

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Activities of investment have been conducted in Indonesia since 1800s. Due to its expansion, investing in businesses has become more accessible to Indonesian citizens. Investing is the process of contributing money to a business to help it achieve its objectives and to eventually receive a return. Investment operations benefit the company as well as the investors. The company will profit financially, which it can use to fund its operations and make other purchases, hire research and development staff, and other purchases. Regarding the investors, they will receive a dividend as compensation. In exchange for the investment received, the company pays investors a dividend within a specific time frame.

While investing can be done in a variety of ways, buying and selling stocks is the most popular since it has the potential to yield greater returns than other investment options. Stocks are among the capital market's instruments. Stock Prices are evaluated by looking at the company's fundamentals to determine if they are fair, costly, or inexpensive. Investors can determine the correlation between risk and anticipated returns on their capital through the examination of financial reports. Analyzing financial reports involves determining the intrinsic valuation of the company in generating profit, which may be determined using the Earnings Per Share

ratio. In short, it may be said that capital from investors is typically allocated to companies with higher valuation in generating profit. This is because the company has good valuations as performing well, which will increase the returns to investors and shareholders. An increase in Earnings Per Share often boosts investor confidence. If a company reports Earnings Per Share higher than expected, its Stock Price tends to rise because investors see the company as more profitable. A high Earnings Per Share compared to similar companies can make a company more attractive to investors. This often increases the Stock Price, especially within the same industry.

However, market sentiment and external news often influence Stock Prices more directly than short-term financial performance. An unstable political situation or economic crisis can cause uncertainty in the market. In such conditions, investors tend to be more cautious and may avoid investing in stocks, even if the company reports good Earnings Per Share. This uncertainty can cause Stock Prices to stagnate or decline. If the overall market experiences a downturn (for example, due to a recession or global crisis), the stocks of companies reporting good Earnings Per Share might still be affected. Investors might be more inclined to sell stocks to secure profits or reduce losses, causing the Stock Prices not to reflect good earnings performance. Moreover, companies that are too focused on increasing Earnings Per Share to satisfy investors may overlook other important aspects, such as innovation or long-term development. This could harm the company's position in the future, leading to a decline in Stock Prices.

Capital market investors have always been drawn to and focused on Stock Prices changes. In the year 2022–2023, the capital market's stock prices fluctuate due to supply and demand, especially in the consumer goods companies that is listed on Indonesia Stock Exchange. The following graphic is the phenomenon that is observed:

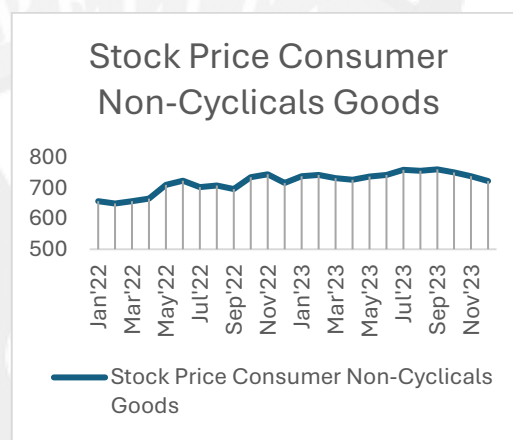


Figure 1.1 Price of Stock Fluctuations of Consumer Non-Cyclicals Goods Sub Sector Listed on IDX in the Period of 2022 until 2023

Source: Prepared by Writer (2024)

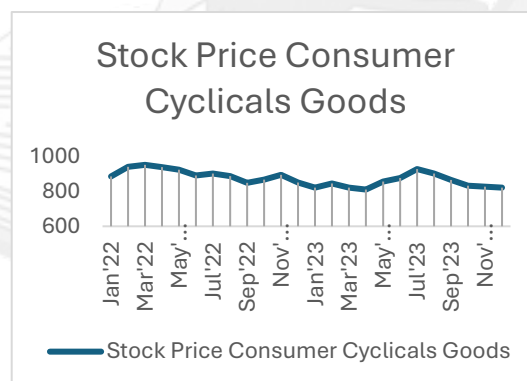


Figure 1.2 Price of Stock Fluctuations in Consumer Cyclicals Goods Sub Sector Listed on IDX in the Period of 2022 until 2023

Source: Prepared by Writer (2024)

The phenomenon of fluctuations in Stock Prices creates uncertainty regarding the return on investment for investors, who seek stock return

while making investment decisions. One factor used to determine how much profit will be made from the stock is stock return. A financial gain or loss could be the result of this return. Investors who purchase stock have financial gain if the stock's selling price surpasses the cost of acquisition. In the event that the stock's selling price is less than the cost of acquisition, however, investors lose money on their investment.

Considering this, investors ought to exercise caution while choosing an investment. The source of the variable that investors can forecast regarding their investment is an internal factor, such as the company's financial statement. To maximize their stock return, investors would surely consider the most profitable firm shares on offer. One can directly forecast the success of linked companies by examining their financial statements. Investors can use and estimate the Earnings Per Share, as one of the valuation or market ratio which determines the company's ability to generate profits. Earnings Per Share is one of the ratio analysis components of financial statements while making investment decisions. The Earnings Per Share ratio calculates the profit a business makes on every share of its stock, which can help investors to analyze a company's ability to generate profit, evaluate investment returns, and do valuation about a company. For this reason, research on the relationship between Earnings Per Share and Stock Price is crucial.

