

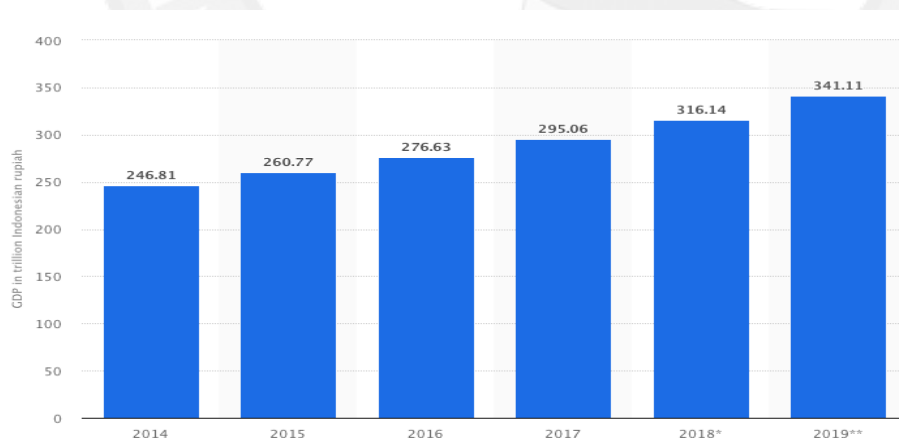
CHAPTER I

INTRODUCTION

1.1. Background

The development of food and beverage companies in Indonesia is growing rapidly in line with the increasing purchasing power of food and beverage products by the community; this can be seen from the large number of companies currently listed on the Indonesia Stock Exchange each year. Food and beverage is a company that has very good prospects for profit in the present and in the future because people need it for their daily lives. Food and beverage companies have the most resistant stocks to the economic crisis in Indonesia when compared to companies in other sectors. As we see in figure 1 that Indonesia's food and beverage industry contributes significantly to Indonesia's GDP as our household consumption contributes more than 50% each year to Indonesia's GDP.

Figure 1.1 Indonesia Food and Beverage Industry Contribution to Indonesia's GDP



Source: BPS (Release Date: June, 2020), Statista - The Statistics Portal for Market Data, Market Research and Market Studies

The development of food and beverage industries in Indonesia is also supported by the massive number of Indonesia population. According to the data from Indonesia's investment coordinating board (BKPM), both foreign and domestic investors still invest in the F & B sector with USD 298 million and USD 495 million in the first quarter 2020 respectively. The F&B sector is also very sensitive toward national economic growth as the government noted that in 2020 Indonesia economic growth contracted -2.7% and for 2021 the government is eyeing the economic growth will reach 4.4-5.0% in 2021. Despite the pandemic majority, food and beverage companies contracted at a modest level as the government implied the social safety net to support the purchasing power.

In 2019, the growth of the food and beverage industry reached 7.78 percent. This figure is higher than the growth of the non-oil and gas industry at 4.34 percent and the national industry growth of 5.02 percent. In addition, in the same year, the food and beverage industry sector also contributed up to 36.40 percent of the GDP of the non-oil and gas processing industry. This thing gives the picture for people of the important role of the food and beverage industry in industrial growth and the national economy.

The Central Bureau of Statistics (BPS, 2018) stated that the growth in 2015 is 9.49 percent and increased 5.42 percent from the 2014 of 4.07 percent. Also, the growth of large and medium food and beverage industries in 2017 increased by 4.74 percent compared to 2016. The increase was mainly due to an increase in food industry production, up 9.93 percent. Meanwhile, the industry that experienced the largest decline in production was the other processing industry, down 4.51 percent. The production growth of large and medium manufacturing industries in the fourth quarter of 2017 is increased by 5.15 percent (y-on-y) against the fourth quarter of 2016. This increase was mainly due to an increase in the production of the food industry, up 15.28 percent. The Central Statistics Agency (BPS, 2019) stated that the industry that experienced the largest

decline was the food industry, which fell 7.69 percent in the fourth quarter of 2018. In the first quarter of 2019, the food and beverage industry sector grew by 6.77% (y-on-y). Even though it grew higher than the fourth quarter of 2018 which was only 2.74%, the growth in the first quarter of this year was the lowest compared to previous years which touched 8 to 12%. The slowdown in the food and beverage sector has been felt since at least the middle of last year. The growth of this sector has decreased in succession since reaching its highest level in the fourth quarter of 2017 with a growth of 13.77%. This proves that from 2015 to 2019 the food and beverage industry in Indonesia continues to experience ups and downs, this is due to the middle and upper class people who hold their consumption at the beginning of the year, which greatly affects the economy in Indonesia.

