CHAPTER I
INTRODUCTION

1.1. BACKGROUND OF STUDY

Balakrishnan (2016) stated that, of all the modern service institutions, stock exchange plays a crucial agents and facilitators of entrepreneurial progress. After the industrial resolution, as the size of the business enterprises grew, it was no longer possible for individual person or even partnerships to raise such huge amount for undertaking these ventures.

The stock market appears because of supply and demand, just like any market. When a stock is sold, a buyer and a seller exchange money for share ownership. The price when stock is bought will become new market price, and when a second time stock is sold, this price becomes the newest market price, etc. The more demand for a stock, the higher it drives the price and vice versa. The more supply of a stock, the lower it drives the price. So while in theory, a stock's initial public offering (IPO) is at a price equal to the value of its expected future dividend payments, the stock's price fluctuates based on supply and demand.

Simply put, stock prices can be predicted by analyzing available financial data. To analyze the financial condition of a company, investors can take advantage of their financial statements which are a description of the company's financial condition at a certain time or period. The company's financial statements that are often analyzed are balance sheets and income statements. The balance sheet shows all assets owned by a company at a period of time and the source of capital to buy the asset. Periodically companies listed on the stock exchange must publish their financial statements.

The Impact of announced Earnings per Share (EPS) on stock prices is something that has been at the core of interest to investors and shareholders. And this owes to the fact that Earnings per share (EPS) is a crucial instrument that evaluates a company's performance in the long run (Tache, 2016).

Earnings per share is a measure portion size of share from stock earned or lost during a period of time. Earnings per share (EPS) is usually measured on a quarterly and annual basis. When Earnings per share (EPS) increases, the stock's price might or might not rise. Often, Earnings per share (EPS) is compared to consensus Earnings per share (EPS) forecasts. Investment research websites consider many analysts' forecasts to reach consensus Earnings per share (EPS). In general, if a firm's actual Earnings per share (EPS) does not rise to the level predicted by consensus, the share price falls. Conversely, if actual Earnings per share (EPS) beats the consensus, the price rises. However, even forecasts are achieved, the price can change if the overall market declines happened. The price of a share will not automatically rise or fall based on Earnings per share (EPS) gains. Buybacks on stocks will occur when a company repurchases its own shares. Earnings per share (EPS) then rises because net income is being divided by fewer numbers of shares. But market reaction to buybacks is often mixed. Investors might worry that management is manipulating Earnings per share (EPS) to hit compensation incentives rather than investing the cash in productive assets that could drive long-term growth in share price.

Dividend per Share (DPS) is a proportion of profits distributed to all shareholders proportionally in accordance with the number of shares owned, the amount of Dividend per Share distributed, investors will be more interested in shares issued by the company so that the company will increase the shares prices issued.

Raharjo (2016, p.120) mentioned that, “Dividend per Share (DPS)is dividends that will be distributed to each shareholder. Dividend value is taken from the percentage of the company’s net profit.”

Dividend change is the announcement of a dividend increase which is a sign that management has increased the company’s future income. Therefore, announcing the increase in dividends is good news and in turn will increase their expectations regarding company earnings. This is an implication that the announcement of a dividend increase will cause an increase in the company’s stock price.

Stock price of the share depends upon many factors, such as earning per share, dividend per share, payout ratio, size of the firm and dividend yield, management, diversification, etc. The investors are always careful when purchasing stock in the company, as the stock price is known to fluctuate greatly in this specific market (Velankar, et.al, 2017).

Nzioka, et.al (2015) make research that the result showed that earnings per share and dividends per share seemed to have a slightly larger significance in determination of stock prices.

Earnings per share (EPS) is generally considered the most important factor in determining share price. The investors should consider Earnings per share (EPS) in order to invest in the security market. It will decide whether per share can influence the stock price or not. The Dividend per Share (DPS) has influenced the stock price because the public listed company which has not paid the dividend will be followed by decreasing of its stock price (Laurens, 2018).

Earnings per share (EPS) and dividends per share (DPS) are both reflects profitability of a company. Earnings per share is a measurement that showed the amount of profit on every share owned by company. Dividends per share, on the other hand, calculates the portion of a company's earnings that is paid out to shareholders (Nickolas, 2019).

The phenomenon of stock price can be seen from Earning per Share (EPS) and Dividend per Share (DPS) in several consumer goods companies listed on the Indonesia Stock Exchange in the period of 2013-2017 which are presented in the following table 1.1:

Table 1.1
Phenomenon on Stock Price, Earning per Share (EPS) and Dividend per Share (DPS) in Several Consumer Goods Companies in the period of 2013-2017

