

Chapter I

Introduction

1.1 Research Background

The capital market is composed of the words "market" and "capital," as cited in (Martalena, & Malinda, 2011). therefore, the capital market can be defined as a convergence point for the demand and supply of capital, with a focus on fairness and long-term development. The capital market plays a crucial role in supporting the Indonesian economy, as it serves as a bridge for funds to flow from capital owners (investors) to companies, thereby improving the company's capital structure. This bridge facilitates the promotion of more efficient capital allocation. Quoted from (Ahmed & Giafri, 2015) The investment has a crucial role in fostering economic growth for both developed nations as well as emerging ones. The progress of an efficient capital market will enhance the trust of both domestic and international investors, encouraging their participation in the capital market. The capital market plays a crucial role in encouraging the formation of capital and sustaining economic growth in a country (Indonesia Investment Coordinating Board, 2018). The country's growth in economy may also be gauged by examining the current actions in the capital market.

With over 17,000 islands, Indonesia boasts the world's largest archipelago and holds the position as the fourth most populous country globally. Indonesia is considered one of the developing countries with abundant mineral resources. The country possesses numerous mineral resources, including oil, natural gas, and hard materials such as stone, coal, and metals. Ady, Sri Utami (2021) As the world's fourth-largest producer of coal, this abundant resource country also claims the title of the largest natural gas supplier in

Southeast Asia. As an important export commodity of Indonesia, coal is mainly exported to countries such as China, India and South Korea. In addition, Indonesia is also one of the world's largest nickel-producing countries. Nickel plays an important role in global stainless steel production. Due to its rich resources, it has attracted a lot of foreign investment. Therefore, Indonesia's nickel resources are crucial in the international market. In summary, energy plays a vital role in Indonesia's economic development; It contributes as both a provider of fuel and industrial raw materials, as well as an important component of the country's economic expansion. The energy sector, including the mining industry and mineral resources sector, ranks as the second-largest revenue-generating sector, following taxation. (Hari Gursida, 2017).

One of writings states that in order to win business competition, business people must manage and operate their companies more effectively and efficiently. In the face of global market competition, they must improve their performance and must continue to drive it. Ratio analysis is a tool used to analyze a company's financial statements, providing key indicators and information to measure the company's profitability and assess its financial performance and health. It can help analysts, investors, and management to understand the company's operations as a whole to understand the company's strengths and weaknesses. Ratio analysis also provides metrics that can measure a company's profitability, liquidity, income, assets and liabilities utilization levels. Ratio analysis can be used to understand a company's financial strengths and weaknesses and to assess its profitability and overall performance.

Based on Sari, E. L., & Wijayanto, A. (2015), Investment interest can be impacted by fluctuations in stock prices, given that the stock price is indicative of the company's value. An increase in stock prices may enhance investor interest. The increase in

investor count might motivate mining corporations to participate in exploratory projects. Stock prices are a critical factor that investors, manufacturers, and other stakeholders need to pay attention to. (Hashmi, Chang, & Bhutto, 2021). Generally speaking, a business is started to make a profit and grow it. Investors need different types of information in order to be able to evaluate company performance for investment decisions, investing in stocks wants to earn as much as possible. Therefore, stock prices in the stock market can serve as an indicator of company value. An excellent investor has to have the ability to analyze value of stocks, since they demonstrate enormous volatility and are impacted by a range of micro and macroeconomic factors. Setiawan, A., & Sumantri, M. B. A. (2020). Financial information holds the utmost importance and serves as the fundamental factor among various influences on stock prices. According to Asmirantho (2013), Financial performance is the achievement that a company attains during a specific period, reflecting the extent to which the company adheres accurately and appropriately to financial execution rules. This observation is evident through the analysis of financial reports, including the balance sheet, income statement, statement of equity changes, and cash flow statement. The financial information of listed companies is best utilized by investors. In mature capital markets, investors tend to allocate their funds to companies with sound operational performance and outstanding financial results. As a result, these companies receive the capital they need to expand. On the other hand, poorly performing companies are often overlooked and may ultimately be compelled to exit the stock market. Investors utilize the information released by financial listed companies to assess their share price companies, and then select companies with strong operational performance and promising growth prospects. Hence, it is important to analyze the

financial metrics of publicly traded firms in order to comprehend their influence on stock prices and ascertain the essential financial indicators that affect stock prices.

