CHAPTER I
INTRODUCTION

1.1 Background of the Study

Nowadays, instead of being privately held, more and more businesses prefer to go public, making their shares available for being publicly traded, which means anyone who is interested to invest can purchase shares and possess ownership in any public listed company. (Kusumo, 2011)

According to a Senior Finance Analyst (Neharika, 2017) the most common reason for businesses to go public is to generate more capital in hopes of expanding and looking for future growth. The term of going public refers to a private company's Initial Public Offering (IPO) which is the first sale of stock by a company, which is also when a company becomes a publicly traded and owned entity

Despite the benefits that companies can have by getting themselves an IPO, there are also some negative effects companies must consider before making the decision to go public, such as the possibility of losing control of the firm since the firm shareholder's ship can be traded in public. (Neharika, 2017)

In addition, there is also consideration of the cost that companies have to spend in the process of getting IPO, which is why it is less likely for smaller size firm to come up with the decision to go public, in spite of their needs to raise capital. (Sherman, 2015)

According to the information obtained from website (Sahamok.com), the number of listed companies on Indonesia Stock Exchange (IDX) is increasing each year. As per 30 December 2015, there are 525 companies in total that are listed in stock market. While in 2016 and 2017, the figures become 539 and 555 companies respectively, with approximately 3% increment compare to the previous year.

In fact, total company being registered in Indonesia Stock Exchange in mid-year of 2018 has reached more than 600 companies, exceeding the original set target of 35 new registered companies in 2018. (Arief, 2018)

With the variety of choices of companies available in the stock market that keeps increasing yearly, it also increases the difficulties for investors to decide which stock to invest as they wonder which one is more likely to generate more profit and have more return from their investment. Therefor to answer this need of market demand, more and more studies related to variables that has impact or influence to stock return are conducted in recent years. (Kusumo, 2011)

It is no doubt that the most common goal for investors who invest in the stock market will expect return from their investment, which most of the time is thru the movement of share price. Therefor stock return is very important for a company as it is one of the performance measurements both internally and externally. (Riswandha Adi Wibowo, 2014)

One of the approaches for investor to consider an investment and to estimate the stock return is to analyze the information obtain from financial statement as well as the ratios that could affect stock return. (Ambasari, 2014)

According to (Gitman & Zutter, 2012), investors use financial ratios to get the big picture of the historical, current, as well as predictive future toward company condition that may affect share price.

With a proper analysis of financial ratios, they could provide an insight in measuring company’s operational efficiency, liquidity, stability and profitability, giving investors more relevant information than raw financial data. (Ingram, 2018)

To conclude, financial ratio is one of the powerful tools for the investor to see the highlight of the company’s performance. (Christian, 2015)

Profitability ratios reflect the ability of a company to generate profit from its sales, assets, or equity. While liquidity ratios will show how able a company to fulfill its short term debt by using its current asset. Lastly, solvency ratio is the one that will indicate the company capability to repay its financial liabilities both short term and long term if it was being liquidated. (Erari, 2014)

In this research, the ratios that will be used as indicators to examine the impact of profitability, liquidity, and solvency ratio toward stock return are return on equity (ROE), current ratio (CR), and debt to equity ratio (DER) respectively.

Table 1.1 Return on Equity, Current Ratio, Debt to Equity Ratio, and Stock Return of Miscellaneous Manufacturing Companies Listed on Indonesia Stock Exchange during 2014 – 2017

Company	Year	ROE	CR	DER	Stock Return
PT. Astra International, Tbk (ASII)	2014	0,184	1,310	0,964	0,092
	2015	0,123	1,379	0,940	-0,192
	2016	0,131	1,239	0,872	0,379
	2017	0,148	1,229	0,891	-0,027
PT. Indo Kordsa, Tbk (BRAM)	2014	0,092	1,416	0,735	1,222
	2015	0,069	1,806	0,595	-0,064
	2016	0,113	2,052	0,497	0,426
	2017	0,104	2,364	0,403	0,105
PT. Nipress, Tbk (NIPS)	2014	0,085	1,294	1,073	0,498
	2015	0,050	1,047	1,541	-0,127
	2016	0,078	1,218	1,110	-0,167
	2017	0,050	1,173	1,161	0,412

Source: Prepare by Writer (2019)

From the table shown above, PT. Astra International, Tbk return on equity percentage in 2016 and 2017 are respectively 13.1% and 14.8%, with 1,7% increment. Meanwhile, its stock return in 2017 is -0.027 which means the stock price of this company has decreased by 2.7% compared to the previous year.

In contrast, PT. Nipress, Tbk return on equity percentage in 2017 is 5%, which decreases 2.8% from previous year 7.8%, but the company stock return of the year is 0,412, which mean the year and closing stock price has increased by 41.2% from last year.

While according to the table, during 2015 to 2016 the current ratio of PT. Astra International, Tbk is decreasing from 1.379 to 1.239, which mean the ability of current asset to fulfill its current liability is weakening. While the year end closing stock price has increased compare to prior year which can be seen from the 37,9% return rate.

Conversely PT. Indo Kordsa, Tbk current ratio for year 2014 to 2015 has increased from 1.416 to 1.806, but the stock return during 2015 is -0,064 which means the stock price is 6,4% lower than previous year.

