CHAPTER I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The rapid development of the business world can be seen from the emergence of various competing companies with their own advantages makes each company should being able to adapt and update. This condition makes competition in the business world continue to move and experience the dynamics of change very quickly. Every company will continue to compete to increase and maximize their own profit.

Maximizing profit is one of the company's main goals. Company profit is one form of financial performance of a company, the higher the profit of a company, the better performance of the company will be. Furthermore, when the profit is maximized it will certainly have an impact on the succesful of the owner of the company or capital resulting in an increase in the value of the company (Brigham and Houston, 2011). So based on the definition above, it can be summed up that the main purpose of the company is to increase the value of the company.

To achieve these objectives, the management of a company wil cautiously consider every decision made so that it can make the company value keep increasing. Company value is a condition of the company's financial condition that is affected by several factors such as management decisions. Due to its complex nature, the improvement concern the effectiveness of capital utilization and the efficiency of the company's operational activities.

Increasing company value can be achieved by maximizing each financial accounting function, because every policy made by financial accounting will influence other financial decisions that impact on the value of the company (Sukirno, 2012). The company's value usually reflected by its stock price, the higher the stock price of a company, the higher the value of the company.

Tabel 1.1. Fluctuations in Company Value Year 2011-2015

NO	EMITEN CODE	COMPANY VALUE					AVERAGE
		2011	2012	2013	2014	2015	
1	ALKA	1.02817	1.00689	1.00521	1.11493	0.59769	0.95
2	CTBN	1.53773	1.44139	1.42358	1.64791	1.75279	1.56
3	DPNS	1.14195	0.84721	0.73355	0.55670	0.58778	0.77
4	LION	0.92079	1.39017	1.41801	1.06627	1.14323	1.19
5	YPAS	2.36962	1.80979	1.43994	1.53750	2.37541	1.91

Source: IDX data processed (2019)

Table 1.1 above shows that the average value of companies in 2011 to 2015 varies, while the value of each company in each year also changes or fluctuates. This can be seen in table 1.1 that companies with the issuer's code YPAS had a value of 2.36962 in 2011, while it decreased to 1.80979 in the following year, and also decreased to 1.43994 in 2013, last it increased to 2.357541 in 2015.

The fluctuation of stock price of a company caused by several factors both internal and external factors. External factors such as market conditions, interest rates, rupiah values and so forth. While internal factors are factors that originate from inside of the company such as bad corporate governance, ineffective company operations and so on. Internal factors can be overcome by the company because it is a factor that occurs because of the company's negligence.

Fluctuations in the value of a company with a fairly up and down range can cause problems. Such as the loss of the attractiveness of investors or creditors to invest in their companies or weaken the trading of the company's stock in the capital market. This condition caused by lack trust of the investors to the company. Investors tend to invest to the companies that have a great value which is remain increase or stable.

Keown et al (2011) states that one of the ratios used to measure financial performance is profitability ratio. A good company should has positive profitability ratio which reflects profit. With profit, the company can carry out operational activities on an ongoing basis. Besides, profits will also make it easier for companies to acquire funding sources both from inside and outside. This is due to the nature of investors who are more interested in companies with better financial performance.

The signal theory perspective emphasizes that companies can increase company value by giving signals to investors through reporting information related to company performance so that it can provide an overview of future business prospects. The higher the profitability figures listed in the financial statements, means the better the company's financial performance, which it will reflect the greater investor wealth and future company prospects are considered increasingly promising. The prospect's growth by investors will be captured as a positive signal so that it can increase the company's value in the perspective of investors as reflected in the increase in the company's stock price.

Profitability ratios are beneficial for measuring a company's ability to make profits as indicated by the size of the profit obtained in relation to sales and investment. Profitability can be calculated by Gross Profit Margin (GPM), Operating Profit Margin (OPM), Net Profit Margin (NPM), Return On Assets (ROA) and Return On Equity (ROE) (Fahmi, 2015).

Gross Profit Margin is the ratio or consideration between the gross profit obtained by the company and the level of sales achieved in the same period. The gross profit margin ratio data from several periods will be able to provide information about the tendency of gross margins to be obtained and when compared to the standard ratio where it will be known whether the margins obtained by the company are high or vice versa (Munawir, 2014).

Operating Profit Margin calculates the percentage of gross profit that can be generated from each sale after first deducting the company's expenses and operating costs. Operating profit margin is also a ratio that describes what is usually called pure profit received for each rupiah from sales made. The bigger the ratio of the operating profit margin, the better it is.

Net Profit Margin is the company's ability to generate profits at a certain level of sales. This ratio shows how much percentage of net income earned from each sale. According to Harahap (2015, p.304), the greater the ratio, the better it is because it is advised that the company's ability to obtain profits is quite high.

