

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In this globalization era, the competition among the products in Indonesia is very tight, therefore companies would like to expand its business activities in order to be the best company. One of the business activities is food and beverages company in Indonesia. Food and beverages company are companies that produce products that fulfill human primary needs. Basically, they are companies with the main raw material obtained from plants and gardens. Increasing in purchasing in consumer goods will have the opportunity to encourage the performance especially in food and beverage companies in Indonesia. Some entrepreneurs expand their business to anticipate increasing public consumption of food and beverage products. Increased in public consumption of food and beverages product, which will affect the income and profit of the company. So, companies must be able to provide benefits for the investor in the form of shares that invested in capital markets. The more advanced and developing capital markets in Indonesia, the economy will be pushed forward and developed.

Determination of strategy and stabilization of competitiveness in the economic sector are important to be developed in a company. The growth of food and beverages company reached 9.23% in 2017 when compared to 2016 which the percentage is 8.46 (Okezone, 2018). This shows that food and beverages company have given a big impact on economic development in Indonesia. This is due to the increase in the middle-class population and the income of society. According to Airlangga, revenue in food and beverages markets in 2018 has increased by 9%.

The food and beverages companies are projected to remain the mainstay of supporting Indonesia's manufacturing and economic growth. Realizing the potential growth of the company, the government continues to encourage food and beverages company to take advantage of domestic market potential. Food and beverages company should be adaptive to the development of digital technology. In that way, it is expected that this company will become more established in the future. Indonesia with a population of around 267 million people is a very promising market price for food and beverage companies, especially for investors. This is because they all need food and beverages. The prospect of growth in the food and beverages business in the future will be the focus of the development of the manufacturing company.

The processed food market in Indonesia is dominated by some large local companies including Indofood Sukses Makmur that is one of the world's largest instant noodle company. In food and beverages company, they have embarked on strategies to not only entice customers by price. However, to innovate to produce tailored, value-added products that appeal to the Indonesian consumer's preference for traditional food in an instant form such as Mayora (Global Business Guide Indonesia, 2012).

Changes in stock price or high or low stock prices become an important thing neither for investors and companies. This is because the stock prices are one indicator of the success of the food and beverages company that show the credibility of this company. Changes in the stock price are highly determined by the strength of demand and supply which happened in the market (Setiawan, 2009). There are 18 companies of food and beverage company. However, only 11 companies that are in accordance with the criteria. From 11 companies, 3 companies were taken as the object of the research on financial ratios which are Return on Assets, Debt to Equity Ratio and

Earning per Share which effect to the stock price of food and beverages company in Indonesia.

Based on the background above, below show illustrate of food and beverages company regarding the phenomena that occurred which depicted an effect of return on assets, debt to equity ratio and earning per share on the stock price.

Table 1.1
Return on Assets, Debt to Equity Ratio, and Earning per Share and Stock Price in Food and Beverage Companies year 2012-2015. (In Rupiah)

NO	YEAR	COMPANY'S NAME	ROA	DER	EPS	STOCK PRICE
1.	2012	PT WILMAR CAHAYA INDONESIA TBK	0.05	1.21	196.11	1,300
	2013		0.06	2.02	218.71	1,160
	2014		0.03	1.38	137.81	750
	2015		0.07	1.32	358.14	675
2	2012	PT MULTI BINTANG INDONESIA TBK	0.39	2.49	215	7,400
	2013		0.65	0.8	556	12,000
	2014		0.35	3.02	377	11,950
	2015		0.23	1.74	236	8,200
3	2012	PT NIPPON INDOSARI CORPORINDO TBK	0.12	0.79	147.33	6,900
	2013		0.08	1.31	31.22	1,021
	2014		0.08	1.23	37.26	1,385
	2015		0.09	1.27	53.45	1,265

Source: www.idx.co.id

Based on table 1.1, it shows that PT Wilmar Cahaya Indonesia Tbk in 2012 has return on assets 0.05. It increased by 0.01 in 2013. This is contrary to closing stock price in 2012 to 2013 that decreased by 140.

The debt to equity ratio in 2014 shows that PT Multi Bintang Indonesia Tbk is decreasing from 3.02 to 1.74 in 2015. Conversely, the stock price is decreasing by Rp 3,750. While PT Wilmar Cahaya

Indonesia Tbk debt to equity ratio in 2013 to 2014 decreased by 0.64. On the same year, company closing stock price decreased from Rp 1,160 to Rp 750.

PT Nippon Indosari Corporindo Tbk in shows that earnings per share is increasing by 16.19 from 2014 to 2015. While the closing stock price is decreasing from Rp 1,385 to Rp 1,265.

Based on the researchers that do not show similar research to know what factors have affect on the stock price. Thus, the writer would want to do research about **“The Effect of Return on Assets, Debt to Equity Ratio and Earnings per Share on Stock Price in Food and Beverage Companies Listed on the Indonesia Stock Exchange”**

1.2 PROBLEM LIMITATION

This research is conducted by analyzing the effect of financial ratio on the stock price on the food and beverages industry. In order for this research to be discussed thoroughly and focused, it is necessary to limit the problems. Referring to the background of the study, the research focus on the return on assets, debt to equity ratio, and earning per share. There are 18 companies of food and beverages, however, the sample of this study will include several companies based on criteria. Mostly the data of this research are obtained from the Indonesia Stock Exchange.

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 assets partially have an effect on stock price?
2. Does debt to equity ratio partially have an effect on stock price?
3. Does earning per share partially have an effect on stock price?

4. Do return on assets, debt to equity and earnings per share simultaneously have an effect on stock price?

1.4 OBJECTIVE OF THE RESEARCH

In accordance with the formulation of the problem, this study aims to find empirical evidence on:

1. To know if return on assets partially has an effect on stock price.
2. To know if the debt to equity ratio partially has an effect on stock price.
3. To know if earnings per share partially has an effect on stock price.
4. To know if return on assets, debt to equity ratio and earnings per share simultaneously have an effect on stock price.

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

The result of this study is hoped to give information about the company's stock price measured based on financial ratios of a company. Furthermore, it is expected to provide knowledge for the readers to know what ratios that affect the stock price. Besides, the result of this research can be used as a reference for other researchers in conducting research on similar fields.

1.5.2 PRACTICAL BENEFIT

1. For Company

It can provide information, input and useful evaluation for companies to the performance of the company in order to attract investors to invest in the company. Besides, it can be as a

guideline to improve financial statement in the development of the company's stock price and as information in decision making.

2. For Investors

To provide information and knowledge for investors who will discuss about the effect of financial statements on stock prices traded on the capital market. The results of this study are also expected to be considered by investors in making a decision when they want to make the food and beverage companies as an investment place.

1.6 SYSTEM OF WRITING

This research comprises of five chapters with each chapter relating to the other. The systematic outline of writing in this research study is as follows

CHAPTER I - INTRODUCTION

The first chapter provides preliminary insights like the background of the study, problem limitation, problem formulation, objective of the research, benefits of the research study and its system of writing.

CHAPTER II - LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter explains about theoretical backgrounds of independent variables and dependent variable. Previous research will be presented to support this study, as well as the hypothesis development and research model. In this chapter, it will also include a framework of thinking to illustrate the research process.

CHAPTER III - RESEARCH METHOD

This chapter explicates the research design, which is quantitative research. Then, the population and sample will be explained along with how the data of the study is collected. Lastly, the

definition and measurement of the 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 companies, 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, the recommendation of the research will be given and it is expected to be useful to the readers.

