

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

One of the fastest, if not the fastest growing industries in the world currently, is the manufacturing industry, it is an industry that focuses on transforming raw materials into various different types of goods, and it is one of the largest industries in Indonesia, heavily monitored and supported by the Indonesian government, this is due to the manufacturing industry holds a significant proportion in the economy of the country itself, the manufacturing industry in Indonesia now accounts for the largest proportion of Indonesia's GDP, in 2023, according to the BPS, or Badan Pusat Statistik (Quarterly Gross Domestic Product of Indonesia, 2023), the manufacturing industry contributed 18.67% of Indonesia's entire GDP followed by agricultural, wholesale and retail sectors. The percentage of contribution from companies specifically on the sector of manufacturing in Indonesia, is higher even from the global contribution of manufacturing sector worldwide, which sits on 16.5% (Kemenperin Indonesia, 2022). The Indonesian government has made growth in the manufacturing industries a top priority during the last few decades, in hopes to further advance the economic development in Indonesia, this can be seen in the recent presidential debate in Indonesia, where all three of the presidential candidate states that the "Hilirisasi", or industrial downstream policies to be the upmost important aspect of their presidential cabinet, this policies aims to further focuses Indonesia to become an industrial powerhouse in the ASEAN

region, this policy states that Indonesia is not only to be the supplier of raw goods like nickel, bauxite and coal, but also to process this goods and export it all over the world.

In 2023 the manufacturing industry in Indonesia has provided 19 million people with jobs, granting it the industry with the highest number of workforces in the country, this abundance of workforce, combined with the relatively low cost for labor, makes the manufacturing industry an alluring space for investment albeit from foreign, or national investors. The rise in the investments on manufacturing industries has further increased the ability of manufacturing industry to grow even larger, and this in turn puts pressure on the companies in the manufacturing industry to provide the investors with the stock return.

Stock price has a fundamental meaning of the value of a company stock which is formed by interactions from the sellers and buyers within the financial market, and its main motivation is the expectation of profit of the company (Putri & Ramadhan, 2023) ,in layman's term it is the price paid to acquire the stock of a company. There are several factors that have the potential of affecting a company's stock price, but in this particular research, the writer focuses only on 5 aspects, which are Profitability, Liquidity, Firm size, Leverage, and Sales growth. The reason for the writer choosing this particular research is that it applies directly towards the stock market of the manufacturing industry in Indonesia, and due to the manufacturing industry being one of the largest and most important industry in Indonesia, with a substantial effect on the economy of the country, it provides a necessary needs to conduct this research, the writer believes that the result of this

research would be beneficial towards not only for current stockholders, but for future stockholders looking into seeing the relationship between the variables mentioned above, towards the price of stock.

Profitability is a fundamental aspect of a company, in which it ensures the survival of a company,(Ayu et al., 2021) in which this research states that the more profit a company generates, the higher the prices of the company stocks, which in turn causes the price of stock gained by investors to increase as well, this study is conducted in manufacturing companies listed on the Indonesia Stock Exchange.

**Table 1.1 Profitability and Price of Stock Table Acquired for Company Sample**

Company	Year	Profitability (ROA)	Stock Price
INDF	2020	6.194	6,850
	2021	6.367	6,325
	2022	6.497	6,725
	2023	6.801	6,450
BRPT	2020	3.574	1,501
	2021	4.603	1,093
	2022	1.819	753
	2023	2.255	1,327
MDKI	2020	2.284	232
	2021	2.172	204
	2022	2.721	185
	2023	3.119	200
ICBP	2020	8.08	9,575
	2021	6.139	8,700
	2022	6.769	10,000
	2023	7.885	10,575
GGRM	2020	8.037	41,000
	2021	5.46	30,600
	2022	2.743	18,000
	2023	5.133	20,325

Source: Prepared by Author (2024)

The table above exhibits a sample of five companies in the manufacturing sector's ROA, and stock price, during a period of 4 years, namely 2020-2023, from the sample data above, it is shown that three of the five sample are showing a connection between the ROA or profitability towards the stock price, and the

remaining sample did not.

GGRM shows the most coherent correlation between the variable, where it is shown that profitability has a positive impact towards the price of the stock, this can be seen from the table, which shows during 2020 – 2023, the ROA percentage fluctuates a lot, and the price of stock follows the same characteristics as the ROA, this can be seen from the year 2021, where the ROA percentage shows a decrease from the previous year, from 8% to 5.4%, and the stock price plummets from 41,000 to 30,600 respectively.