Issuer	Year	Earning	Total Dividend	Stock Price
PT.Kalbe Farma (Persero) Tbk	2013	1.970.452.000.000	891.000.000.000	1.250
	2014	2.129.215.000.000	797.000.000.000	1.830
	2015	2.057.694.000.000	891.000.000.000	1.320
	2016	2.350.885.000.000	891.000.000.000	1.515
	2017	2.453.251.000.000	1.031.000.000.000	1.690
PT.Indofood CBP Sukses Makmur Tbk	2013	2.235.000.000.000	1.080.000.000.000	10.200
	2014	2.531.700.000.000	1.110.000.000.000	13.100
	2015	2.923.100.000.000	1.290.000.000.000	13.475
	2016	3.631.300.000.000	1.490.000.000.000	8.575
	2017	3.543.200.000.000	1.800.000.000.000	8.900
PT.Indofood Sukses Makmur Tbk	2013	3.416.600.000.000	1.620.000.000.000	6.600
	2014	5.146.300.000.000	1.250.000.000.000	6.750
	2015	3.709.500.000.000	1.930.000.000.000	5.175
	2016	5.266.900.000.000	1.480.000.000.000	7.925
	2017	5.145.100.000.000	2.060.000.000.000	7.625

Source: www.idx.co.id

Based on the above table, the earning of PT.Kalbe Farma (Persero) Tbk is increasing from 2013 to 2014, and decreasing in 2015. After that the earning is increasing from 2016 to 2017. The total dividend is also increasing from 2013 to 2015, and being constant in 2016, and increasing again on 2017. The stock price does not always increase although earning and total dividend are increase. The stock price decreases when the earning is decreasing in the year of 2015, although the total dividend is increasing.

The earning of PT.Indofood CBP Sukses Makmur Tbk is increasing from 2013 to 2017, while the total dividend is also increasing by those years. The stock price is increasing from 2013 to 2015, but stock price is decreasing by the year of 2016, although the earning and total dividend are increasing.

The earning of PT.Indofood Sukses Makmur Tbk is increasing from 2013 to 2017, while the total dividend is decreasing on 2014, increase in 2015, decrease again in 2016 and increase in 2017. The stock price is increasing from 2013 to 2014, but stock price is decreasing by the year of 2015, although the total dividend is increasing.

The writer chooses this three companies as sample to describe the hypothesis in this research, Earnings per share (EPS) increase is always followed by an increase in stock price, while the increase in Dividend per Share (DPS) is not necessarily followed by an increase in the stock price. Based on the above data, the increase in Earnings per Share (EPS) will be followed by increase in share price, and the increase in Dividend per Share (DPS) will be followed by increase in share price. Earnings per share measures the net income for every outstanding share owned by company. Earnings per share (EPS) is generally considered to be the single most important variable in determining a share's price. Dividends per share calculates the portion of the earnings paid out by company in order to fulfill obligation to each preferred shareholder. Increasing Dividend per Share (DPS) is a great way for a company to signal strong performance to its shareholders. For this reason, many companies that pay a dividend focus on adding to the Dividend per Share (DPS).

Based on the background of study above, the writer is interested in doing research entitled, **"The Effect of Earning per Share and Dividend per Share on Stock Price at Consumer Goods Companies Listed on Stock Exchange Indonesia."**

1.2. PROBLEM LIMITATION

Because of limitation of time, money and knowledge of the writer, the research makes the problem limitation as follow:

1. The research problem is limited to the Earning per Share, Dividend per Share, and Stock Price.
2. The company chosen is consumer goods companies listed on Stock Exchange Indonesia.

3. The period of research is using financial statement of 2013 to 2017.
4. The writer chooses to use consumer goods companies because these companies often recorded a strengthening in stock price.

1.3. PROBLEM FORMULATION

Based on the background of the problem described above, the researched formulates the problems as follows:

1. Does earning per share significantly influence the stock price of consumer goods companies that listed on the Stock ExchangeIndonesia?
2. Does dividend per share significantly influence the stock price of consumer goods companies listed on the Stock ExchangeIndonesia?
3. Do the earnings per share and dividend per share simultaneously have a significant effect on the stock price of the consumer goods companies listed on the Stock ExchangeIndonesia?

1.4. OBJECTIVE OF THE RESEARCH

The objectives of the study are as follows:

1. To understand effects of earning per share towards consumer goods companies share prices that registered in Stock ExchangeIndonesia.
2. To understand effect of dividend per share towards consumer goods companies share prices that registered in Stock ExchangeIndonesia.
3. To understand effects of earning per share and dividend per share toward consumer goods companies share prices that registered in Stock ExchangeIndonesia.

1.5. BENEFITS OF THE RESEARCH

The benefits of the research are:

1.5.1. THEORETICAL BENEFIT

The research can be used as reference for writer to make comparison between theories and practice. The writer also can get more information about the variable of this research such as the understanding of Earning per

Share, Dividend per Share, Stock Prices and the impact of Earning per Share and Dividend per Share on Stock Prices.

1.5.2. PRACTICAL BENEFIT

The research can be used as reference for investors in doing stock purchase.

1.6. SYSTEM OF WRITING

The systems of writing in this *skripsi* will be as follows :

Chapter I : Introduction

This chapter consists of the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and systems of writing.

Chapter II : Literature Review and Hypothesis Development

This chapter consists of some theories that are related to the research, such as definition and indicator of Earning per Share, Dividend per Share and Stock Price. The writer presents previous research and framework of thinking.

Chapter III : Research Methodology

This chapter presents research design, research object, data collection method and data analysis method.

Chapter IV : Data Analysis and Discussion

This chapter shows general view of company data analysis and discussion.

Chapter V : Conclusion

This chapter presents the conclusion of this research, implication and the recommendation for the company.