

CHAPTER I

INTRODUCTION

1.1 Background

The year 2020 will be one of the most difficult years for global economic growth. Many countries are on the verge of a recession due to the Covid-19 pandemic. With the new cases of Covid-19 both outside and in Indonesia, it has not shown much improvement. This has put pressure on global markets and has become a negative catalyst, especially for Indonesia, as can be seen from the condition of the JCI which was corrected quite deeply in the first quarter of 2020. Various efforts have been made both from outside and within the country to stabilize the world capital market. The Indonesian government has also accelerated and optimized state spending as well as reallocated spending that is not too prioritized for handling Covid-19 so that there is no sharp economic downturn so that it is hoped that the business cycle can continue. The government is also still maintaining the inflation rate by lowering the BI interest rate so that people's purchasing power does not experience a lot of decline. Although the government has begun to loosen the social restrictions and extend operating hours of malls and business centers, it seems major outdoor activities hasn't fully recovered. This can also be seen in our respondents' spending on transportation costs that declined over the past three months. People's mobility to retail and recreational spaces such as restaurants, cafes, shopping centers, theme parks, libraries and movie theaters have dropped

7%. Meanwhile, mobility trends for places of work has declined more sharply by 57%, in the last week from Jan-Feb 2021 according to Google's Community Mobility Reports on global movement trends during the pandemic show. This also confirms the condition of the malls around workplaces that has been mentioned earlier.

This condition and behaviour imply that consumers have been shopping remotely from home, which makes the consumer goods sector stay more alive compared to other sectors. While the brick-and-mortar stores are having a slow recovery, online grocery shopping is continuing to reach ever-higher numbers as many people seem to be in no rush to return to the store. A shift in customer preference is also found, which is buying more on the healthier food products. According to an update from HappyFresh, one of the online groceries that partnering with various supermarkets, stated that their shopping transactions have increased 5-10 times than before the pandemic. In addition, Ranch Market (RANC) as one of the brick-and-mortar supermarket players also enters the online grocery business. With people having more time in their hands, as they don't need and are restricted from traveling, the need to be more productive has increased. Research also shows that quite a number of investor gurus or influencers are surfacing around the social media platforms and people are actually attracted to join classes and memberships to learn from them. KSEI statistics shows that for the year 2021, the number of investors in Indonesia has increased drastically for about 57% which is equivalent to 6.1 million investors and that is 2.2 times more than the previous year.

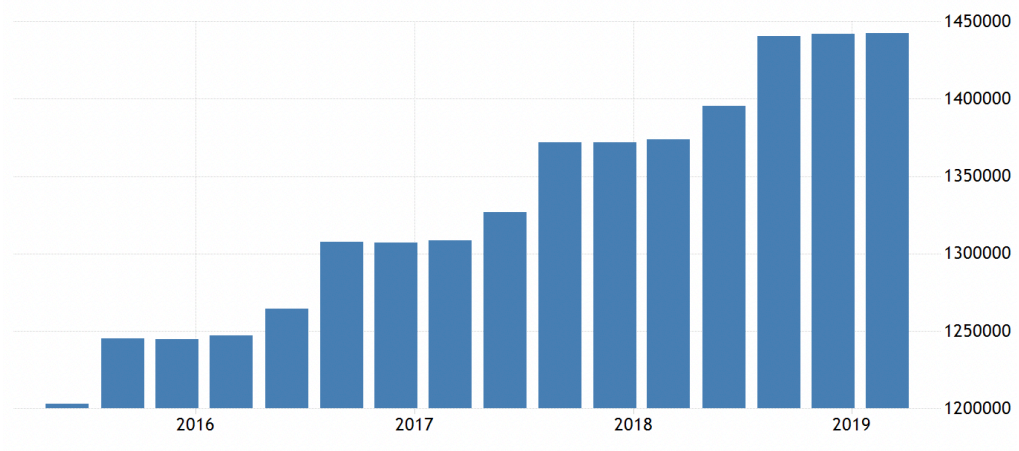
In addition to that, according to the Ministry of Industry, manufacturing sectors have even performed better than the national economic growth. Now Indonesia is one of the strongest countries in this industry. As we can see from the table of consumer spending in Indonesia below from 2015 - 2019, it implies that the consumer goods industry in the manufacturing sector is one of the many industries that grows significantly over time. Because the market trend is expanding every year, and the consumer goods sector in Indonesia this year is doing better than the other sectors even in the midst of the pandemic as transactions have increased more than 5 times through the online business. This implies that the consumer goods manufacturing industry is recovering faster than the other sectors, hence investors are particularly more interested in investing in the consumer products industry. These statistics shows that along with the drastic increase number of investors in Indonesia, the consumer goods manufacturing sector seems to be the most sought-after sector to be invested by investors. However, this does not change the fact that in the beginning of this pandemic, the world economy, not only in Indonesia was shaken severely. Hence why the financial statements result of the year 2020 are still affected by the economical shakedown. It is preferable to examine the most recent normal market year without the pandemic impact, which is from 2019 backwards. As the pandemic doesn't always happen and now the world has recovered and even the IHSG has already reach back to the value before the pandemic hits

A country's growth and economic growth is influenced by various factors such as export - import activities, investment, tourism, and foreign investment.

