

CHAPTER I

INTRODUCTION

1.1. Background of Study

In the past, the development of the Indonesian capital market did not play a significant role in the Indonesian economy. This occurred as a result of the public's subsequent lack of interest in investing, as well as a lack of public knowledge about the capital market and the limited number of company listed on the stock exchange. Along with increased public awareness and the existence of government investment policies, there is growth in the world of capital market investment. This can be seen in the number of companies listed on the stock exchange, which totaled 489 in 2013 and increased to 737 companies in 2021 (www.idx.co.id).

The capital market is a place where long-term traded securities can be purchased and sold (Hayes, 2021). The presence of capital market broadens the available sources of funds (particularly long-term funds) for companies while also broadening investment options, increasing the opportunity to optimize the utility function (interests) of each investor. The capital market is an option for investors to invest their funds, but investments in the form of stocks are quite risky but has comparatively higher returns. As a result, investors require relevant information as well as precise performance measurement tools that can be used to determine investment options against stock prices that have positive returns. People can invest in the capital market by becoming investors. The investment activity itself consists of investing activities, either directly or indirectly, in the expectation that the owner

of the capital will get benefit from the investment's results later on. People can participate in economic development because of the capital market. Companies receive relatively cheap funds in the capital market because they do not have to pay the cost of capital (the cost of capital can be reduced), resulting in opportunities for companies to expand even further. This situation will have a positive impact on employment, the use of technology and natural resources and the government's tax revenues.

The capital market as an investment instrument is influenced by a variety of factors, particularly the economic environment. This economic environment can be classified into two categories which are microeconomic and macroeconomic. Microeconomics is influenced by the environment, such as firm performance, financial statement announcements, or dividend distribution. While the macroeconomic environment and its impact, such as changes in savings and deposit interest rates, foreign currency rates and other government restrictions and economic deregulations. All of this has a significant impact on capital market movements, thus investors are always interested (Potters, 2021).

Stocks are one of the capital market tools that the public is familiar with. Stock is evidence of a company's ownership or involvement in its equity. Go public company is company that has issued its stock on the capital market. Go public companies are made up of a variety of companies that are divided into several sectors based on specific business fields (Langager, 2020). Each sector of a company listed on the Indonesian Stock Exchange has a distinctive stock price, resulting in a wide range of rates of return. In general, investors buy shares to

receive dividends and capital gains from the price difference between the buying and selling of shares. To avoid losses, investors must constantly monitor share price variations and the variables that influence share prices in order to choose whether to sell or acquire shares. There are two techniques to securities analysis which are fundamental and technical analysis. Fundamental analysis is a method of determining whether stocks can perform well or underperforming in order to determine which securities are worth purchasing or selling (Hayes, 2019).

Share price is the current market capitalization price per share. Because the stock price reflects the company's performance, it is a very significant component that investors must consider while investing. High price, low price and the close price are the three categories of stock prices in the capital market. The highest or lowest price is the price that occurs on a single day of trading. The last price that happens at the end of trading hours is the closing price (Pinsent, 2020). The performance of the company is reflected in the stock price. In such conditions, the share price of the company tends to increase if the company has a better performance, the benefits that can be achieved by large business activities (Murphy, 2021).

The company's financial performance is one of the most important factors that investors consider when selecting stocks. Several financial ratios can be used to evaluate a company's financial performance. Every financial ratio plays a specific role, has a specific use and has a specific meaning. The measured ratio results are then interpreted so that they can be used to make decisions. The ratios used in this survey are net profit margin, debt to equity ratio and return on investment. Net profit

margin is a ratio that measures a company's profit to its sales (Brigham, 2006). This ratio interprets the company's level of efficiency, specifically the extent to which the company's ability to reduce operating costs during specific periods. The higher the ratio value, referencing the company's ability to earn a profit through sales is quite high, as is the company's ability to reduce costs. Debt to equity ratio is the ratio used for calculate the proportion of debt to capital (Hery, 2014). Debt to equity ratio reflects the company's ability to fulfill all of its obligations, as illustrated by the use of some of its own capital to pay debts. Return on investment is a ratio that calculates the rate of return on investment made by a company from the total funds invested in assets used for the company's operations in order to make a profit (Fernando, 2021).

Food and beverage company is a company that is involved in the food and beverage industry. Food and beverage companies are flourishing in Indonesia, it can be seen by the increase number of companies listed on the Indonesia Stock Exchange. Many investors choose to invest their fund to food and company industry because the stocks are the most crisis-resilient in relation to other sectors and in any situation, food and beverages are needed in human's daily basis.

