

CHAPTER I

INTRODUCTION

1.1 Background of Study

Numerous factors influence the performance of the capital market in Indonesia and other major countries. The main factors that influence the performance of the capital market are explicitly unable to withstand the magnitude of the market slope and negative sentiment from some aspects. These aspects include the economic aspects of the nation that continue to fluctuate, uncertain political aspects, aspects of national defense and security that still need to be watched out due to bomb terror in 2016 and 2017, as well as fluctuations in the rupiah exchange rate that can decline sharply but can also soar in certain periods of time.

This research was conducted in the property, real estate and building construction sector. Because the sector has considerable market potential in Indonesia supported by several factors. First, population in Indonesia can be seen in the table 1.1 below:

Table 1.1 Populations in Indonesia

Year	Age			Total
	0-14	15-64	65+	
2015	69,857,406	171,874,288	13,729,992	255,461,686
2016	70,096,861	174,375,008	14,233,117	258,704,986
2017	70,295,363	176,807,788	14,787,721	261,890,872
2018	70,486,717	179,126,971	15,401,625	265,015,313
2019	70,635,883	181,354,922	16,083,760	268,074,565

Source: www.bps.go.id

Table 1.1 shows that the population in Indonesia always increasing every year. With the increase in population, it will have an impact on the increasing need for shelter, workplace space, entertainment such as shopping malls, etc. Second, supply and demand on land. Property and real estate businesses often increase due

to land prices that tend to rise every year where land supply is fixed while the demand will always increase in line with the increase in population.

Stock prices change every day as a result of market forces, which means the fluctuation of stock prices is caused by supply and demand. If more people want to buy shares (demand) from selling (supply), then the price crawls up. Conversely, if more people want to sell shares than buy it, there will be a greater supply of demand, and prices will fall.

Investors who owned stocks are called as stockholders. Stocks as a proof of ownership of a company, has become one of the most popular mediums traded in the Indonesian capital market. Stocks are securities issued by companies that go public in order to withdraw funds from the public (Horne, *et. al.*, 1997). Stockholders will obtain benefits in the form of dividend and the change between the market price and the book price. The market price of securities is proven to be particularly volatile since the stock price of a company can change every day or even every time.

The main requirements desired by investors to be willing to channel their funds through the capital market is the feeling of security of investment and the level of return that will be obtained from the investment. These security feelings are attained as long as investors obtain clear, reasonable, and timely information as the basis for making investment decisions. Information is considered informative if the information is capable to change the beliefs of decision makers. With new information, it will form a new trust among investors. These beliefs will change prices through changes in demand and supply of securities. In other words, information is said to have content if the market absorbs information quickly and is reflected in modifications in market prices.

When making decisions in investing, there are three main types of investors: the buy high sell low investor, the index investor, the value investing investor (Faulkenberry, 2006). The first type lets their emotions cause them to make really bad investment decisions; usually these people eventually quit. The second voluntarily decides the best they can achieve is average performance, with the result being good results in bull markets and poor results in bear markets. The third type of investors attempt to control their emotions and increase allocations when asset valuations are bargains and decrease allocations when asset valuations are high.

Consequently, in investing in the capital market, especially the stock market, rational investors must have a good understanding and analysis of investment instruments and collect complete information to companies to assess the company's performance since transactions in the stock market have a high risk. In understanding investors, stock markets provide information that can be used by investors in making investment decisions, especially for investors who have an interest in investing in the long term. Information used by investors is accounting information, namely financial statements.

With the importance of the role of financial statements, it is expected that the financial issuers present their financial statements transparently and accountably. Financial statements must also be able to describe the financial position and business outcomes of the company at a certain time naturally. According to Kasmir (2008) financial statements are the outcomes of an accounting process that can be used as a communication tool between financial data or the activities of a company against the party who have an interest in the data or activities of the company (Kasmir and Rini Limnjaya, 2008).

Information obtained from financial statements is very important in predicting stock prices where the information contained in financial statements does not have to be assessed quantitatively but

must also have the qualitative characteristics set by the PSAK, because it involves decision making with various parties where information will be more beneficial to users of financial statements when they have qualitative values. According to IAI in the Basic Framework for Preparation and Presentation of Financial Statements paragraph 24 (2009), the information contained in the financial statements provides benefits to the user if the information is understandable, relevant, reliable, and comparable.

Financial statements consist of five types that apply in Indonesia are balance sheet, income statement, statement of cash flows, statement of shareholder's equity, and footnotes of financial statements (Kaunang, 2013). Cash flow statements help companies in providing information about the source and use of company funds, especially in cash receipts and disbursements. In the company's operations there is cash inflows and outflows with a certain period. If the cash inflows are greater than the cash outflows, then it reflects positive cash flow. Conversely, if the cash inflows are smaller than the cash outflows, then it reflects negative cash flow.

The cash flow statement is utilized by management to evaluate the ongoing operations and plan future investment and financing activities. A cash flow statement is one type of financial statements that provides an overview of changes in cash and cash equivalents in the company and classifies cash flows into three main activities, which are operating, investing and financing activities for a certain period (Rahim, 2015). The cash flow statement is different from the income statement which is commonly used by investors as a company performance parameter, and even some researchers have criticized the net income.

