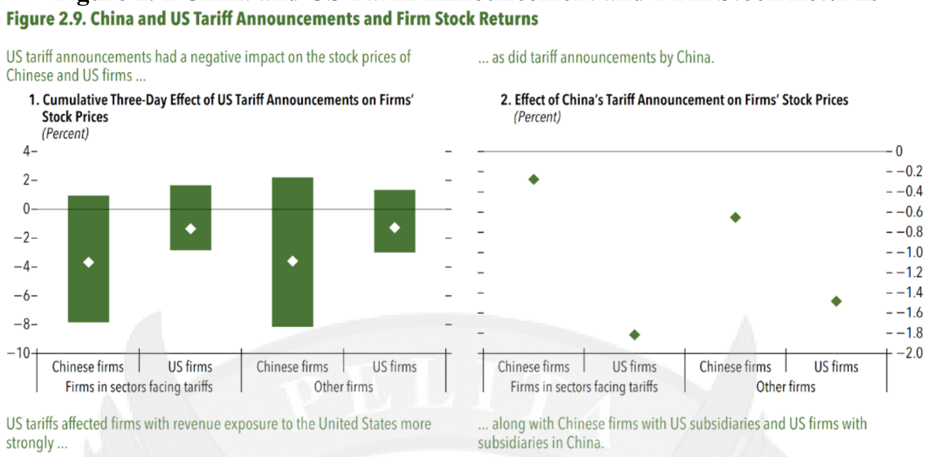
CHAPTER I

INTRODUCTION

1.1 Background of Study

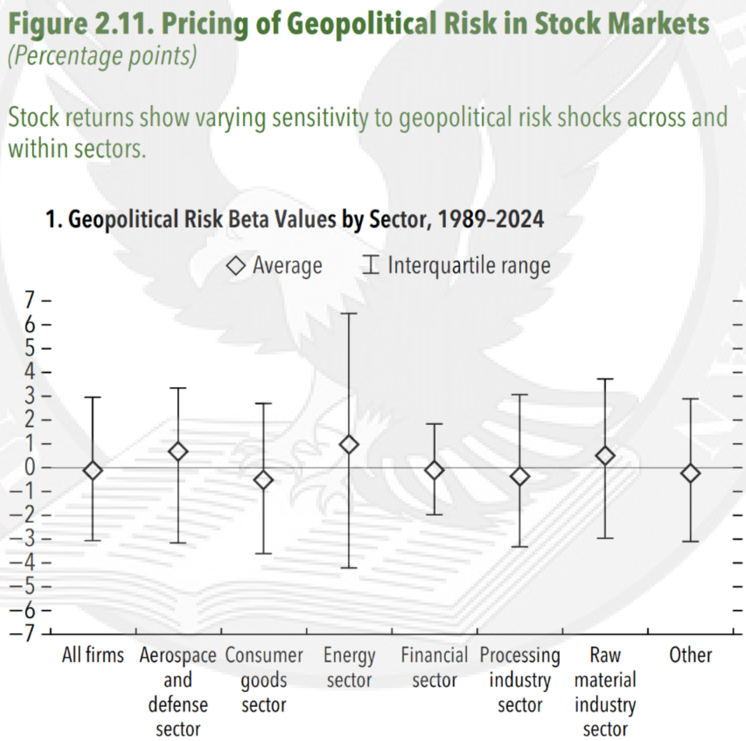
During the present global economic landscape, companies face multifaceted challenges that directly influence their valuation. Geopolitical tensions, trade wars, and fluctuating commodity prices have introduced significant volatility into financial markets. According to the April 2025 Global Stability Report by the IMF, geopolitical events—including armed conflicts, acts of terrorism, and political instability—can heighten uncertainty in financial markets, leading to increased investor risk aversion. This, in turn, amplifies downside risk, or the potential for significant declines in future asset returns (International Monetary Fund, 2025). For instance, Figure 1.1 below shows the negative impact on the stock prices of Chinese and US firms after their tariff announcements (comparison between 22nd March 2018; 6th May 2019; 1st August 2019; and 14th May 2024). In contrast, Figure 1.2 shows the pricing of geopolitical risk in the stock market globally (after the China's announcement of retaliatory tariffs on 23rd August 2019), in which energy sector is the most sensitive, while the consumer goods sector is the most insensitive (or in other words, the most stable).