The other two companies that shows coherent correlation are ICBP, and MDKI, with ICBP showing a fluctuated ROA throughout the years, from 2021 to 2022, the company shows an increase in profitability, from 6.1% to 6.7%, and again the stock price follow suit, where it shows an increase from 8,700 to 10,000, directly corresponding to the ROA. On the other hand, MDKI shows a connection between the two variables from 2020 to 2021, where it can be seen to experience decrease in profitability from 2.2% to 2.1%, and the stock price drops from 232, to 204, this shows a connection between ROA or profitability, and the price of stock, however during the 2021 to 2022 period it shows a disconnection between them, where the ROA percentage increases from 2.1% to 2.7%, theoretically the stock price would have to follow suit, but in this case, the stock price experience a decrease in value, from 204 to 185.

The other remaining companies, which are INDF, and BRPT shows an inconsistent connection between stock price, and profitability, this can be seen from INDF, where during the year 2020 – 2021, the company experienced growth in the

profitability from 6.2% to 6.3%, ideally the stock price would have to follow this growth, but in the case of INDF, it shows a decrease from 6,850 to 6,325, similarly BRPT also shows a disconnection between the price of stock and profitability during the 2020- 2021 period, where the profitability has increased from 3.5% to 4.6%, but on the contrary the price of stock dips from 1,501 to 1.093, however the other periods from 2021-2023 shows a connection between profitability and the price of stock.

According to the previous research, with the title of “Factors Affecting the Stock Price: The Role of Firm Performance” (Sukesti et al., 2021), in which the research was carried on 163 companies in the manufacturing sector, and are listed on IDX on a 5 year period, namely 2014 to 2018, this study had the same dependent variable and independent variable, which are stock price and profitability respectively, This research will follow a similar variables and analysis method to the research with the title of “Factors Affecting the Stock Price: The Role of Firm Performance”(Sukesti et al., 2021), however using a different period of analysis, namely 2020 – 2023. the result of that research states that the ROA, which is used to depict the profitability of a company, same as the one used on this research, is shown to have a significantly positive impact towards the price of stock, the bigger the ROA, the larger the profit received, which means that stock prices also increases, the result of this research are proven to have been agreed with by a lot of other researchers, (Purwaningsih, 2020), (Madai, 2023),(Adawiyah & Setiyawati, 2019),(Kusnandar & Sari, 2020),(Fransisca & Herijawati, 2022),(Putri & Ramadhan, 2023), (Hakim & Eksandy, 2019),(Azizan & Abidin, 2024) has come

out with the same result, where the profitability is shown to significantly affect the stock price, in a positive manner, however not all of the researches agree on this outcome, (Hisbullah, 2021),(Alaagam, 2019), (Rajan & Joseph, 2023), has all come out with the conclusion of stock price not being affected by profitability. Dissimilar towards the previous researches with similar titles, this research would provide a thorough insight into the effect of not only profitability, which is the main independent variable, but also the 4 other control independent variables, namely liquidity, sales growth, leverage, and firm size, in which most of the previous researches covering similar topic only utilizes a maximum of 3 independent variables, this research would aim to give a thorough and coherent result towards the topic, as to give a more definitive interpretation as opposed to the previous researches.

The reasons for the writer to choose profitability as the main variable of this particular research, is because profitability, is one of the fundamental indicator in any business operations, as it has a substantial effect on the value and the performance of a company (Talunohi & Bertuah, 2022), the relationship between profitability and the price of stock becomes important to highlight, as this pose a real question for future investors, on whether a company's performance or its profitability does have an effect on the price changes in stock, for this reasons the writer would conduct a thorough study and research with the title “ **The Impact of Profitability Towards Stock Price of Manufacturing Companies Listed on The Indonesia Stock Exchange** ”.



## **1.2 Problem Formulation**

There is one problem formulation in this research, namely:

1. Does profitability have an impact towards the price of stock of manufacturing companies

## **1.3 Objectives of the Research**

The main objectives of the research being conducted are as stated:

1. To determine and study the impact of profitability towards the price of stock of manufacturing companies, within a 4-year period

## **1.4 Benefits of the Research**

In accordance to the latter objectives of research, it is expected that this research would give merits for both the readers and the writers in theoretical and practical benefits.

### **1.4.1 Theoretical Benefits**

For Company: This research is expected to give a clear explanation, and to strengthen the awareness regarding the impact of profitability towards stock price.

For Investor: This research is expected to deliver assistance to investors on choosing their investment in the manufacturing industry.

For Academic: This research is expected to increase and provide further research towards the specific topic of profitability impact towards stock price.

#### **1.4.2 Practical Benefits**

1. To give knowledge and information towards the implementation of profitability towards the price of stock of companies within the manufacturing sectors listed on the IDX.
2. To provide future writers with materials for comparison and reference towards those who are conducting research about stock price with profitability being the independent variable.

#### **1.5 Problem Limitation**

The limitations of the research are as stated below:

1. Time constraints of the project being given.
2. The sample being utilized in this particular research are only specifically companies that are in the sector of manufacturing.
3. The stretch of period being utilized in this research is only within a 4-year period, starting from 2020- 2023
4. The model of research being utilized in this research is limited to only one regression model.