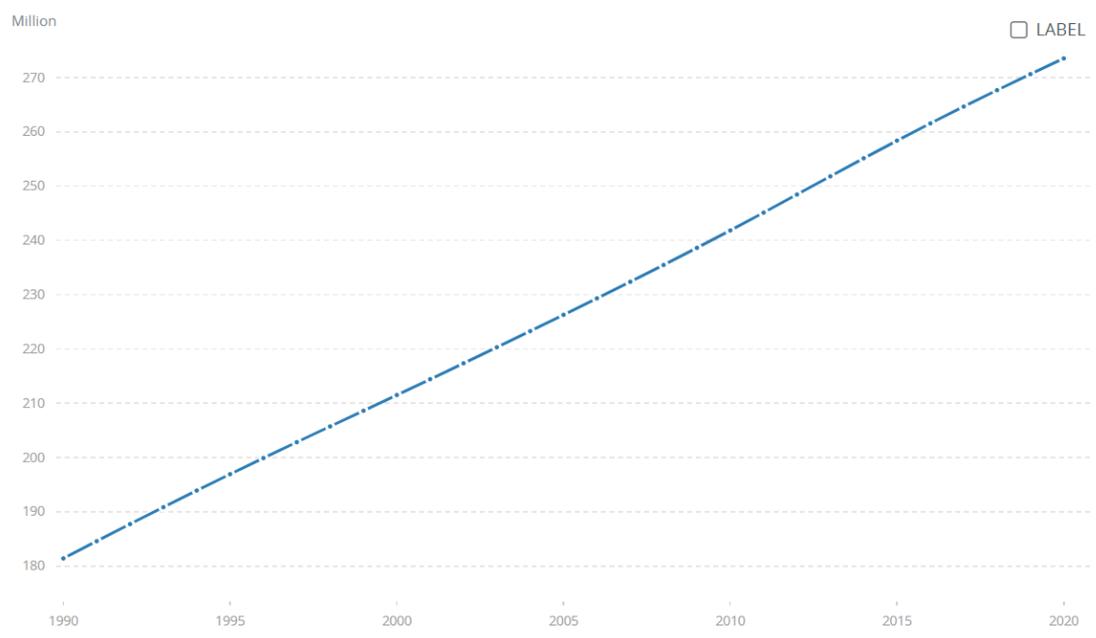


Figure 1.1 Indonesia's total population
Source : The World Bank (n.d.)

Interactive Chart Indonesia Total Energy Consumption

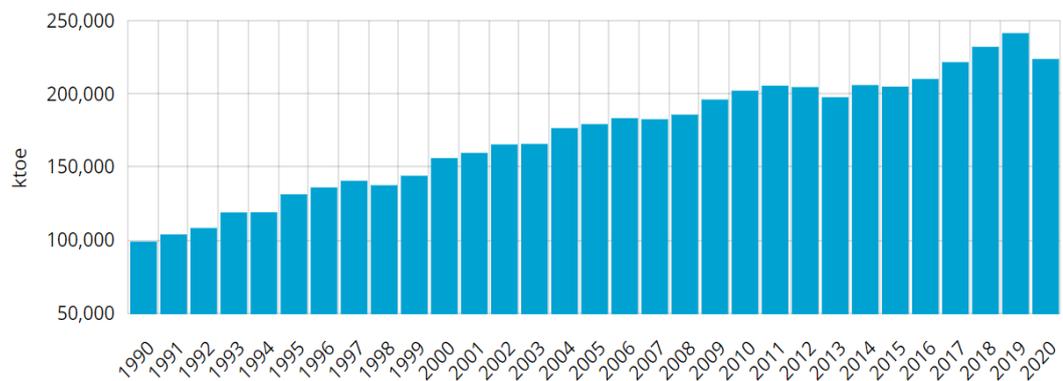


Figure 1.2 Indonesia total energy consumption
Source : Enerdata (n.d.)

