CHAPTER I
INTRODUCTION

1.1   Background of the Study

Once a company has been formed, one of the objectives to be achieved is to develop become a big company. In order to achieve the objectives, one of its first tasks is to raise funds (Leo *et al.*, 2015), especially for property and real estate sector that require large funds. Property and real estate sector has become one the most significant sector for Indonesia's infrastructure. The development of the property sector will attract investor interest due to rising prices of land and buildings which tend to rise. The reason is that land supply is permanent, while demand will always increase in line with population growth and increasing human needs for housing, offices, shopping centers, and others (Armania, 2017).

Raising funds for the company's development could be done in many ways and one of them is by joining the capital market. According to Chisholm (2009, p. 1), "The capital markets are places where those companies who require additional funds seek out others who wish to invest their excess". Every country has its own capital market where the companies of the country market their shares. For instances in Indonesia, Indonesia Stock Exchange (IDX) is the capital market where companies that established in Indonesia markets their issued shares.

As for companies to issue shares, companies have to participate in the capital market by starting the Initial Public Offering Process (IPO) or mostly known as "going public". IPO is the process where a company officially sells its stocks for public in the capital market. After the IPO, companies could issue any specified number of shares at any price with the aim of attracting investors to buy the shares (Leo *et. al.*, 2015).According to Indonesia Stock Exchange (IDX) Factbook 2018,

53 companies have been listed in IDX under Property and Real Estate classification. In the last 6 years from 2013 to 2018, there are 7 new Property and Real Estate companies that go public.

"Before an investor decides to invest money in capital market, there is an important activity to be done, namely careful assessment on issuer, he must believe that he accept correct information" (Rosikah, *et. al.*, 2018). It is wise for the investors to have potential knowledge about the capital market and the movement of stock prices. Some investors that are interested in joining the capital market might concern about the volatility of their fund because they are risk adverse (Alam *et. al.*, 2016). Investors are looking for what factors are actually affecting to the stock price through assessing internal and external factors of the company. To figure out the internal factors, the assessment could be done by analyzing financial performance.

Financial performance could be analyzed with many methods and one of the methods is through financial ratio. According to Sukarno *et. al.* (2016), stock prices in the capital market always shows a fluctuate situation which are fundamentally influenced by the company performance. Besides, the fluctuation of stock prices is also influenced by the supply and demand from the investors towards the shares. When demand rises, stock prices increase. Conversely, if demand falls, stock prices decrease. The writer studied every previous research did not show the same result on variables chosen.

Manoppo (2015) founded out that Return on Assets (ROA), Return on Equity (ROE), Return on Sales (ROS), and Earnings per Share (EPS) of insurance companies listed in Indonesia Stock Exchange have significant influence on stock price, simultaneously and partially. Meanwhile, the study of Avdalovic (2017) showed that there was no significant effect on EPS towards stock price of Jordanian banks. Qaisi *et. al.* (2016) also investigated that ROE has no significant effect on stock prices of insurance companies listed in Amman Stock

Exchange. Based on the results of previous research mentioned, it shows that every research has a different result on the variables used. One researcher studied that ROE has a significant effect on stock prices, but other research studied that ROE does not have an effect on stock prices. Through these cases, it arises a question on the factors that actually caused the movement of stock prices. To have an accurate decision, the investors should know what actually causes the increasing or decreasing of the stock price.

Table 1.1 Current Ratio (CR), Return On Equity (ROE), Earnings Per Share (EPS), Sales Growth and Stock Prices of PT. Agung Podomoro Land Tbk., PT. Metropolitan Land Tbk., PT. Pakuwon Jati Tbk., and PT. Sentul City Tbk. for Year 2013 and 2014

Company Name	Year	Current Ratio (CR)	Return On Equity (ROE)	Earnings Per Share (EPS)	Sales Growth	Stock Price
PT. Agung Podomoro Land Tbk.	2013	167,933%	12,8973%	41,53	4,516%	215
	2014	183,229%	11,6258%	41,72	8,067%	335
PT. Metropolitan Land Tbk.	2013	226,852%	13,6545%	31,83	25,967%	380
	2014	245,678%	15,1790%	35,35	30,733%	490
PT. Pakuwon Jati Tbk.	2013	130,193%	27,7037%	23,52	39,919%	270
	2014	140,730%	31,3790%	52,23	27,806%	515
PT. Sentul City Tbk.	2013	457,162%	8,7952%	20,07	54,485%	157
	2014	299,936%	0,6557%	1,7	-25,937%	104

Source: Prepared by the writer (2019)

As mentioned on the previous paragraph, the variables used by each previous researcher have different result and it arises a question on the factors on the movement of stock prices. The movements of stock prices are the crucial part for the investors to decide whether it is the time to buy or sell the shares. Therefore, the movement of stock prices has become one of the problems that arise in the capital market. With that, the writer will illustrate the problem into the table below in order to have a further understanding about the problem. The illustration of the problem will be explained by using four randomly selected property and real estate companies.