From the years 2022-2023, the following are data from several consumer goods companies listed on IDX:

Table 1. 1 Phenomenon of Earnings Per Share (X₁) on Stock Price (Y) at Consumer Goods companies Listed on IDX from 2022-2023

Consumer Goods Companies	Year	Earnings Per Share (X ₁)	Stock Price (Y)
PT Gudang Garam Tbk (GGRM)	2022	1444.706	18,000
	2023	2767.293	20,325
PT Garudafood Putra Putri Jaya Tbk (GOOD)	2022	14.139	525
	2023	16.301	430
PT Matahari Department Store Tbk (LPPF)	2022	585.014	4,750
	2023	298.793	2,000

Source: Prepared by Writer (2024)

Table 1.1 above shows some inconstant phenomena between Earnings Per Share and Stock Price in the consumer goods companies listed on IDX from 2022 to 2023.

PT Gudang Garam Tbk illustrates that from 2022 to 2023, both Stock Price and Earnings Per Share are increasing. Another condition that happens to PT Garudafood Putra Putri Jaya Tbk illustrates that from 2022 to 2023 Earnings Per Share is increasing but the Stock Price is decreasing. Moreover, PT Matahari Department Store Tbk shows that from 2022 to 2023, both Stock Price and Earnings Per Share are decreasing.

This research focuses on consumer goods companies, which are stock companies that sell goods to individuals and households. Investors are drawn to this area because of the potential earnings from selling consumer requirements. The consumer goods sector is ideal for long-term investment due to its stability compared to other industries.

There has been prior researches regarding the impact of Earnings Per Share towards Stock Price, including researches by (Bakhri et al., 2023), (Simbolon et al., 2022), (Sulistiawati, Sjahrudin, 2019), (Sari et al., 2021), (Sabrina & Purbawati, 2020), (Arifin et al., 2021), (Alifatussalimah & Sujud, 2020), (Nurlia & Juwari, 2019), (Fatricia et al., 2024), (Santika et al., 2023). However, the outcomes of earlier research have shown inconsistent results. According to research by (Bakhri et al., 2023), (Simbolon et al., 2022), (Sulistiawati, Sjahrudin, 2019), (Sari et al., 2021), (Sabrina & Purbawati, 2020), (Alifatussalimah & Sujud, 2020), (Nurlia & Juwari, 2019), (Fatricia et al., 2024), (Santika et al., 2023), Earnings Per Share has positive impact towards Stock Price. Meanwhile, research by (Arifin et al., 2021) has stated that Earnings Per Share has negative impact towards Stock Price.

In contrast to previous research by (Bakhri et al., 2023) & (Santika et al., 2023), which employed panel data regression analysis, this writer research employs multiple linear regression analysis rather than panel data regression analysis. The population of this writer's study differs from those of previous studies conducted by (Sulistiawati, Sjahrudin, 2019), (Alifatussalimah & Sujud, 2020), (Nurlia & Juwari, 2019), (Sabrina & Purbawati, 2020), (Fatricia et al., 2024), and (Arifin et al., 2021). This writer's research population consists of consumer goods companies listed on IDX, while (Sulistiawati, Sjahrudin, 2019)'s research population consists of construction, real estate, and property businesses listed on IDX;

(Alifatussalimah & Sujud, 2020)'s research population consists of plantation subsector companies listed on IDX; (Nurlia & Juwari, 2019)'s research population consists of automotive companies listed on IDX; (Sabrina & Purbawati, 2020)'s, (Fatricia et al., 2024)'s, and (Arifin et al., 2021)'s research population only consists of food and beverages companies listed on IDX.

The existences of a phenomenon of stock price fluctuation and a phenomenon of Earnings Per Share on Stock Price that have become issues in the background of study are the reason why this research is important to conduct. Moreover, due to the differences between the writer's research with previous research and the gap among other previous studies, the writer wants to conduct this research.

According to the description given above, the author is fascinated in conducting additional research to investigate the possible impacts of Earnings Per Share as main independent variable towards Stock Price of consumer goods companies, with control independent variables such as Return on Equity, Current Ratio, Debt to Equity Ratio, and Firm Size. Thus, the research would be conducted with the title: **"The Impact of Earnings Per Share Towards Stock Price"**

1.2 Problem Formulation

Considering the previously provided background, the research problem formulation can be stated as: does Earnings Per Share significantly

influence the Stock Price in consumer goods companies listed on Indonesia Stock Exchange in the period of 2022 until 2023?

1.3 Objective of the Research

Research objective is to determine the impact of Earnings Per Share towards Stock Price in the consumer goods companies listed on Indonesia Stock Exchange in the period of 2022 until 2023.

1.4 Benefit of the Research

1.4.1 Theoretical Benefit

According to theory, the findings of this research should give scholars more insight into how Earnings Per Share affect Stock Price. Research findings could potentially as guidance for researchers in the future who wish to investigate related subjects.

1.4.2 Practical Benefit

The following practical benefits are anticipated from the research, based on the research objectives:

1. For next researchers

It is expected that this study will provide information, references, and empirical evidence to other researchers interested in the same field of study.

2. For academics

It is expected that this study will increase understanding and knowledge, especially about the impact of Earnings Per Share towards Stock Price.

3. For investors & companies

Providing relevant information to investors in consumer goods industry is the purpose of this research. It is anticipated that the findings would give investors more details and considerations to make when choosing investments. The information in this research is expected to give companies about potential influences on the Stock Price that will help related companies decide their policy.

1.5 Research Limitation

The following are the research limitations:

1. Companies that are used in this research are consumer goods companies listed on Indonesia Stock Exchange
2. The period in this research is solely from 2022-2023
3. The study's independent variables are limited to:
Primary variable: Earnings Per Share
Control variables: Return on Equity, Current Ratio, Debt to Equity Ratio, and Firm Size
4. The dependent variable which will be utilized in this study is solely limited to Stock Price