

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In the era of rapid technological development, business development is increasingly growing in line with the development of the technology. This is what makes every entrepreneur must change every technology they have such as production machines into the latest technological products so that companies can increase their production to meet market demands.

To upgrade the latest technology, the company needs resources or source of capital to buy the technology. To meet these capital requirements, companies can apply for loans to banks, both state banks and private banks in the form of short-term loans and long-term loans. In addition to borrowing from banks, companies can meet their capital needs through the capital market. Capital market law number 8 of 1995 defines the capital market as "activities related to the public offering and trading of securities issued, as well as institutions and professions related to securities".

There are many types of shares listed on the Indonesia Stock Exchange (IDX). Consumer goods companies or consumer goods industries are companies engaged in manufacturing that process raw materials into finished goods, where the products of consumer goods companies will later be consumed or used by the wider community as this sector industry thrive with the growth of Indonesia's economy. These public companies are

grouped into numerous industrial sectors, one of which is consumer goods industry sector. Food and beverage, cosmetics and household needs, tobacco, pharmacy, and household appliance industry are all part of the consumer goods sector. This sector is quite popular among stock investors. Company who are members of this sector produce goods that are people's daily needs

The share price is the share price that occurs in the stock exchange market at a certain time determined by market participants and determined by the demand and supply of the relevant shares in the capital market. The stock price is one of the references for investors in investing in a company. Apart from the law of supply and demand, there are several basic factors that can affect stock prices, namely external factors, and internal factors.

In addition to the company's performance, there are internal and external fundamental factors that affect stock prices. Internal factors are factors that arise from within the company such as the annual report issued by the company where from the annual report investors get information about the company other than the company's financial statements. External factors are factors that come from outside the company such as inflation rate, government policies, macro economy, security of a country and politics. Political conditions in a country greatly affect stock prices. This can be seen when the heated political situation in Indonesia due to the Indonesian presidential election caused share prices in Indonesia to fall.

The Indonesian Stock Exchange or the capital market serves to connect investors, companies, and government institutions through trading long-term financial instruments, and one of the instruments traded is stocks. The development of the capital market in Indonesia encourages companies to sell their shares to the public so that more and more companies are listed on the Indonesia Stock Exchange. Every year public companies listed on the Indonesian stock exchange are required to submit financial reports, because financial statement information is an important element for investors and analyst for analysis and decision making.

Indeks Harga Saham Gabungan (IHSG), also play a role to shows Indonesian stock market movement, IHSG stock price index is organized and calculated with the outcome of trend movement, and the index number may be used to compare events such as price changes over time.

