

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

In the current economic condition, many companies from various industries create tough competition, so in order to survive in the industry, a company must do its best to improve the performance of its company. One industry that has tough competition is the food and beverage. This industry will always develop thanks to the latest innovations found. Along with the development supported by the globalization, the food and beverage industry in Indonesia is growing and triggering many new competitors to enter this industry. Apart from being influenced by innovation and globalization, people's consumptive behavior is also one of the factors that triggers intense competition in this industry. The food and beverage industry is one industry that will continue to grow because basically, food and beverages are basic human needs to survive. Besides that, entrepreneurial awareness is also increasing and often makes the food and beverage sector the choice of new entrepreneurs. The food and beverage industry is also basically related to other industries, such as the tourism sector, and this linkage makes the food and beverage industry continues to develop from year to year.

Based on data obtained from [kemenperin.go.id](http://kemenperin.go.id) (2021), the growth experienced by this industry was 9.23% in 2017. The food and beverage industry contributed 34.95% of the non-oil and gas GDP of Indonesia in 2017 and was the subsector that contributed the most. In addition, the food and beverage industry also recorded an investment of 27.92 trillion rupiah and an increase of 16.3% from 2016.

In 2018, this industry experienced a growth of 7.91% and contributed up to 56.6 trillion rupiah in Indonesia's national investment. In 2018, the workforce in the manufacturing industry sector reached 18.25 million people, which mostly contributed by the food and beverage industry with 26.67%. In 2019, this industry experienced a growth of 7.95%, and in 2020 it only reached a growth of 1.58% due to the COVID-19 pandemic, but it still contributed the highest export value in the manufacturing sector, which reached US \$27.59 billion, and this industry's investment amounted to Rp40,53 trillion in January to September 2020.

In general, the main reason of establishing a company is to get a large profit. However, apart from profit, company value is also very important. Company value is the value that becomes the basis or motivational guide for all employees to work together to achieve company goals. This company value is usually related to business relationships, such as the relationship between the company and its suppliers. The best way for a company to establish relationship with consumers is by offering high-quality products, charged by the affordable price. Company value is a factor that is highly considered by a future investor. Investors certainly want to invest in companies that have high company value because this can reflect the prosperity or wealth of the owners of these shares. High value of company will make the market or investors interested in investing their money because company value can reflect effective and efficient performance in its operation. Company value, according to Husnan and Pudjiastuti (2012:6), is the price that potential purchasers are ready to pay for a company if it is sold. The value of a company is reflected in its financial performance, which basically has various ratios as its

measuring tool. Liquidity ratios, leverage ratios, activity ratios, and profitability ratios are the four types of financial ratios.

Return on equity is the ratio used to measure the ability to generate profits by utilizing the invested equity by investors. Return on equity is also an important ratio for potential new investors because through this ratio, investors can see and find out how efficiently a company uses the invested equity to generate net income. According to Harjito and Martono (2010), return on equity is a metric that determines how much profit the capital owner is entitled to. A high return on equity implies that a company's use of equity is efficient, while a low ratio indicates that company is inefficient using invested equity.

Company value is also influenced by the debt to equity ratio. This ratio compares the amount of debt to equity (Kasmir, 2013:157). Companies that want to increase the value of their company, then they must manage the combination of the amount of debt and equity properly. If debt to equity has a high ratio, then it reflects that a company has and uses a large amount of debt compared to equity in carrying out the company's day-to-day activities to make a profit. This high ratio can benefit the company because it can reduce the amount of tax to be paid. On the other hand, it will harm investors because if the company goes bankrupt, the company will prioritize paying its debt first.

Earnings per share is also one of the factors that can influence a company's value. Earnings per share is the amount of profit that can be obtained per one share owned. If the yield per share is high, then this will attract investors to invest so that

it can increase the value of the company. Earnings per share is an important factor used by investors in deciding to buy or sell shares.

**Table 1.1**  
**Table of Phenomena**

Company	Year	ROE (%)	DER	EPS (Rp)	Company Value (Rp)
MLBI	2017	124.15	1.36	627	13,675
	2018	104.89	1.47	581	16,000
	2019	105.21	1.53	572	15,500
	2020	22.16	1.03	136	9,700
ICBP	2017	18.3	0.56	326	8,900
	2018	21.7	0.51	392	10,450
	2019	21.7	0.45	432	11,150
	2020	19.3	1.06	565	9,575
INDF	2017	11.1	0.88	473	7,625
	2018	10.2	0.93	474	7,450
	2019	11.3	0.77	559	7,925
	2020	13.1	1.06	735	6,850

Source: prepared by writer (2021)

Table 1.1 above shows the data regarding the ratio of return to equity, debt to equity ratio, earnings per share, and company value of three large companies, which are PT. Multi Bintang Indonesia Tbk, PT. Indofood CBP Sukses Makmur Tbk, and PT. Indofood Sukses Makmur Tbk. The purpose of this presentation is to see whether there is an influence of these three ratios on the value of each company.