1.2 Problem Identification

In previous studies, there has been extensive research on the relationship between financial performance and stock prices. But the relationship between financial performance and stock price is not constant. Harahap I.M.'s (2018) study found a significant negative impact of Return on Assets (ROA) on the stock prices of oil and gas extraction companies, while Prasetyo D., Leonardo S., & Herosian M.Y. (2021) argued for a significant positive impact of ROA on the stock prices in the mining industry. Somantri.O. and K & Asmirantho.E's (2017) research indicated that Debt-to-Equity Ratio (DER) had no impact on the stock prices of the pharmaceutical sub-sector on the Indonesia Stock Exchange and showed a positive trend. Conversely, Setiawan.A. & Sumantri M.B.A. (2020) suggested that DER had no significant positive impact on stock prices. Additionally, Sitti's (2016) study consistently demonstrated a significant positive correlation between company size and stock prices. Hidayat M.S.'s (2019) research concluded that Current Ratio (CR) had no significant negative impact on stock prices, while Somantri.O. and K & Asmirantho.E's (2017) study suggested that CR had no impact on stock prices, and even exhibited a positive effect.

On the other hand, Indonesia possesses abundant mineral resources, making it a primary attraction for mining companies to conduct operations in the country. Considering the direct impact of fluctuations in coal and metal/mineral extraction prices on business operations, such volatility may be reflected in financial performance. Given that stock prices are a factor that investors must closely monitor, coupled with the substantial

long-term risks associated with stocks, an in-depth study of the relationship between the financial performance of mining companies and stock prices is crucial for investors, managers, and decision-makers to gain a comprehensive understanding of the operational status of mining companies. Such research has the potential to enhance the accuracy and effectiveness of investment decision-making.

Based on the background, the problem in this research is whether financial performance has an effect on stock price on coal and metal & mineral mining in Indonesia. The financial performance was explained by different type indicators liquidity ratio (CR), profitability ratio (ROA), solvency ratio (DER), and company size. This study selected data from 2017 to 2022 from Indonesia stock exchange from 18 coal mining and metal & mineral mining company.

1.3 Statement of Problem

1. Does Return on Assets (ROA) have a significant impact on stock prices?
2. Does Debt to Equity Ratio (DER) have a significant impact on stock prices?
3. Does Company Size (CS) have a significant impact on stock prices?
4. Does Current Ratio (CR) have a significant impact on stock prices?

1.4 Research Objectives

1. To analyze the the impact of Return on Assets (ROA) on stock prices.
2. To analyze the impact of Debt to Equity (DER) on Stock price.
3. To analyze the impact of Company size (CS) on Stock price.

4. To analyze the impact of Current ratio(CR) on Stock price.

1.5 Significance of Research

1、 Mining managers:This research intends to help firm management in acquiring a more thorough knowledge of how their financial metrics effect stock prices. Based on the research findings, management can adjust the company's strategies and operational decisions to enhance its financial health, thereby achieving long-term financial and stock price objectives.

2、 Investors:Investors evaluate the true value of listed companies by analyzing the publicly disclosed financial information and use it as the foundation for investment decisions. A thorough understanding of the relationship between financial ratios and stock prices helps investors make wiser investment decisions, reduce risks, and more effectively seize market opportunities.

3、 Other researchers:This study focuses on examining the influence of financial criteria on the stock prices of the mining industry throughout the period from 2017 to 2022 on the Indonesia Stock Exchange (IDX). The objective is to give helpful insights and references for other scholars.

4、 University: This study can serve as literature and study in the field of financial.