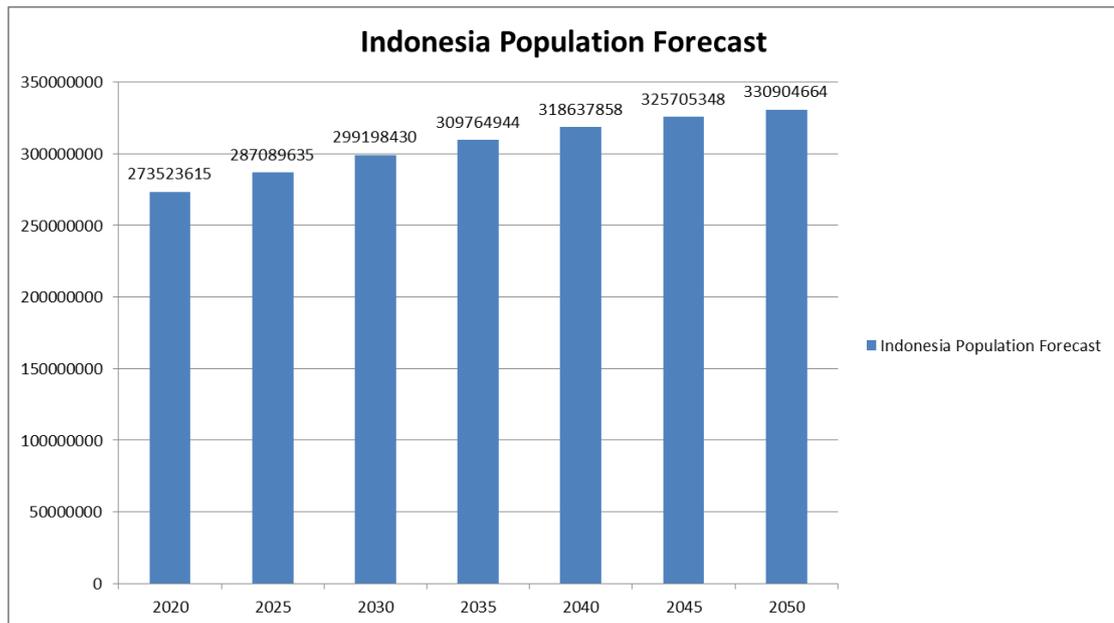


Figure 1.3 Indonesia Population Forecast

Source: Worldometer (n.d.)

Prepared by writer (2022)

Based on figure 1.1 and figure 1.2 , Indonesia's total population and total energy consumption had been increasing from 1990 to 2020. When the size of a population increases, energy consumption will increase as well (He, 2020). Based on figure 1.3, it is forecasted that the total population of Indonesia will continue to increase from 2020. Therefore, Indonesia's energy consumption will increase as well. Therefore, the energy sector is one of the sectors that will continue to thrive in the future which will bring a positive impact on the stock prices of the energy sector companies.

Table 1.1 Phenomena Table

Company	Year	NPM	TATO	CR	Stock price
PT AKR Corporindo Tbk (AKRA)	2014	0,035185669	1,518959796	1,086676904	4120
	2015	0,059902723	1,570859623	1,116017354	7175
	2016	0,059035419	1,158744598	0,855622328	6000
	2017	0,071336675	1,087065853	1,62378911	6350
	2018	0,067803765	1,180899681	1,397616048	4290
	2019	0,032395937	1,013713427	1,237028034	3950
	2020	0,054301265	0,948208797	1,576292636	3180
	2021	0,044151348	1,093518308	1,291810815	4110
PT Bukit Asam Tbk (PTBA)	2014	0,154398216	0,882928821	2,075136348	12500
	2015	0,14713483	0,819531417	1,543548269	4525
	2016	0,143994869	0,756798193	1,655829055	12500
	2017	0,233538339	0,885550697	2,528703306	2460
	2018	0,241938569	0,87564852	2,378457668	4300
	2019	0,185444963	0,834834876	2,489716283	2660
	2020	0,138984145	0,720179925	2,159960976	2810
	2021	0,274657717	0,810035117	2,427990545	2710

Source : Prepared by writer (2022)

As mentioned previously, the higher the Current Ratio, the company will be seen as more attractive to investors. As mentioned previously too, the higher the Net Profit Margin and the higher the Total Asset Turnover, the more confident the investors will be in investing into the company and the stock price will increase. According to the phenomena table above, the Net Profit Margin and the stock price of PT AKR Corporindo Tbk (AKRA) increased from the year 2014 to 2015, and also increased from the year 2016 to 2017. But from the year 2019 to

2020, the Net Profit Margin of AKRA increased while the stock price decreased. The Net Profit Margin and the stock price of PT Bukit Asam Tbk (PTBA) increased from the year 2017 to 2018. But from the year 2020 to 2021, the Net Profit Margin of PTBA increased while the stock price decreased.