According to the Food Sanitation Act, food refers to all foods except those treated as medicines. Agricultural products produced or imported by farmers and fishermen go through various distribution stages such as collection, processing, packaging, and sale until they are delivered to the final consumer. All companies that perform the whole economic activities performed in each distribution stage of agricultural and fishery foods. In a broad sense, it can be seen as belonging to the food industry. Based on the Standard Industrial Classification, the food and beverage industry includes only food and additive manufacturing, processing, and freezing storage, which defines the food industry in a narrow sense. And, domestic statistics follow the definition of standard industry classification. Food and beverage companies are generally less sensitive to economic fluctuations, allowing them to maintain higher debt loads. In contrast, depressed businesses should be conservative because the recession could undermine profitability and leave fewer cushions to cover debt repayment and related interest costs during the downturn.

A firm deal with the need for cash and liquidity and solvability are the importance thing variable in the food and beverage area due to the significance of inventory management. Those two substances are crucial to the F&B business because it is worth analyzing if that connection exists and if it is substantial in time period. Companies can maximize their profits if the company's financial management knows what factors have a big influence on the company's profits. To maximize each of its factors, it requires asset management, debt management and cost management. To calculate the ability of a company to maximize its profits, it can be seen from several aspects such as the company's ability to meet all of its debt obligations or pay off short-term debt. Food and beverage companies in Indonesia in carrying out their operational activities need initial capital, one of which is from investors. Every company has the same goal, which is to get as much profit as possible. Profitability itself is the company's ability to make a profit in terms of sales, total assets, and its own capital. The higher the profitability, the company is considered capable of maximizing the use of its assets and working capital.

The financial statements used to predict stock prices consist of balance sheets, income statements, cash flow reports and reports of changes in capital. This will be more relevant if we predict stock prices by analyzing financial ratios. Financial ratio analysis is one of the most useful and common methods used in analyzing financial reports that can be used to predict future stock prices. Financial ratio analysis is a measuring tool for assessing the profitability of the issuer, the quality of management performance, and the prospects for a company in the future. In this research, research is measured by three financial ratios, namely liquidity, solvability and profitability.

The liquidity ratio is used to measure how much the company's ability to meet its short-term obligations on time. One measure of the liquidity ratio used in this study is the Current Ratio (CR), where CR is used to measure the company's ability to pay short-term

obligations when they are collected as a whole. The liquidity ratio consists of the current ratio, quick ratio, cash ratio and inventory to net working capital (Kasmir, 2015:134). As the food and beverage companies focus on their current assets and current liabilities, it is able to maintain their inventory and cash management to run their business smoothly. Ongesa (2014:204) stated that the liquidity ratio (WCTA) showed there is no noteworthy effect on the event of the financial distress conditions. Companies with low current assets in this industry will have a problem to continue their business operations while if the current assets are way too much it shows that ROI in the company is not in the perfect condition. Van Horne and Wachowicz (2008:135) stated that optimum cash level also holds a big part in the industry as companies are relying on the day to day operations and liquidity will make the board think seriously about their profitability in daily operations.

The solvability can picture the company's ability to achieve its obligations. There are several ratios that could be used to measure the solvency level or level of debt utilization of a company. According to Kasmir (2017:151), the solvability or leverage is a ratio used to quantify the scale to which the company's assets are financed with debt. In this study, the solvency ratio can be measured by the debt to assets ratio. The solvability ratio is used to measure how much the company's ability to meet its obligations, both short and long term. One measure of the solvency ratio used in this study is the Debt to Equity Ratio (DER), where DER describes the extent to which an owner's capital can cover debts to outsiders by measuring the extent to which the company is financed from debt. Also, this ratio measures how much the company is financed by creditors compared to the company's equity, so that if the debt to equity ratio is high, it reflects a high company risk as well.