1.6 Scope and Limitation of the Study

1.6.1 Scope

There are five main variables involved in this study, included Return on asset(ROA)、 Debt to Equity(DER)、 Company size(CS) and Current ratio(CR) as an indication of

financial performance on the stock price of Indonesian coal mining and metal & mineral mining companies. The researcher hopes to find out whether financial ratios have an impact on the stock prices on coal mining and metal & mineral mining sectors companies in Indonesia through 2017-2022 through this study.

1.6.2 Limitation

- 1、 The researchers only used data from annual reports for a six-year period from 2017-2022, so the results only valid for that period.
- 2、 This study only examines the relationships among five variables. to discuss the impact of financial ratios on stock prices, as measured by Return on asset (ROA), Debt to Equity (DER), company size (CS) and Current ratio (CR) and stock price.

1.7 Definition of Terms

a) Stock price

Stock prices are decided by market participants based on the supply and demand circumstances of relevant stocks in the capital market. These prices represent the current value of stocks listed or traded on stock exchanges. (Sukest F. et al., 2021). The stock price refers to the closing price at the end of each year during the period from 2017 to 2022.

b) Return on asset (ROA)

The Return on Assets (ROA) is a metric employed to assess a company's capability to generate net income relative to a specific level of assets (Hanafi, 2013). The performance of a company's ROA is typically positively correlated with its profitability.

Generally speaking, the higher the ROA, the stronger the company's profit-making capability.

c) Debt to Equity(DER)

The Debt-to-Equity Ratio (DER), commonly referred to as the leverage ratio, gauges a company's capacity to meet its debt obligations by evaluating the relationship between total debt and total equity. With the increase in DER, the liquidity risk faced by the company also rises.

d) Company size(CS)

The scale of a company is assessed by taking the natural logarithm of its total assets. In the calculation process, the substantive value of the company's assets is taken into account, the total asset value is measured in millions of rupiah.

e) Current ratio(CR)

The current ratio, which falls under the category of liquidity ratios, evaluates how well a company can meet its short-term debt obligations with its current assets. (Hertina D, et al., 2021)

1.8 Research Structure

The research structure of this study is:

Chapter 1 focuses on the research background, research questions and research objectives of this paper; Chapter 2 focuses on organizing relevant theories and concepts, summarizing existing literature, and determining the variables for this study; Chapter 3 focuses on the research methodology used in this study and how to collect data and

analyze the data; Chapter 4 focuses on the actual operation of the data collected according to the methodology mentioned in Chapter 3 to get the results of the study. Chapter 5 is the summary and recommendations of this study.

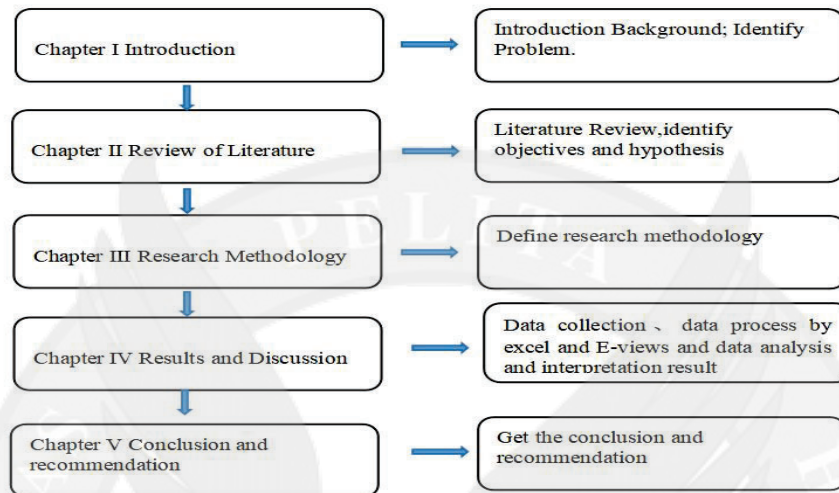


Figure 1.1 Research Framework adjusted by researcher, 2023