In 2018, PT. Multi Bintang Indonesia Tbk (MLBI) has a higher number of sales compared to 2017. While having the large sales expenses, it results in a smaller 2018 profit compared to 2017. The main reason that made MLBI's liabilities increase is that this company obtained a new loan amounted to Rp70 billion from

the bank, and another minor reason is the increase in accrued expenses for promotion, fixed assets, and transportation. Equity in 2018 also increased due to retained earnings from 2017. This situation made the ROE and EPS ratios decreased while the DER ratio and company value increased. MLBI recorded higher sales in 2019 but the recorded profit was lower due to a 207% impairment loss on trade accounts receivable. MLBI's liabilities also increased due to an increase of 5.6% in accrued expenses for advertising and promotions and 26% in deferred tax liabilities. Equity also decreased because the retained earnings were recorded less than the previous period. In the 2019 period, ROE and DER increased, while EPS and company value decreased slightly. Because MLBI is an alcohol company, sales recorded by MLBI in 2020 decreased drastically by 46.5%. During this pandemic, alcohol consumption is decreasing, and alcohol sales are down 49.8%. The liabilities are also reduced because in 2020, MLBI did not make loans to banks as in previous years. Recorded equity by MLBI continued to increase, as contributed by its retained earnings. The ROE ratio in 2020 immediately fell drastically. The same thing happened to DER and EPS, and this also affected the company's value, which also decreased.

Next is PT. Indofood CBP Sukses Makmur Tbk (ICBP). The recorded sales by ICBP in 2018 experienced a slight increase compared to 2017. Liabilities also experienced a slight increase due to an increase in accrued expenses for advertising and promotion. However, ICBP's equity in 2018 experienced a large increase due to an increase of 205% in unrealized gain on available for sales of financial assets. ROE and EPS have increased, while DER has decreased, which is reflected in the

company's value, which also increased. The recorded sales in 2019 increased by 10% and resulted in an increase in profit as well. ICBP's liabilities increased due to a 154% increase in short-term loans. Equity continued to increase due to an increase in unrealized gains on financial assets of 68.6%. This year's ROE did not change, but DER decreased. For EPS and company value, both experienced a good increase. In 2020, recorded sales by ICBP experienced an insignificant increase. ICBP's liabilities also increased dramatically due to an increase in tax payable by 229% (article 25 and 29), lease liabilities for land, building, and vehicles by Rp91.2 million, an increase in bank loans by 1715.7% for the acquisition of Pinehill Company, and other long-term loans by Rp9.1 million. Equity also increased due to the acquisition of Pinehill Company. ICBP obtained a lower ROE ratio in 2020 than in 2019. A drastic increase was seen in the DER and EPS ratios, but the recorded company value decreased.

The third, PT. Indofood Sukses Makmur Tbk (INDF), recorded a lower profit because of the loss in foreign exchange for its financing activities. The liabilities have increased due to a bond payable of Rp1.9 million. The increase in equity was also due to a 50% increase in unrealized gain on available for sale financial assets and a 15.3% foreign exchange difference. ROE decreased slightly, while DER and EPS increased and company value decreased significantly. For 2019, the recorded profit by INDF experienced a slightly increase while the company's liabilities decreased due to the absence of bond payable and trust receipts as in the previous year. Equity has increased because there is an increase in the change in equity of subsidiaries. This situation is in line with the ratio where



ROE and EPS as well as company value have increased while DER has decreased. Furthermore, the recorded profit in 2020 will be 48.2% higher than the previous year. INDF debt increased dramatically by 100% and was contributed by a 425% increase in bank loans and lease liabilities. INDF's equity increased due to an increase in retained earnings and the acquisition of Pinehill Company. The increase in profit makes ROE and EPS also increase, DER also has quite a drastic increase, while company value has decreased.

According to the background and the inconsistent correlation between the ratios and the company value, the writer is interested in conducting research with the title "**The Influence of Return on Equity, Debt to Equity, and Earnings per Share toward Company Value of Food and Beverage Companies listed in the Indonesia Stock Exchange.**"

## **1.2 Problem Limitation**

Due to time constraints, the scope limitations of this research are:

1. The companies tested in this study are limited to food and beverage companies listed on Indonesia Stock Exchange from 2017 to 2020.
2. The independent variables used in this study are return on equity, debt to equity ratio and earnings per share.
3. The measurement of company value is using market price.

### **1.3 Problem Formulation**

Based on the background that has been conveyed, the problem formulations that can be taken are as follows:

1. Does return on equity has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange?
2. Does debt to equity ratio has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange?
3. Does earnings per share has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange?
4. Do return on equity, debt to equity ratio and earnings per share have significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange?

### **1.4 Objective of Research**

Through the problem formulations above, it can be seen that the objective of this research is:

1. To determine whether return on equity has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange.
2. To determine whether debt to equity ratio has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange.



3. To determine whether earnings per share has significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange.
4. To determine whether return on equity, debt to equity ratio and earnings per share have significant influence toward the company value of food and beverage companies listed on Indonesia Stock Exchange.

## **1.5 Benefit of Research**

### **1.5.1 Theoretical Benefit**

For academic purposes:

1. Students should be able to use the findings of this study to assess the influence of the return on equity, debt to equity ratio and earnings per share toward company value.
2. The results of this study are expected to become literature material for future researchers who will discuss the same topic.

### **1.5.2 Practical Benefit**

For the benefit of investors:

1. The findings of this study should inform investors about the influence of return on equity, debt to equity ratio and earnings per share toward company value.
2. The findings of this study are intended to be helpful to investors in its investment decision.

For the benefit of the company:

1. The findings of this study are expected to encourage the company to focus on return on equity, debt to equity ratio and earnings per share because these ratios might influence the value of the company.