The Total Asset Turnover and the stock price of AKRA increased from the year 2014 to 2015, and also increased from the year 2020 to 2021. But from the year 2017 to 2018, the Total Asset Turnover of AKRA increased while the stock price decreased, and from the year 2020 to 2021, the Total Asset Turnover of PTBA increased while the stock price decreased.

The Current Ratio and the stock price of AKRA increased from the year 2014 to 2015 , and also increased from the year 2016 to 2017. But from the year 2019 to 2020 , the Current Ratio of AKRA increased while the stock price decreased. The Current Ratio and the stock price of PTBA increased from the year 2015 to 2016. But from the year 2018 to 2019, the Current Ratio of PTBA increased while the stock price decreased.

According to a previous research conducted by Ramadhan & Nuraliati (2020) with the research title “ *The Effect of Net Profit Margin and Earning Per Share on Share Prices*” , Net Profit Margin has a significant effect on stock prices. But according to a previous research conducted by Bustani et al. (2021) with the research title “ *The Effect of Earning Per Share, Price to Book Value, Dividend Payout Ratio, and Net Profit Margin on the Stock Price in Indonesia*

Stock Exchange” , Net Profit Margin does not have a significant effect on the stock price.

According to a previous research conducted by Sari (2020) with the research title “ *PENGARUH QUICK RATIO TOTAL ASSET TURNOVER DAN RETURN ON INVESTMENT TERHADAP HARGA SAHAM*” , Total Asset Turnover has a significant and positive effect on stock prices. According to a previous research conducted by Setiyanti & Manda (2021) with the research title “ *The Effect of Current Ratio, Debt To Equity Ratio, And Return On Asset On Stock Price*” , Current Ratio has a significant effect on stock price. But according to a previous research conducted by Permana & Triyonowati (2020) with the research title “*PENGARUH KINERJA KEUANGAN TERHADAP HARGA SAHAM PADA PERUSAHAAN INDUSTRI KIMIA DI BEI*” , Current Ratio and Total Asset Turnover does not have significant effect to stock price.

Based on the phenomena table results and the inconsistencies of some of the previous research results, the writer has chosen to conduct a research with the title “ **The Effect of Net Profit Margin, Total Asset Turnover and Current Ratio Toward Stock Price of Energy Sector Companies Listed on the Indonesia Stock Exchange**” .

1.2 Problem limitation

The problems in this research are limited to :

1. The object of the research is energy sector companies listed on the Indonesia Stock Exchange (IDX).
2. The variables used in this research are Net Profit Margin, Total Asset Turnover, Current Ratio and stock price.
3. This research uses data from the period 2014-2021.

1.3 Problem formulation

The problems are formulated based on the background of study.

1. Does Net Profit Margin significantly affect stock price of energy sector companies listed on the Indonesia Stock Exchange for the period 2014-2021 ?
2. Does Total Asset Turnover significantly affect stock price of energy sector companies listed on the Indonesia Stock Exchange for the period 2014-2021 ?
3. Does Current Ratio significantly affect stock price of energy sector companies listed on the Indonesia Stock Exchange for the period 2014-2021 ?
4. Does Net Profit Margin, Total Asset Turnover and Current Ratio significantly affect stock price of energy sector companies listed on the Indonesia Stock Exchange for the period 2014-2021 simultaneously?

1.4 Objective of the research

1. To find out the effect of Net Profit Margin towards stock price of energy sector companies listed on the Indonesia Stock Exchange.
2. To find out the effect of Total Asset Turnover towards stock price of energy sector companies listed on the Indonesia Stock Exchange.
3. To find out the effect of Current Ratio towards stock price of energy sector companies listed on the Indonesia Stock Exchange.
4. To find out the simultaneous effect of Net Profit Margin, Total Asset Turnover and Current Ratio toward stock price of energy sector companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the research

The benefit of the research is divided into two types which are :

1.5.1 Theoretical benefit

The theoretical benefits of this research are :

1. Other researchers can use this research as their reference for their own research.
2. Investors will have a better understanding regarding the effect of financial ratios towards stock prices.

1.5.2 Practical benefit

The practical benefits of this research are :

1. Investors can make more careful decisions when investing in a company by using this study as a guidance.
2. Companies can use this research as additional information when making decisions.