An income statement is not a measure of cash flows because it is calculated on an accrual basis rather than a cash basis (Arthur, 2014). In accrual basis accounting, profits are recorded when earned,

whether or not the profits have been received in cash (Arthur, 2014). Similarly, expenses are recorded when they are incurred, even if the money has not been actually paid out. Whereas, in cash basis accounting, profits are recorded when physical cash is actually received (Arthur, 2014). Similarly, expenses are recorded when physical cash is paid out. A company may have all the revenue in the world, however, without the ability to generate cash, its business can fail easily.

The effect of cash flow effect appeared clearly on stock price and decision making to make pricing methods and instruments be based on accurate standards. In regard to cash flow, it has significant role in determining the need for cash availability in the time of dividends distribution time, and its effect on stock price in a way that warranty the interests of stockholders. Therefore, it is inevitable to find or to have a new method to manage affairs within determined rules and standards. Management becomes more interested in cash flow components in determining the company's stock price, planning profitable liquidity and financing. In order to secure cash flow management on the basis of accountability and transparency. Thus, cash flow affected financial sector's both parts: companies and money market in terms of competency and which consider survival's landmarks.

A result of research conducted by Mochamad (2012) states that: "cash flow information is important information to assess the performance of the company and to predict the possibility of bankruptcy or success of the company in the future" (Ferdiansyah, 2012). Mochamad's research indicates that the better the financial condition of the company, increase the possibility of investors' interest to have the company's shares. Furthermore, the law of demand and supply will apply, whereby the higher the demand the higher the stock price.

On the other hand, an inconsistency result occurs in the paper done by Ibrahim and Ahmad (2015), they stated that cash flow cannot be used as indicator for investors in making investment decisions since it only has small influence on stock price. As a result, more concern is needed in regard to cash flow behavior when conducting stock price assessment.

Therefore, in accordance to the above illustration, writer is interested to do research with title **“The Effect of Changes in Cash Flow’s Components on Changes in Stock Price of Property and Real Estate Company listed in Indonesia Stock Exchange from year 2015 to 2017”**.

1.1 Problem Limitation

Problem limitations are made to avoid confusion in discussing the analysis of problems in research conducted. In accordance to the background of the research that has been proposed, this study is limited to the effect of cash flow components on stock price of property and real estate company listed in Indonesia Stock Exchanger for period 2015 to 2017.

1.2 Problem Formulation

1. Do operating activities in cash flow influence the stock price of property and real estate company listed in IDX from year 2015 to 2017?
2. Does investing activities in cash flow influence the stock price of property and real estate company listed in IDX from year 2015 to 2017?
3. Do financing activities in cash flow influence the stock price of property and real estate company listed in IDX from year 2015 to 2017?

4. Do operating, investing, and financing activities in cash flow simultaneously influence the stock price of property and real estate company listed in IDX from year 2015 to 2017?

1.3 Objective of The Research

1. To understand the effect of cash flow from operating activities on stock price of property and real estate company listed in IDX from year 2015 to 2017.
2. To understand the effect of cash flow from investing activities on stock price of property and real estate company listed in IDX from year 2015 to 2017.
3. To understand the effect of cash flow from financing activities on stock price of property and real estate company listed in IDX from year 2015 to 2017.
4. To understand the effect of cash flow from operating, investing, and financing activities jointly on stock price of property and real estate company listed in IDX from year 2015 to 2017.

1.4 Benefit of The Research

This research provides theoretical benefit and practical benefit.

1.4.1 Theoretical Benefit

1. To enhance the academic understanding of readers about the effect of cash flows on stock price of property and real estate company listed in IDX from year 2015 to 2017.
2. To enhance the academic understanding of which cash flow's components have or do not have significant effect on stock price of property and real estate company listed in IDX from year 2015 to 2017.

1.4.2 Practical Benefit

1. To enhance investors' knowledge toward a company performance parameter which is viewing cash flows as significant indicators and enable them to generate useful information for decision-making in investing.
2. To increase companies' insight about the important of cash flow in operating a business which also helps them generate a strategic cash calculation in improving their performance to attract more investors.
3. To enable writer to understand that this research is a perfect media in gaining knowledge of whether cash flows can affect stock price or not.
4. To be utilized by readers as reference and material that will provide useful information and comparison for further research with the similar field researches.

1.5 Systems of Writing

In order to understand more about this applied research project, therefore the materials listed in this study will be grouped into five sub-chapters with the following systematic sampling below:

CHAPTER I: INTRODUCTION

This chapter contains background of the study that depicts the phenomenon of stock price, income statement versus cash flow, and inconsistency previous research. It also contains problem limitation, problem formulation, objective of the research, benefit of the research both theoretically and practically, and the systems of writing.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter explains about the theoretical background of financial statements, financial and managerial accounting, accounting basis, cash flow statement, and some of the previous researches that show inconsistency result, hypothesis development, research model, and framework of thinking.

CHAPTER III: RESEARCH METHODOLOGY

This chapter indicates about the research design which is quantitative method, population and sample, data collection method, operational variable definition and variable measurement, and the data analysis method which is descriptive statistics, classic assumption test, multiple linear regression model, and hypothesis testing.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter contains general view of Indonesia Stock Exchange (IDX), property and real estate company, data analysis method through purposive sampling with research object from property and real estate company, and the result of descriptive statistics, classic assumption test, multiple linear regression model, hypothesis testing, and also discussion of all of the tests.

CHAPTER V: CONCLUSION

This chapter will clarify the conclusion of this research project, the implication, and recommendation of this research project.