According to Anderson, consumer spending is the single most important driver of the US economy (2020:1). To end a recession, Keynesian economic theory suggests that the government should increase spending. Consumer expenditure accounts for a considerable portion of GDP in the United States. As a result, it is one of the most important factors of economic health. Consumer data on what they buy, don't buy, and want to spend their money on can reveal a lot about where the economy is headed. As we all know, the consumer goods industry in the manufacturing sector is one of the many industries that grows significantly over time. This is because people's daily and basic needs all over the world are provided by this industry. The average annual expenditures increased 3.0% from 2018 to 2019 (from \$61,224 to \$63,036, respectively), compared to a 1.9-percent growth from 2017 to 2018.. Keeping an eye on consumer spending trends can be a useful tool for managing assets. As numerous consumer goods businesses have lately gone public, this industry has proven to many that it has a favorable impact on the capital market. Because the market trend is expanding every year, investors are particularly interested in investing in the consumer products industry. The consumer goods companies which have been going public, utilize the existence of the capital market to obtain funding sources or financing alternatives that can be used as a mean to reflect the company's financial performance. If the company's financial performance is good, the market will respond positively by rising the stock price. Before investing their money in a firm, investors or potential investors always look for information about the company's financial performance.

Domestic demand, such as family spending and strong levels of investment, drove Indonesia's economic growth to 5.02 percent in 2019. Manufacturing firms are those that engage in the processing of raw materials or the transformation of raw resources into finished goods. Manufacturing businesses in Indonesia may absorb a large number of workers since they require a large number of operating people. Currently, the manufacturing industry in Indonesia is also starting to shift the role of commodity based to manufacture based, so that non-oil and gas industries can also develop optimally. Not only on a national scale, the manufacturing sector in Indonesia is currently in the top position in ASEAN if you look at the Manufacturing Value Added (MVA) which is currently at 4.5%. around the world. Of course, this is good news for the Indonesian economy. This is because, according to the Ministry of Industry, several manufacturing sectors have even performed better than the national economic growth. Now Indonesia is one of the strongest countries in this industry. Those interested in investing in Indonesian manufacturing companies should be aware of the list of the country's largest manufacturing enterprises, which are the top three in terms of assets. The Basic and Chemical Industry Sector, Miscellaneous Industry Sector, and Consumer Goods Industry Sector are among the manufacturing companies listed on the IDX.

Figure 1.1 Indonesia's Consumer Spending Graph for the year 2015 – 2019



Source: tradingeconomics.com, September 2021

The company's management's success in managing business performance and resources provides a favorable signal for investors in investing their cash, resulting in a rise in stock trading activity (buying and selling) in accordance with stock price changes. Stock prices are determined by market players' responses as well as stock supply and demand. Stock prices are continually fluctuating due to the interaction between supply and demand. Jogiyanto (2008:167) defines "stock price" as "the price of a share that occurs on the stock market at a specific time specified by market participants and determined by the demand and supply of relevant shares in the capital market." Shares according to Nurmayanti (2010: 36) "the stock price is the market price, namely the selling price from one investor to another." Meanwhile, according to Simatupang (2010:21), "The market price of the shares of a publicly traded company is the value traded on the stock exchange." To be able to read and know the price movements, an investor needs to analyze both fundamental analysis and technical analysis. Fundamental analysis helps

investors answer why a stock goes up or down while technical analysis answers when investors should buy, realize profits and limit losses. Fundamental analysis is more appropriate to use in making long-term investments because it includes historical data information such as financial statements and company health, how the company's management efforts in creating good prospects, showing competitors, especially in similar industries, and the market situation of the product. Stock price movements can occur as a result of fundamental factors both internally and externally. Internal fundamental factors sourced from within the company are used to assess stock prices by analyzing the company's financial performance through financial ratios in financial statements. From the analysis conducted on financial ratios, it can be seen whether the company's performance is good or not. Good performance can be a positive sentiment for investors, namely increasing confidence, increasing demand for buying shares and increasing share prices. In addition to financial statement analysis, other factors that influence the reaction of the capital market to stock price movements can be seen from the financial statements of the past period, dividend distribution, media press releases, corporate action announcements both financial and non-financial, financial statements of other companies in the same industry, etc. External fundamental factors originating from outside the company, also called macroeconomic factors can be grouped into macroeconomic factors as global impacts such as the Dow Jones Index, the Fed's interest rates, changes in exchange rates / rupiah exchange rates, and movements in world gold prices and macroeconomic factors from such as