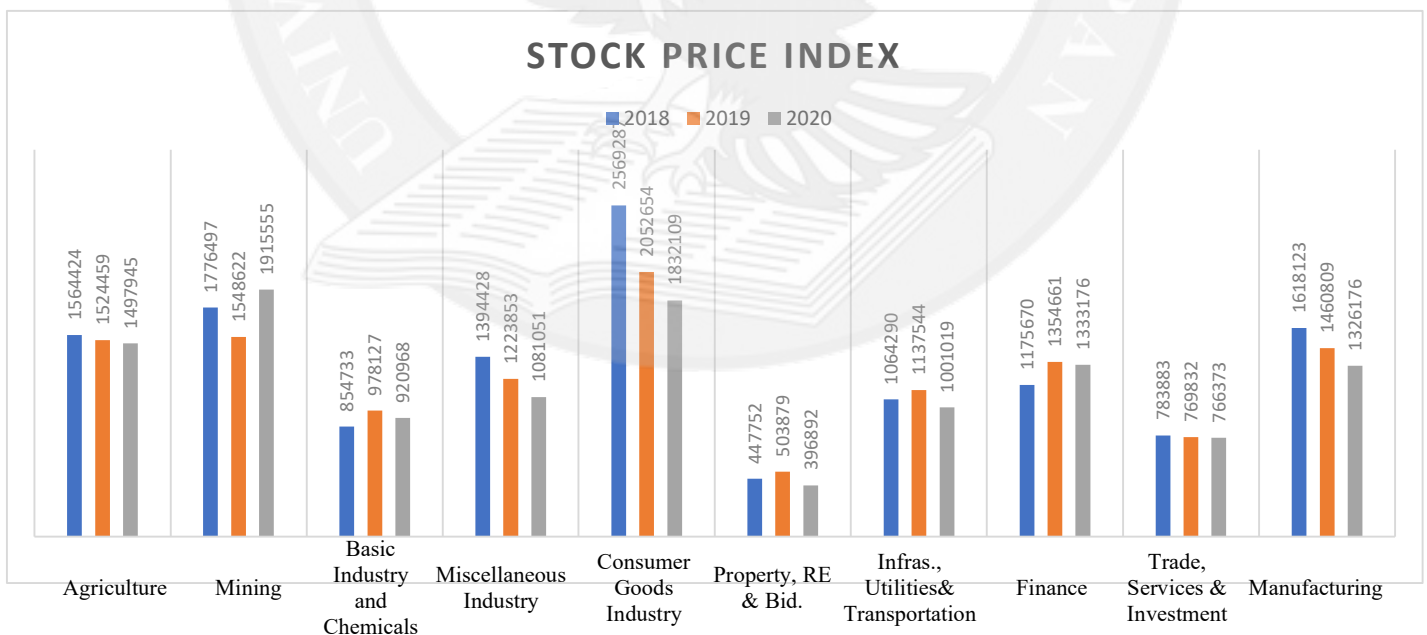


Figure 1. 1 Stock Price Index

Source: Prepared by the writer (2022)

According to Mirae Asset Sekuritas Indonesia in its research, the growth of the consumer goods industry in Indonesia in 2018 experienced a slowdown in recent years. There are several factors causing the slowdown in the sector known as Fast Moving Consumer Goods (FMCG), including increasingly fierce competition between companies involving various local and imported brands, slowing recovery in people's purchasing power, as well as a shift in consumer choice from FMCG products to consumer goods. non-FMCG products also slowed down the growth of the industry. The slowdown was reflected in the performance of several issuers on the Indonesia Stock Exchange (IDX), PT Unilever Indonesia Tbk (UNVR) whose performance decreased by 19.7%, PT CBP Sukses Makmur Tbk (ICBP) whose shares decreased by 3.57% and PT Kalbe Farma Tbk (KLBF) also decreased by 20.23%. The results of a Bank Indonesia (BI) survey said that the real sales index showed weak growth in recent years, which was in line with the slowdown in the FMCG industry (cnbcindonesia.com, 2018).

According to Prima and Hidayat in Wijaya (2021) in the consumer goods sector stock index was the most distressed in 2019, decrease of 20.11%. When compared to 2018, the situation is a lot worse. The pressure came from PT. Unilever Indonesia, Tbk (UNVR) shares falling 5.73%, PT. HM Sampoerna, Tbk (HMSP) shares falling 42.59%, PT. Gudang Garam, Tbk (GGRM) shares falling 36.62%, PT. Mayora Indah, Tbk (MYOR) shares falling 21.76%, and PT. Garudafood Putra Putri Jaya, Tbk (GOOD) shares falling 19.47% throughout 2019.

From Figure 1.1 above, we can see that most of the industry face a declining stock price in the 2020 so do the consumer goods sector. The consumer goods stock sector, which often seen as protective, cannot be overlooked as one of the causes for the fall is the consumer goods sector stock index's strong strengthening over the year. The YTD change from 2018 always showing a negative sign as in 2018 it decreases by 10.21% and the following year also shows the declining of 20.11%, and for 2020 it declines by -10.74%. According to Wijaya (2021) in 2017, the consumer products industry expanded by 23%, ranking third among the 10 current stock categories. Which makes profit-taking has become increasingly common.

This makes investors to be more vigilant in investing their capital in the companies they choose in the consumer goods sector. Thus, the company must also seek a strategy for the company's prospects in the future so that the company's value can survive or increase, and investors can trust to be able to invest their funds in the company and creditors do not feel worried about providing loans to the company. The better the company's performance, the higher the value of the company

Based on the previous explanation of phenomenon, it appears that the stock price of the consumer goods industry sector is worth to be conduct research on.

Financial statements report shows what happened to assets, profits, and dividends during a certain period. In any event, the information contained in the financial statements will be used by investors to help them make expectations about future earnings and dividends. One of the tools of analysis and selection of shares to be purchased by investors is to use financial ratio analysis. Financial ratio analysis is based on historical finance with the aim of providing an indication of future financial performance and predicting going concern.

To analyse the financial statements of investors can use financial ratio analysis. Financial ratios are numbers obtained from the comparison of one financial report with other reports that have a relevant and significant (meaningful) relationship. The financial ratios can be a lot. Therefore, the ratios used in this study are Price Earnings Ratio, Debt to Equity Ratio and Return on Equity.

Price Earnings Ratio is a ratio that shows market value. This is what makes investors pay attention to the Price Earnings Ratio in choosing stocks, because companies that have a high Price Earnings Ratio are in demand by investors the higher the price of stock will be. According to Nainggolan (2019) This is what affects the stock price. Conversely, a low PER value indicates a low market value will result in a decrease in stock prices.