There are 34 food and beverages companies that listed on the Indonesia Stock Exchange from 2017 to 2019 and only 15 companies that were chosen as sample for this research. All companies were chosen because they had fulfilled the criteria that the writer expected, such as all of the companies that were listed in Indonesia Stock Exchange (IDX), companies that have complete data (net income, sales, total asset, liabilities and equity) needed to calculate the variables, companies

that does not suffer any loss and using Rupiah as the nominal stated in the financial statements.

Table 1. 1 NPM, ROI, DER and Stock Price

Company	Year	NPM	ROI	DER	Stock Price
PT. Indofood CBP Sukses Makmur, Tbk	2018	12.13	13.56	0.51	10,450
PT. Indofood CBP Sukses Makmur, Tbk	2019	12.67	13.85	0.45	11,150
PT. Mayora Indah, Tbk	2018	7.32	10.01	1.06	2,620
PT. Mayora Indah, Tbk	2019	8.15	10.71	0.92	2,050

Source: Prepared by the Writer (2020)

According to the phenomenon table above, we can see that the stock price of PT. Indofood CBP Sukses Makmur, Tbk still increase while the debt to equity ratio is decrease. While the stock price for PT. Mayora Indah, Tbk has decrease as well as the debt to equity ratio. From this condition, the writer is interested in examining whether there are other indicators like net profit margin, return on investment and net profit margin that affect the stock prices. Therefore, the writer is interested in doing a research using the title “The Effect of Net Profit Margin, Return on Investment, and Debt to Equity Ratio on Stock Prices of Food and Beverages Companies Listed on Indonesia Stock Exchange.”

1.2 Problem Limitation

In order to the research that conducted is not widespread and can focus on the main problem, then the author limit the research such as:

1. Financial performance in this research is based on 3 financial ratio consists of Net Profit Margin (NPM), Return on Investment (ROI) and Debt to Equity Ratio (DER).
2. The company in this research is a food and beverage company in consumer goods sector that has gone public and is listed on the Indonesia Stock Exchange (IDX) and have complete financial statements.
3. This research is using data from 2017 to 2019.

1.3 Problem Formulation

Based on the background of the problem that has been described, the problem formulation are described as follows:

1. Does Net Profit Margin (NPM) partially affect stock prices in food and beverages companies listed at Indonesia Stock Exchange?
2. Does Return on Investment (ROI) partially affect stock prices in food and beverages companies listed at Indonesia Stock Exchange?
3. Does Debt to Equity Ratio (DER) partially affect stock prices in food and beverages companies Indonesia Stock Exchange?
4. Do Net Profit Margin (NPM), Return on Investment (ROI), Debt to Equity Ratio (DER) simultaneously affect stock prices in food and beverages companies Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the above problem formulation, the objectives of this research are as follows:

1. To determine the effect of Net Profit Margin (NPM) on stock price partially in food and beverages companies listed at Indonesia Stock Exchange.
2. To determine the effect of Return on Investment (ROI) on stock price partially in food and beverages companies listed on the Indonesia Stock Exchange.
3. To determine the effect of Debt to Equity Ratio (DER) on stock price partially in food and beverages companies listed on the Indonesia Stock Exchange.
4. To determine the effect of Net Profit Margin (NPM), Return on Investment (ROI) and Debt to Equity Ratio (DER) on stock price simultaneously in food and beverages companies listed on the Indonesia Stock Exchange.

1.5 Benefit of Research

The research on “The Effect of Net Profit Margin, Return on Investment and Debt to Equity Ratio on the Stock Prices of food and beverages companies” is expected to be useful for either related or unrelated parties. The benefit of this research consist of two types of benefit, such as:

1.5.1 Theoretical Benefit

This benefit explain that the results of research are useful in contributing ideas or enriching concepts, theories of science from research in accordance with the field of science in a study. Here are the theoretical benefits of this research, such as:

1. For Investors

This research is expected to improve investors' understanding of financial information while making investment decisions in the capital market, reducing the dangers that may arise as a result of deep stock market transactions.

2. For Researcher

This paper is undertaken to provide the researcher with a better knowledge and could serve as a reference material for future research, particularly for students conducting research on the impact of financial ratio analysis elements on stock price.

1.5.2 Practical Benefit

Practical benefits are those that can be experienced and used by individuals when they are applied in the actual world. Here are some of the research's practical benefits:

1. For Companies

It is expected that financial information regarding the procedures will be used as material information if the company faces financial problems.

2. For Writers

It is a manifestation of the application of knowledge learned during lecture and can give some insight, expertise and experience in the research subject.