As said by Syamsuddin (2012) in his book Financial Management states that:

"Net Profit Margin is the ratio between net profit, ie sales after deducting all expenses including tax compared to sales. The higher the net profit margin, the better the operation of a company. A net profit margin that is said to be good will depend on the type of industry in which the company is trying".

The higher the Net Profit Margin, the more effective a company is in carrying out its operations (Munawir, 2014). The way to calculate Net Profit Margin is to compare net income with net sales.

Return On Asset is often referred to as Return on Investment (ROI). Return On Asset measures overall management effectiveness in generating profits based on available assets. The higher the Retrun On Asset ratio, the better it is.

While Return On Equity measures the amount of the percentage of Return On investment that has been made by shareholders in a company. According to Tandelilin (2010, p.315):

"Return on Equity (ROE) is generally calculated using performance measures based on accounting and calculated as the company's net income divided by ordinary shareholders' equity".

According to Brigham and Houston (2011), Return on Equity (ROE) is a net ratio to ordinary equity measuring the rate of return on investment of ordinary shareholders. According to Fahmi (2015), Return on Equity (ROE) is a ratio used to examine the limit to which a company uses its resources to be able to provide a return on their equity.

One of the industries in Indonesia which currently continues to increase is the manufacturing industry. According to the Ministry of Industry of the Republic of Indonesia, Indonesia's manufacturing industry ranked fourth in the world from 15 countries whose manufacturing industries contributed to the Gross Domestic Product (GDP) above 10% in 2016, at which time Indonesia could contribute to GDP by 22% after South Korea (29%), Chinese (27%) and German (23%). Furthermore, the manufacturing industry noted that the export value in 2017 reached USD 125 billion or 76% of the total value of Indonesia's exports. This shows that there was an increase of 13.14% from 2016 which only reached USD 110.50 billion (Kemenperin.go.id) had more clearly which can be seen from table 1.2 below:

Tabel 1.2 GDP growth of the sector in the first quarter of 2017

Sectors	2011	2012	2013	2014	2015	2016	2017*	Share 2016
Manufacturing industry	6.26	5.62	4.37	4.64	4.33	4.29	4.21	20.51
Agriculture, forestry, & fishery	3.96	4.59	4.20	4.24	3.77	3.25	7.12	13.45
Wholesale & retail trade, cars & motorcycles reparations	9.66	5.40	4.81	5.18	2.59	3.93	4.77	13.19
Construction	9.02	6.56	6.11	6.97	6.36	5.22	6.26	10.38
Mining and Quarrying	4.29	3.02	2.53	0.43	-3.42	1.06	-0.49	7.20
Transportation and warehousing	8.31	7.11	6.97	7.36	6.68	7.74	7.65	5.22
Finance and insurance	6.97	9.54	8.76	4.68	8.59	8.90	5.73	4.20
Public adm, defense, and compulsory social security	6.43	2.13	2.56	2.38	4.63	3.19	0.58	3.86
Information and communication	10.02	12.28	10.39	10.12	9.69	8.87	9.10	3.62
Education	6.68	8.22	7.44	5.47	7.33	3.84	4.11	3.37
Accommodation, food and beverages	6.86	6.64	6.80	5.77	4.31	4.94	4.68	2.92
Real estate	7.68	7.41	6.54	5.00	4.11	4.30	3.67	2.81
Other services	8.22	5.76	6.40	8.93	8.08	7.80	8.01	1.71
Business services	9.24	7.44	7.91	9.81	7.69	7.36	6.80	1.70
Electricity and gas	5.69	10.06	5.23	5.90	0.90	5.39	1.60	1.15
Health and social activities	9.00	7.97	7.96	7.96	6.68	5.00	7.13	1.07
Water, Waste management, cesspit, and recycling	4.73	3.34	3.32	5.90	0.90	5.39	1.60	0.07
Gross Domestic Product	**6.17**	**6.03**	**5.56**	**5.01**	**4.88**	**5.02**	**5.01**	**100.00**

Source: Badan Pusat Statistika (2017)

The large contribution of the manufacturing industry makes this industry one of the driving forces of the economy in Indonesia, but from table 1.2 above, it can be seen that the manufacturing industry actually continues to decline from 2011 to 2017. Therefore, the increase in the manufacturing industry is one of the instant ways that the government can improve the national economy. Because the increase in GDP of the manufacturing industry by 1 alone will increase 0.2% of Indonesia's economic growth.