Debt to Equity Ratio is a ratio that describes the ratio between total debt and total company equity used as a source of business funding. This ratio is often used by investors as information to determine the extent to which the company is financed by debt. A high Debt to Equity Ratio indicates that the amount of debt received is greater than the capital owned by the company, then the company has a high risk of generating profits so that the share price decreases.

In fundamental analysis, one of the stock valuations carried out using the Price Earnings Ratio (PER) approach is the ratio between stock market prices and earnings per share. Every stock price movement will result in a change in PER. And in this study the financial ratio analysis used is PER. This analysis compares the current market price of the stock with earnings per share. PER is the most important financial ratio that is widely used by investors to determine whether stock investment is profitable or not, because PER, is one of the tools to measure company performance and can affect the increase or decrease in the company's stock market price. Investors are attracted to a high PER because it will provide benefits on rising stock market prices and reflect good company performance.

One of the factors that influence the Price to Earnings Ratio is the profitability ratio which in this study is measured Return on Equity (ROE). Return on Equity (ROE) is a ratio that shows how much the company's ability to generate net income to return equity to shareholders.

According to Amalya (2018) in her research of “*pengaruh return on asset, return on equity, net profit margin dan debt to equity ratio terhadap harga saham*” in mining industry shows that ROE and DER has no significant effect on stock prices. ROE and DER has a positive relationship to stock prices. Which means that when ROE and DER increases, the stock price will also increase. And she stated that for investors in mining companies, ROE is not one of the factors that determine the decision to invest. Investors still consider that capital gains and dividends are attractive in determining investment.

In research of *pengaruh eps, roe, npm, der, per terhadap harga saham pada perusahaan perbankan yang terdaftar dibursa efek indonesia periode 2014-2017* by Nainggolan (2019) conclude that ROE partially has no significant effect on the stock price of banks listed on the Indonesia Stocks Exchange. DER partially has a significant effect on the stock price of banks listed on the Indonesia Stocks Exchange. PER partially does not have a significant effect on the stock price of banks listed on the Indonesia Stocks Exchange.

Therefore, in line with the background of the research above, the authors are encouraged to conduct research and seek to examine more deeply about stock prices with the title: " Influence of Price Earnings Ratio, Debt to Equity Ratio, And Return on Equity Towards Stock Price in Consumer Goods Companies Listed on The Indonesia Stock Exchange for the 2018-2020 Period.”

1.2 PROBLEM LIMITATION

Due to limitation of time and cost, the study is limited to, the study will be conducted on 67 company in customer goods sector that are listed in Indonesia Stock Exchange for the year 2018-2020. Furthermore, the price of stock will act as the dependent variable and on the other hand, earning per share, price to book value, return on asset and return on equity serves as the independent variable.

1.3 PROBLEM FORMULATION

Based on problem stated, the research will focus on answering these questions by the end of the research:

1. Does Price Earnings Ratio partially have a significant influence toward Stock Price in consumer goods companies listed at Indonesia Stock Exchange?
2. Does Debt to Equity Ratio partially have a significant influence toward Stock Price in consumer goods companies listed at Indonesia Stock Exchange?
3. Does Return on Equity partially have a significant influence toward Stock Price in consumer goods companies listed at Indonesia Stock Exchange?

4. Do PER, DER, and ROE simultaneously have a significant influence toward Stock Price in consumer goods companies listed at Indonesia Stock Exchange?

1.4 OBJECTIVE OF RESEARCH

The purposes of this study are:

- a. To find out whether Price Earnings Ratio partially give a significant influence towards the price of stock in Consumer Goods company that are Listed in Indonesia Stock Exchange
- b. To find out whether Debt to Equity Ratio partially give a significant influence towards the price of stock in Consumer Goods company that are Listed in Indonesia Stock Exchange
- c. To find out whether Return on Equity partially give a significant influence towards the price of stock in Consumer Goods company that are Listed in Indonesia Stock Exchange
- d. To find out whether Price Earnings Ratio, Debt to Equity Ratio, and Return on Equity can give a significant influence towards the price of stock in Consumer Goods company that are Listed in Indonesia Stock Exchange

1.5 BENEFITS OF THE RESEARCH

As for benefits of this research as follows:

- A. For Writers

This research is expected to enrich knowledge empirically about the effect of price earnings ratio, debt equity ratio and return on equity on stock prices in consumer goods sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

B. For Investors

So that investors can get more information and understand about the company whose capital will be invested and can assess the company in the future.

C. For Alma mater

The results of this study are expected to be an additional reference for further research as a consideration for those who face similar problems.

