

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Along with the time , investing is getting easier to do, one of which is stock investment. People can invest anywhere and anytime without having to be complicated, therefore, the rise or fall of stock price became a little crucial in life. A stock price of company is a reflection on how well-managed the company is. A stock price in the market also play an important role for the company itself. If stock price of a company keep increases and always has a good chart pattern, it means that the company has a growing potential in the future. This kind of growing potential is one of investors' consideration in buying a company's stock. A stock price of a company can either rise of fall only in a blink of eye, usually due to the demand of sellers and buyers in the stock exchange. Investors' trust of a company also take important part for the company because with this trust, it can attract more investors to also take part to invest in the company. With the high interest of the company, it will lead to a high demand for the company's stocks, and will increases the stock price too. However, if the stock price falls, so do the trust level of investors also will falls too.

To invest in a company, there are a lot of consideration for investors. Investors should make sure that the company he want to invest had a good performance, because it is commonly known that investors will only invest their money to a company with a

good performance and has a potential growing in the future. One of the ways to considerate whether a company has a good performance or not, is by analyzing the company's financial statement that require benchmarks, including the profitability and liquidity ratio. By analyzing the company's financial statement, investors can find out the level of profitability ratio that earned by the company. If a company has a high profitability ratio, it shows that the company has good ability to earn earnings by utilizing its assets. The high profitability ratio usually attract investors to invest, because it reflects that the company has good performance and has a growing potential in the future. Example of profitability ratio is net profit margin, which usually used to measure the profitability of the company by calculating the percentage of profit of the revenue.

The current ratio of a company is a ratio that assesses a company's capacity to meet its short-term financial obligations. In simple words, the current ratio represents the amount of current assets available to cover its upcoming short-term commitments. The current ratio can also be the way of calculating a company's margin of safety. Because this current ratio is a measure of the level of security in meeting short-term debt, it is particularly essential when investors want to know the company's level of liquidity in terms of cash supply. The more a firm's liquidity, the better it is able to meet its operational needs, particularly working capital, which is critical for maintaining company success.

Another important factor that also take part in affecting a company's stock price is Earnings Per Share (EPS). EPS is counted as net income divided by available shares. EPS is also one of the most important ratio employed when determining the profitability of company. Although investors do not have direct way to the earnings, investors will make a comparison between the EPS and the share price to count the earnings value and how investors think about the company's potential growth in the future, so the higher a company's EPS, the more profitable it is considered to be.

Table 1.1 Three Examples of Consumer Goods Industries' Net Profit Year 2018 to 2021

	Year	Net Income	Average Net Income
MYOR	2018	1.760.434.280.304	1.780.264.912.417
	2019	2.051.404.206.764	
	2020	2.098.168.514.645	
	2021	1.211.052.647.953	
ICBP	2018	4.658.781.000.000	6.334.416.000.000
	2019	5.360.029.000.000	
	2020	7.418.574.000.000	
	2021	7.900.282.000.000	
ROTI	2018	127.171.436.363	203.410.239.679
	2019	236.518.557.420	
	2020	168.610.282.478	
	2021	281.340.682.456	

Source : Prepared by the writer (2022)

Table 1.2 Current Ratio, Net Profit Margin , Earnings Per Share , and Stock Price of Three Consumer Goods Industries Year 2018 to 2021

	Year	Net Profit Margin	Current Ratio	Earnings Per Share	Stock Price
MYOR	2018	7%	265%	77	2,620
	2019	8%	344%	89	2,050
	2020	9%	369%	92	2,710
	2021	4%	233%	53	2,040
ICBP	2018	11.90%	195%	392	10,450
	2019	11.90%	254%	432	11,150
	2020	14.10%	226%	565	9,575
	2021	11.20%	180%	548	8,700
ROTI	2018	4.60%	357%	28.07	1,200
	2019	7.09%	169%	49.29	1,300
	2020	5.25%	383%	35.98	1,360
	2021	8.56%	265%	45.38	1,295

Source : Prepared by the writer (2022)

The current ratio is liquidity ratio that used to measure the ability of a company to get into its short-term obligations in one year period, which is usually counted by compare the current assets with current liabilities of the company. The working capital ratio is the other name of current ratio. The current ratio is calculated to determine the level of the company's ability to meet its current liabilities with current assets, which is types of assets that can quickly turned into cash, that usually in less than one year. If the current ratio of a company is more than 1.0 times, it shows that the company has a good ability to pay off its current debt. But, if the current ratio of a company is less than 1.0 times, then the ability of the company to pay its debts is doubtful. Thus, a margin of safety against short-term debt can be shown by calculating this ratio. A higher current ratio's company is always more profitable than a lower current ratio because it shows the company can more easily pay off current debt.

Net profit margin is ratio of profitability that count the net profit on net sales' percentage. This ratio is counted by dividing net income by net sales. The net income, which is deducted from income tax expense, can be used to calculate net income. In order to determine profit before income tax, it is calculated by adding operation profit to other income and profit before deducting other costs and losses incurred by the business. Net profit margin is also one of the most important indicators of the financial health of a company. By monitoring the rises and falls of Short term debt can be viewed as a period up to one year. Liquidity ratio also refers to the effectiveness which an asset can be turned into ready money without influencing its market value. The most liquid asset over all is cash. The other words, liquidity can be defined as how easy a thing may be purchased in the market on its intrinsic value. Because it most easily transformed into other assets, cash is regarded as the highest level of liquidity of an asset.

Based on the explanation above, the researcher wants to analyze the effect of current ratio, net profit margin, and Earnings per share towards stock price of companies in IDX , thus write it in this research entitled **“The Effect of Current Ratio, Net Profit Margin and Earnings Per Share on Consumer Goods Companies Listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

In this research, the problem limitation will be defined so the discussion is more accordance with the research objectives. The problem limitations as follows:

1. The research object is Consumer Goods Industry Companies listed on Indonesia Stock Exchange.
2. The independent variables are Current Ratio, Net Profit Margin, and Earnings Per Share.
3. The dependent variable is Stock Price of Companies.
4. The research period is limited for the year 2018 to 2021.

1.3 Problem Formulation

As mentioned in the background of the study, the formulation of research will be as follows:

1. Does current ratio have a significant effect towards the stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021?
2. Does net profit margin have a significant effect towards the stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021?

3. Does earnings per share have a significant effect towards the stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021?
4. Do current ratio, net profit margin, and earnings per share have significant effect towards the stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021?

1.4 Objective of the Research

The research objectives are as follow:

1. To discover whether current ratio has a significant effect towards stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021.
2. To discover whether net profit margin has a significant effect towards stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021.
3. To discover whether earnings per share has a significant effect towards stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021.
4. To discover whether current ratio, net profit margin, and earnings per share have significant effect towards stock price of consumer goods industries listed on Indonesia Stock Exchange in year 2018 to 2021.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, this research is expected to help the reader to get more information about the topic and strengthen the theory of accounting about the significant effect of Current Ratio, Net Profit Margin, and Earnings Per Share towards stock price of Consumer Goods listed on Indonesia Stock Exchange for the period of 2018 to 2021.

1.5.2 Practical Benefit

Practical benefits that are expected from this research are as follows :

1. For Readers

This research is expected to be an overview to help reader to understand more about business, especially about significant effect of Current Ratio, Net Profit Margin, and Earnings Per Share towards stock price of Consumer Goods listed on Indonesia Stock Exchange.

2. For Investors

This research is expected to be references that can be used for investors in order make decisions to choose the best company to invest.

3. For Researchers

This research is expected to be an insight for researchers in conducting further research

that has a similar topic.