The result of Table 1.1 shows that CR has a positive influence towards Stock Price. The table shows when the CR increase, the Stock Price increases too. On the other hand, when the CR decreases, the Stock Price decreases too. The study of Muhammad and Rahim (2015) showed the same result as the Table 1.1 that CR has positive and significant influence on Stock Price. However, Puspitaningtyas (2017) has a different result with Muhammad and Rahim (2017) where CR does not have an influence towards Stock Price. Therefore, from the problem stated above, arises a question on whether CR has a significant impact on Stock Price or not.

Manoppo (2015) explained that ROE has a significant impact on Stock Price. Meanwhile, Qaisi *et. al.* (2016) and Puspitaningtyas (2017) stated that ROE does not have a significant influence on Stock Price. Based on the result of Table 1.1, only PT. Agung Podomoro Land has a negative impact of ROE to Stock Price because when the ROE decreases, the Stock Price increases. On the other hand, PT. Metropolitan Land Tbk., PT. Pakuwon Jati Tbk., and PT. Sentul City Tbk. show a positive impact of their ROE to Stock Price.

Manoppo (2015) stated that EPS has a significant influence on Stock Price where Avdalovic and Milenkovic (2017) showed that there was no significant impact. The Table 1.1 shows that only on PT. Sentul City Tbk., EPS has a positive impact towards Stock Price. From 2013 to 2014, the EPS decreased from 20,07 to 1,7 and this resulted in the decreasing Stock Price too. From 2014 to 2017, the EPS of PT. Sentul City Tbk. increased by 6,71 and the Stock Price was increased. On the other hand, PT. Agung Podomoro Land Tbk., PT. Metropolitan Land Tbk., and PT. Pakuwan Jati Tbk. did not show a definite result of the impact of EPS to Stock Price.

As shown on the Table 1.1, the increasing and decreasing percentage of Sales Growth have a different result on the effect towards Stock Price. The Sales Growth of PT. Agung Podomoro Land Tbk., PT.

Metropolitan Land Tbk. and PT. Sentul City Tbk. show a positive relationship with Stock Price. Meanwhile, PT. Pakuwon Jati Tbk.'s Sales Growth has a negative relationship with Stock Price. Based on previous researches, Puspitaningtyas (2017) studied that Sales Growth has no effect on Stock Price. However, Pranata and Pujiati (2015) studied that Sales Growth has an effect on Stock Price. As stated on the Table 1.1 about Sales Growth and the previous research, the relationship of Sales Growth and Stock Price do not have a definite result due to the different results presented by each source.

As the capital market has rapidly growth by the time, many people and company start to learn and join the capital market. However, not everyone, especially the investors, know deeply about the knowledge on capital market. Based on the problem stated above, each previous research showed a different result on the variables used which makes the results become incompatible. The writer is looking forward to figure out the factors that significantly affect the movement of stock price. Through this study, the writer will gather all the knowledge about the factors that determine the movement of stock price which could ease the investors in the future. Therefore, the writer has chosen "The Impact of Financial Performance on Stock Price of Property and Real Estate Company Listed in Indonesia Stock Exchange (IDX)" as the title for the final paper.

1.2   Problem Limitation

Because of the limited of time and capability of the writer, this research is limited only to analyze the impact of financial performance on stock price of property and real estate company in Indonesia. The main objective of this study is to analyze the factors that affect the movement of the stock price. In order to analyze the factors, the writer uses the financial performance data issued by the companies under their Annual Report year 2013 to 2017 as a benchmark for the study.

Based on the data on Factbook 2018, 53 companies have been listed in IDX under Property, Real Estate and Building Construction classification. On this research, the writer will narrow down the sample by only taking main board Property and Real Estate companies that are established before 2013.

The independent variable (variable X) in this research is the factors that affect the stock price. The writer will use financial ratio as the indicators of the factors that affect the stock price. The variables X used are Current Ratio (CR), Return on Equity (ROE), Sales Growth and Earnings per Share (EPS). The dependent variable in this research will be Stock Price.