Figure 1. 1 China and US Tariff Announcement and Firm Stock Returns



Source: International Monetary Fund (2025)

Figure 1. 2 Pricing of Geopolitical Risk in Stock Markets in Percentage Points

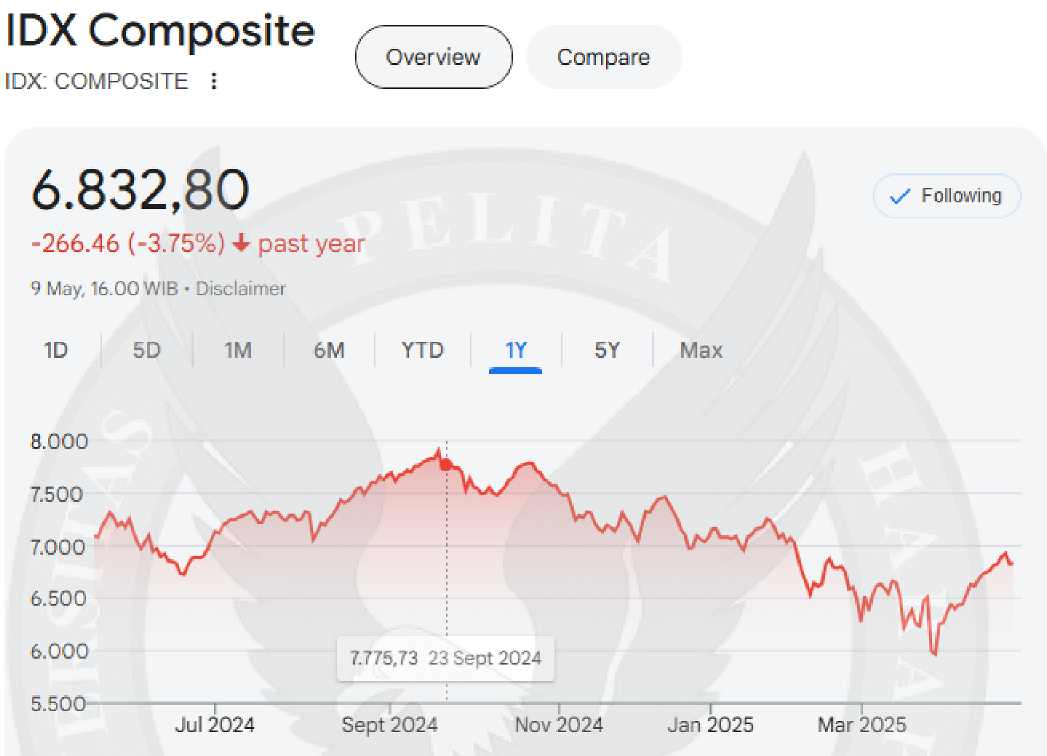


Source: International Monetary Fund (2025)

In PwC's 2025 Outlook on Global M&A Industry Trends, Brian Levy, Global Deals Industries Leader, notes that geopolitical volatility continues to influence global deal-making activity. Markets are still adjusting to the outcomes of numerous 2024 elections, most notably the policy shifts following the inauguration of the new Trump administration in the United States, which have had widespread international implications. Additionally, disparities in market valuations are shaping strategic decisions. As of mid-January 2025, the United States forward price-to-earnings (P/E) ratio (S&P 500) stood at 22.87, significantly higher than the 13.67 ratio for international equities (S&P International 700). These valuation differences may prompt highly valued firms to leverage their stock for acquisitions, contributing to an uptick in cross-border M&A activity—particularly as U.S. companies take advantage of a strong dollar to pursue strategic opportunities in European markets (www.pwc.com).

Levy also highlights that sectors such as manufacturing, construction, agriculture, retail, and healthcare may face heightened risks due to restrictive immigration policies, which could lead to labor shortages and inflationary pressures. Additionally, the introduction of tariffs poses potential threats to supply chain stability—particularly for U.S. multinationals reliant on imports—and may trigger retaliatory measures that disrupt export activities(www.ey.com). Reuben Tirtawidjaja, Partner at EY Indonesia in Strategy and Transactions, noted that IPO activity is projected to be driven by the infrastructure, renewable energy, and consumer goods sectors. However, the pace and strength of the recovery remain contingent on the effective management of several challenges, including regional market competition, geopolitical instability, and inflationary pressures influenced by post-election developments in the United States. Addressing these issues through strategic policy measures and capitalizing on Indonesia's economic potential are seen as essential steps toward restoring investor confidence and enhancing market participation (Tirtawidjaja, 2025).

Figure 1. 3 Indonesia Stock Exchange Composite Index (2021-2025)



Source: Google Finance (2025)

Figure 1.3 depicts the recovery of Indonesia's cumulative stock price since the 2024 free fall. As previously mentioned about tariffs that pose potential threats to supply chain stability, the Indonesian government will try to counteract the threats by supporting the Non-cyclical sector especially within the sub-sector of food and beverage to continue increasing the number of brand new investors to Indonesia. As mentioned on Indonesia Ministry of Defence's Research Paper, the most crucial government objective of the current situation of economic instability is to propose a "National Supply Chain Resilience Roadmap". The requirements are to maintain good logistics and production in the defence sector, energy and consumer goods (Kementerian Pertahanan Republik Indonesia, 2025).