According to the research of Frendy, Marjam, and Parengkuan (2015:749), the debt to equity ratio (DER) has an effect on stock prices. The results of this study are in

line with the results of research conducted by Amanda, Achmad, Astrid, and Darminto (2012:8) which states that the debt to equity ratio partially also affects stock prices. Solvability has a strong relationship to the company capital structure; if the company raises their debt they will occur when rising interest rates overwhelm the tax advantages of the debt.

Profitability ratio has an important meaning for the company because it is one of the bases for assessing the condition of a company. The level of profitability of a company is one of the important indicators in achieving optimal company performance. According to Gitman (2003:61), profitability is the relationship between income and costs generated by using company assets, both current and fixed, in production activities. There are several ratios that can be used to measure the level of company profitability. Profitability in this study is measured using the return on asset ratio (ROA). Return on asset ratio is measured by comparing net income to total assets. The higher the profit achieved by the company, the higher the return on assets of a company. So far, there have been many studies examining the effect of return on assets and stock prices.

While the liquidity and solvency management become a trade - off to the company's profitability. In this research paper, the writer wants to see the financial performance of existing companies that have a significant impact between liquidity and solvability on the profitability of Indonesia Stock Exchange listed food and beverage firms in Indonesia from 2009-2019 as FMCG sector is heavily rely on their current assets and their debt to fuel their business operations.

1.2. Problem Material

Based on the background the author formulates several problems as following:

1. Does liquidity affect the profitability of Indonesia Stock Exchange listed food and beverage companies?
2. Does solvability affect the profitability of Indonesia Stock Exchange listed food and beverage companies?

1.3. Purpose of Research

The purpose of research is to get the answers from the problem material mentioned above:

1. To turn out the effect of liquidity on the profitability of Indonesia Stock Exchange listed food and beverage companies.
2. To turn out the effect of solvability on the profitability of Indonesia Stock Exchange listed food and beverage companies.

1.4. Advantage of Research

The advantage of this reaserch towards:

1. Author

The author will be able to expand more of the knowledge on the liquidity and solvability upon the profitability on the selected company. Hoping that it will be a contribution in his future careers if its required.

2. Company

To companies that is planning to build a food capital market or for the company that already has its area. By learning and figuring out the information of liquidity and solvability on the profitability, they will be able to prepare their performance towards in a positive way.

3. For the future researcher

The writer hopes that the research done for this study will be helpful for the next researcher in analyzing the firms of performance that the effect of solvability and liquidity on profitability to check the factors that can influence to maximize the firm's profitability.

4. University

The writer hopes that the research which is done will be able to provide more perception to the theories and subject that is stated for additional studies and utilize by the university. The writer also expects that the study could give a new found prospect on the object for the student who may take a profound interest in the topic.

1.5. Writing Scheme

The research paper will be divided into 5 chapters as follows:

CHAPTER I: INTRODUCTION

This chapter will examine subchapters inclusive of the background, research problems, research objectives, significance of the study, scope of the study, as well as the systematic discussion.

CHAPTER II: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter will discuss the literature review for the paper as well as the conceptual framework, prior research, and hypothesis development.

CHAPTER III: METHODOLOGY

This chapter will discuss the details pertaining to the methods utilized to quantify the outcomes. This will contain the population and sample, the empirical model, the operational variable definition, and the method of data analysis.

CHAPTER IV: DISCUSSION

This chapter will discuss the result of the findings of the research, notably in relation to **THE EFFECT OF LIQUIDITY AND SOLVABILITY ON THE PROFITABILITY OF FOOD AND BEVERAGE FIRMS LISTED ON INDONESIA STOCK EXCHANGE (IDX) PERIOD OF 2009 TO 2019.**

CHAPTER V: CONCLUSION

This chapter will consider the consequence of the study. It will also involve the suggestions for advancement for the current research as well as suggestion for future research.