In 2014, PT. Indo Kordsa, Tbk debt to equity ratio is 0.735 then in 2015 it becomes 0.595, which means company are actually having lower financial risk to repay its creditors, in other word the debt proportion is lower, but its stock return rate is -0.064 which means stock price in decreasing.

Meanwhile, in 2016 and 2017 PT. Nipress, Tbk debt to equity ratio are 1.110 and 1.161 respectively. In comparison, while the company are having higher financial risk, it still manages to have 41,2% stock return.

The researcher finds that those phenomena as shown in the table are inconsistent with (Tyasila, 2015) theory that a higher return on equity ratio will effect to increasing stock price, which will finally lead to a higher stock return; (Erari, 2014) research findings that a lower current ratio is more likely to effect lower return and a higher percentage of debt to equity ratio will effect to a lower stock return as well.

Therfore, the writer would like to conduct this research with the title **“The Impact of Return on Equity, Current Ratio, and Debt to Equity Ratio Toward Stock Return in Miscellaneous Manufacturing Companies Listed on Indonesia Stock Exchange”** for the purpose of understanding the influences of those mentioned finanicial ratios toward stock return especially on manufacturing company.

1.2 Problem Limitation

This research is conducted by analyzing the impact of financial ratios toward stock return on miscellaneous manufacturing companies, thus it might not be entirely applicable to companies in other industry.

Moreover, the information used in this research paper are obtained from secondary resources within a certain period, thus there is a limitation in the availability of resources and age of data.

Besides, only one representative ratio will be selected from each types of financial ratios – profitability (ROE), liquidity (CR), and solvency (DER) ratio, thus this research finding might not fully represent the whole situation and genuinely interpret the impacts of financial ratios on stock return.

Furthermore, the sample of this study only includes companies in correspondent to sample sorting criteria, in the miscellaneous manufacturing industry out of 43 in the same sector. While according to IDX, there are 155 companies in total listed in the manufacturing industry with three sub categories: basic industry and chemicals, miscellaneous industry, and consumer goods industry

Due to this circumstance, the writer realizes the finding of this paper might not be able to stand for all miscellaneous manufacturing industry let alone all manufacturing sector company in Indonesia.

1.3 Problem Formulation

To raise the issues discussed in this study, the writer makes the formulation of the problem as follow:

1. Does return on equity (ROE) partially has significant impact toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014-2017?
2. Does current ratio (CR) partially has significant impact stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014-2017?
3. Does debt to equity ratio (DER) partially has significant impact toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014-2017?
4. Does ROE, CR, and DER simultaneously have significant impact toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014-2017?

1.4 Objective of the Research

In accordance with the formulation of the problem, the objectives of this research are as follows:

1. To analyze the impact of return on equity (ROE) partially toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014 – 2017.
2. To analyze the impact of current ratio (CR) partially toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014 – 2017.
3. To analyze the impact of debt to equity ratio (DER) partially toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exchange 2014 – 2017.
4. To analyze the impact of ROE, CR and DER simultaneously toward stock return in miscellaneous manufacturing companies listed on Indonesia Stock Exhange 2014- 2017.

1.5 Benefit of the Research

This research is expected to provide benefits for various parties related to the research topic, including:

1.5.1 Theoretical Benefit

1. For Researcher

The writer believes that the result of this conducted study could be able to once again prove that the impact of financial ratios toward stock return, as it has been research by several researchers previously. Furthermore, it is expected that this research could be a reference to provide information for other researchers who wish to conduct similar research in the future.

2. For Student

The result of this study is expected to provide facility to learn and provide a better understanding about the importance of financial ratios and its impact toward stock return.

1.5.2 Practical Benefit

1. For Company

This research is expected to provide insight regarding to the importance of stock return and its influential factors, as it could be able to serve as an evaluator of company performance, the management should pay more attention in maintaining a good return. Meanwhile, it could also help the management in making better decision and improvement accordingly.

2. For Investor

The result of this study is expected to be a helpful tool that could better provide insight in the midst of decision making for investors who wish to invest in the stock market, so they could be able to make the most appropriate decision with the available information published.

1.6 Systems of Writing

To facilitate this research, then the writer compiled systems of writing consisting of the following details:

CHAPTER I – INTRODUCTION

This chapter starts with background of the study, problem statement, and limitation of research. Problem formulation, objective, and the benefit of the research will be briefly explained. Lastly, in the system of writing, an overview of the main chapters in this study will be presented.

CHAPTER II – LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter explains about theoretical background and definitions for all dependent and independent variables of this research, as well as the impact theory among them. Several previous research conducted within the last 10 years will be briefly elaborate in order to support this research. Lastly, the hypothesis development, research model, and framework of thinking will be presented by the end of this chapter.

CHAPTER III – RESEARCH MODEL

This chapter will explicate the research design of this study, which is quantitative. Then the definition of population and sample will be briefly explained as well as the sampling collection method and its criteria. At last, the definition of variable, method of measurement and data analyzation of this research will be provided.

CHAPTER IV – DATA ANALYSIS AND DISCUSSION

This chapter will elaborate the general view of of miscellaneous manufacturing company, then the data analysis result, as well as the discussion result of the research.

CHAPTER V – CONCLUSION

The last chapter consists of the writer’s conclusion for the entire study and suggestion for future researchers.