1.3   **Problem Formulation**

The problem formulations for this study can be defined through the questions below:

1. Does Current Ratio (CR) significantly affect Stock Price of Property and Real Estate Company listed in Indonesia Stock Exchange (IDX) year 2013-2017?

2. Does Return On Equity (ROE) significantly affect Stock Price of Property and Real EstateCompany listed in Indonesia Stock Exchange (IDX) year 2013-2017?

3. Does Earnings per Share (EPS) significantly affect Stock Price of Property and Real EstateCompany listed in Indonesia Stock Exchange (IDX) year 2013-2017?

4. Does Sales Growth significantly affect Stock Price of Property and Real EstateCompany listed in Indonesia Stock Exchange (IDX) year 2013-2017?

5. Do CR, ROE, EPS and Sales Growth simultaneously affect Stock Price of Property and Real EstateCompany listed in Indonesia Stock Exchange (IDX) year 2013-2017?

1.4   **Objective of the Research**

The research objective is to figure out what the impact that one property company's financial performance will have on the stock price. The specific research objectives are as follow:

1. To analyze the significant effect of Current Ratio (CR) to Stock Price partiallyon Property and Real Estate Company listedin Indonesia Stock Exchange (IDX) year 2013-2017.
2. To analyze the significanteffect of Return on Equity (ROE) to Stock Price partially on Property and Real Estate Company listed in Indonesia Stock Exchange (IDX) year 2013-2017.
3. To analyze the significanteffect of Earnings per Share (EPS) to Stock Price partiallyon Property and Real Estate Company Company listed in Indonesia Stock Exchange (IDX) year 2013-2017.
4. To analyze thesignificant effect of Sales Growth to Stock Price partiallyon Property and Real Estate Company listed in Indonesia Stock Exchange (IDX) year 2013-2017.
5. To analyze thesignificant effect of CR, ROE, EPS and Sales Growth to Stock Price partiallyon Property and Real Estate Company Company listed in Indonesia Stock Exchange (IDX) year 2013-2017.

1.5   **Benefit of the Research**

Out of the study, the writer expects that the results and analysis will give benefits both theoretically and practically.

1.5.1 Theoretical Benefit

1. For academic, this research will provide information and knowledge about the effect of Current Ratio, Return on Equity, Earning per Share, and Sales Growth on stock price.

2. For writers, this research will give a benefit in gaining knowledge about capital market. Besides, this research will enhance the writer understanding about financial ratios. Through this research, the writer will directly testify out the effect of Current Ratio, Return on Equity, Earning per Share, and Sales Growth on stock price.

3. For future researchers, the results of this research will provide theories and information about the factors that actually effect on stock price. Through this research, it could be used as a reference for further similar research.

1.5.2 Practical Benefit

1. For investors, the results of this research are expected to provide information about the impact of financial performance on stock price. Therefore, the investors will be assisted in decision making and will gain a further knowledge about capital market.

2. For companies, the result of this research are expected to be a consideration for management in decision making and also will provide an improvement for the companies' performance in order to attract future investors.

1.6 Systems of Writing

For further information about the research, the writer submits the chronological order of this literary work as follows:

CHAPTER I: INTRODUCTION

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

CHAPTER II: LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

This chapter describes the theoretical basis which contains of the grand theory of this research. The grand theory used for this research is signaling theory. Besides, the writer also mentioned and explained some related theory about the research such as the theory of capital market, financial performance, and financial ratio. Some selected previous research will also be mentioned on this chapter which briefly mentioned about the purpose of each research, the variables used, and the summary of the result of the research. Hypothesis for this research is also briefly explained through the figure of research model

CHAPTER III: RESEARCH METHODOLOGY

This chapter previews about research methodology as divided into research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method. The data analysis method used for the research is descriptive statistics, classical assumption test, multiple regression analysis and hypothesis testing through t test and F test.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter is a next and fundamental step for the research after the data collection step is completed.

All the collected data will testified through the data analysis method mentioned on the chapter III. The data will be analyzed using descriptive statistics, normality test, multicollinearity test, autocorrelation test, heteroscedascity test, and hypothesis testing. The conclusions of each test will be made based on the criteria set for each certain test.

CHAPTER V: CONCLUSION

This last chapter will discuss about the conclusions for the whole research made. The conclusions are made from the result of the data analysis. Besides the conclusions, the writer will make some suggestions about the research which are expectedto be useful for the future researcher to conduct the same area of study.