inflation, interest rates and changes in Gross Domestic Product (GDP). The current ratio (CR) is one of the ratios used to assess a company's liquidity. The better or healthier a company's capability to satisfy short-term obligations is, the more likely it is to attract investors, resulting in a stock price gain. The current ratio is a metric that compares current assets to current liabilities. So, any transaction resulting in a change in the amount of current assets or current debt, either or both, will result in a change in current ratio, which means it will result in a change in liquidity levels. Investors use the return on equity (ROE) ratio to evaluate how effectively a company's management performs in increasing profitability by managing their own capital. Investors may respond positively to a high Return on Equity since the cash invested can be utilised effectively and efficiently by the company to produce profits. With a high Return on Equity, it is expected that operational cash flow will be better and can increase margins / gross profit so that there will be an increase in stock prices. Debt to Equity Ratio (DER) is a parameter used by investors to understand the company's capital structure and reflects the source of operational financing for its business activities, from own capital or from debt. In addition, this ratio can also help investors evaluate the company's capability to pay off its debts when they fall due. The risk of default by companies with large debt levels in their capital structure is higher, especially if their profitability declines and is exacerbated by an unfavorable economic situation. The use of debt in business operations is said to have a small risk if the company can guarantee that its profitability has increased. The control

variable proxied by Firm Size and Age is a variable that gives a strong or weak influence between the ratio of Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER) to stock price movements. Company size shows the dimension of the company. The larger the company size, the greater its competence to carry out various company operations. A large size will increase the company's competence to produce and complete various company obligations. The size of a firm is measured in terms of its level or scale. Firm age is also an important variable to drive company performance. The older the company is, the more productive capacity it should have, such as relationships with various parties. The learning process over a long period of time is thought to increase the company's maturity.

With that being said, based on the background above, the title that is chosen by the writer is **“THE IMPACT OF RETURN ON EQUITY(ROE), CURRENT RATIO, AND DEBT TO EQUITY RATIO(DER) TOWARDS THE STOCK PRICE OF MANUFACTURING COMPANIES LISTED IN THE IDX FOR THE YEAR 2015 - 2019”**.

1.2 Research Problem

Based on the statements stated on the background above, writer determines research problems as follow:

- 1) Does the Current Ratio variable have effect towards stock price?
- 2) Does the Return on Equity variable have effect towards stock price?
- 3) Does the Debt on Equity variable have effect towards stock price?

1.3 Research Objective

Based on the description of the problem above, the goal of this study is to examine and find empirical evidence regarding the effect of financial ratios on manufacturing enterprises on the IDX from 2015 to 2019 on stock prices.

The following are the study's aspirations:

- 1) To prove and determine the effect of Current Ratio towards stock price.
- 2) To prove and determine the effect of Return on Equity towards stock price.
- 3) To prove and determine the effect of Debt on Equity towards stock price.

1.4 Significance of the Study

1) Writer

The study's goal is to improve people's understanding of the topics being studied as well as their competence to apply what they've learned during their university education.

2) Universitas Pelita Harapan

The findings of this study could provide valuable insight into how theories learnt throughout the learning process are put into practice, as well as a measure of the level of content to be taught during the learning process. The author also hopes that his findings will be used to enrich the Johannes Oentoro Library's literature collection.

3) Next Researchers

The findings of this study may aid future research into factors that impact market reactions and cause stock price swings. The findings of this study may assist future research into factors that impact market reactions and cause stock price swings.

4) Literature Reference

The writer believes that the findings of this study will contribute to financial performance literature or research. Additionally, this research may provide additional literature for the government to explore in order to promote awareness about the new era of globalization and its repercussions.

5) Investors and stakeholders, and creditors

The results of this study are expected to be considered by investors in analyzing fundamental factors, especially on financial statements so that they can predict stock prices and can make the right investment decisions.

1.5 Scope of the Study

The scope of this research has the following problem limitations:

- 1) The object of the research is a company listed on the Indonesia Stock Exchange (IDX)
- 2) The population in this study are manufacturing companies from 2015 – 2019.
- 3) The dependent variable used is stock price.
- 4) The independent variables used are financial ratios such as Current Ratio, Return on Equity, and Debt to Equity Ratio.
- 5) The control variable used in this study is Firm Size and Age.

1.6 Systematic Discussion

The systematic discussion of the thesis is explained as follows:

CHAPTER I INTRODUCTION

This chapter contains an explanation of the summary of research problems consisting of background, research problems, research objectives, research benefits, problem boundaries and systematic discussion.

CHAPTER II LITERATURE REVIEW

This chapter contains an explanation of the theoretical basis used as the basis for research, previous research related to research, research framework and research hypotheses.

CHAPTER III RESEARCH METHODOLOGY

This chapter contains an explanation of the population, sample, data collection techniques, definitions of operational variables, data collection procedures and data analysis methods.

CHAPTER IV RESULT AND DISCUSSION

This chapter describes the research findings derived from data processing, including an analysis of research findings relating to the influence of financial ratios such as Current Ratio, Return on Equity, and Debt to Equity Ratio on stock prices, both with Firm Size and Age as the control variables, and the analysis is conducted on a theoretical basis.

CHAPTER V CONCLUSIONS AND RECOMMENDATIONS

This chapter outlines the final conclusions from the research that has been carried out. Limitations, suggestions for interested parties including actors, and provide useful implications for future researchers.