Furthermore, if seen in its subsector, the subsector of food and beverages in Indonesia is also a largest contributors to GDP. According to Kemenperin.go.id, the contribution of the food and beverage industry to the GDP of the non-oil and gas industry reached 34.95 percent in the third quarter of 2017. The results of this performance made the sector the biggest contributor to GDP in the industry compared to other sub-sectors. In addition, this achievement has increased by four percent compared to the same period in 2016.

Meanwhile, its contribution to the national GDP was 6.21 percent in the third quarter of 2017, increased 3.85 percent compared to the same period the previous year. Last, judging from the development of investment realization, the third quarter in 2017 of food and beverage industry sector for domestic investment (PMDN) reached Rp 27.92 trillion or increased by 16.3 percent compared to the same period in 2016. Meanwhile, for foreign investment (PMA) of USD1.46 billion.

The magnitude of the potential and contribution of manufacturing companies, especially in the food and beverage sub-sector (food and beverage) make a researcher interested in further researching the economic performance of companies engaged in this field. Therefore, s researcher conducted research with the title "**The Impact of Profitability Ratio on Food and Beverage Companies Listed in Indonesia Stock Exchange (2013-2017)**".

1.2 PROBLEM LIMITATION

Discussions about the value of the company are related to various things about the company that will be broadly meaningful. Therefore, the limitation of the problem in this study was made so that this study could focus on the subject and object of the study, so that the purpose of this research can be achieved well. As for the limitations of this study are as follows:

1. The object of this research is the value of the company and the effect of the profitability ratio on it.
2. The subject of this study is a manufacturing company with a food and beverage subsector in 2013 to 2017.

1.3 PROBLEM FORMULATION

Based on the background above, the formulation of the problem in this study are:

1. What is the effect of Gross Profit Margin on the value of the company in manufacturing companies sub sector food and beverage listed on the Indonesian stock exchange in 2013-2017?

2. What is the effect of Operating Profit Margin on the value of the company in manufacturing companies sub sector food and beveragelisted on the Indonesian stock exchange in 2013-2017?
3. What is the effect of Net Profit Margin on the value of the company in manufacturing companies sub sector food and beveragelisted on the Indonesian stock exchange in 2013-2017?
4. What is the effect of Return on Assets on the value of the company in manufacturing companies sub sector food and beverage listed on the Indonesian stock exchange in 2013-2017?
5. What is the effect of Return on Equity on the value of the company in manufacturing companies sub sector food and beveragelisted on the Indonesian stock exchange in 2013-2017?
6. What is the effect of Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets and Return on Equity simultaneously on the value of the company in manufacturing companies sub sector food and beverage listed on the Indonesian stock exchange in 2013-2017?

1.4 OBJECTIVE OF THE RESEARCH

The aims of this research are:

1. To examine the effect of Gross Profit Margin on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.
2. To examine the effect of Operating Profit Margin on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.

3. To examine the effect of Net Profit Margin on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.
4. To examine the effect of Return on Assets on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.
5. To examine is the effect of Return on Equity on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.
6. To examine the effect of Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets and Return on Equity simultaneously on the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2013-2017.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

1. For Writer

   The result of this research are useful to improve knowledge about profitability ratio and its impact to the company's value.

2. For Readers

   The results of this research is expected to give benefit for both academic and practitioner, especially in financial accounting subject.

1.5.2 PRACTICAL BENEFIT

1. For Company

   The result of this research can be used as an input and evaluation for the owners and the managements of the companies researched in order to improve the companies' value and performance in the future. The result of this research can be used as an input and evaluation for the owners and the managements of the companies researched in order to improve the companies' value and performance in the future.

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 study of how the impact of profitability on food and beverage companies. Problem limitations will be limited on the value of the company and the effect of profitability ratio on it. Then, problems will be formulated, along with the explanation of objective and benefit of the research. Lastly, an overview of the main chapters in this study will be presented in systems of writing.

CHAPTER II - LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter explains about theoretical backgrounds of agency theory, signaling theory, financial statement, analysis of financial statement, profitability ratio and firm value. Previous research reports will also be presented to support this study. Then, hypothesis will be developed along with framework of thinking.

CHAPTER III - RESEARCH METHOD

This chapter explicates the research design, which is quantitative research. Then, population and sample will be explained along with how the data of the study is collected. Lastly, the definition and measurement of variable will be elaborated along with how the data will be analyzed in this research.

CHAPTER IV - DATA ANALYSIS AND DISCUSSION

This chapter explains the general view of the research object which is related to food and beverage industries, then elaborates the data analysis result (descriptive statistic result, data quality testing result, hypothesis testing result), as well as the discussion result of the research.

CHAPTER V - CONCLUSION

The last chapter consists of the conclusion of the research and the description of the implications. Lastly, recommendation of the research will be given and it is expected to be useful to the readers.