According to CNBC Indonesia, after Prabowo Subianto is inaugurated as the President of Indonesia, government projects such as the “Makan Siang Gratis” program will start encourage Non-Cyclical sectors to keep maintaining their production or even increase them (www.cnbcindonesia.com). Some other governmental actions in hopes of developing the economy within the country are such as the support of the Jogja Food and Beverage Expo, Krista Exhibitions and many more. As for 2024, the Ministry of Industry reported that there is an investment realization as much as Rp 110,57 billion in the Food and Beverage Sector (www.finance.com).

In addition, according to Investopedia Team, Non-cyclical stocks have been proven to outperform the market when the global economy slows down. As production from this sector focuses on the daily needs of humans, the dynamics of Non-cyclicals are less volatile. Based on the Indonesia Stock Exchange Yearly Report as of 2024, Non-cyclical sectors have the least stock price volatility compared to all the other sectors - earning the name defensive (www.investopedia.com).

Figure 1. 4 Indonesia Stock Exchange Sector Indices 2024

Sector Indices

Index Code	Index Name	Stock	1Y	3Y	5Y	10Y	Volatility
IDXENERGY	IDX Sector Energy	89	28.01%	136.00%	226.51%	-	16.31%
IDXBASIC	IDX Sector Basic Materials	109	-4.25%	1.42%	5.58%	-	20.44%
IDXINDUST	IDX Sector Industrials	65	-5.32%	-0.11%	16.58%	-	12.16%
IDXNONCYC	IDX Sector Consumer Non-Cyclicals	120	0.98%	9.84%	-18.72%	-	11.56%
IDXCYCLIC	IDX Sector Consumer Cyclicals	151	1.64%	-7.28%	-5.74%	-	15.67%
IDXHEALTH	IDX Sector Healthcare	34	5.84%	2.57%	30.91%	-	14.61%
IDXFINANCE	IDX Sector Financials	104	-4.51%	-8.79%	7.97%	-	13.44%
IDXPROPERT	IDX Sector Properties & Real Estate	89	5.97%	-2.10%	-40.06%	-	15.63%
IDXTECHNO	IDX Sector Technology	40	-9.87%	-55.55%	213.01%	-	23.77%
IDXINFRA	IDX Sector Infrastructures	66	-5.81%	54.17%	53.44%	-	14.47%
IDXTRANS	IDX Sector Transportation & Logistic	34	-18.78%	-18.67%	13.09%	-	17.51%

Source: Indonesia Stock Exchange (2025)

Within this context, the consumer non-cyclical sector in Indonesia, encompassing essential goods and services, remains a focal point for investors due to its relative stability. Recent insights emphasize the dual role of the consumer goods industry as both vulnerable to global disruptions and integral to economic recovery. Brian Levy identifies key consumer-related sectors, such as retail, as being particularly susceptible to policy-driven risks, including restrictive immigration measures and tariff impositions, which could lead to labor shortages, inflation, and disrupted supply chains (www.pwc.com). These challenges pose significant operational risks for businesses, especially U.S. multinationals with global supply networks. Conversely, according to Tirtawidjaja, in his outlook for the Indonesian capital market, highlights the consumer goods sector as a major contributor to projected IPO activity, positioning it alongside infrastructure and renewable energy as a driver of post-pandemic economic revitalization. However, he cautions that this potential can only be realized through effective responses to geopolitical instability, regional competition, and inflationary pressures (www.ey.com). Together, these perspectives underscore the strategic significance of the consumer goods industry in a time of global uncertainty: while the sector faces immediate operational challenges, it also represents a key avenue for market growth and investor confidence, particularly in emerging economies like Indonesia.

Earning Power, often measured by metrics such as the metrics of Earning Before Interest and Tax over Total Asset (EP), is a critical determinant to the company's ability to generate profits from its assets. A study by Nursela et al. (2024), which focused in the non-cyclical consumer sector in Indonesia, found that EP significantly influences Company Value, as measured by the PBV ratio (Price to Book Value). This relationship underscores the importance of operational efficiency and profitability in enhancing firm valuation, especially during periods of economic uncertainty.

The Signalling theory conveys that entrepreneurs (or in this case, main shareholders of companies) will attempt to inform investors about any possible advantageous features that may benefit the investors. If they happen to success, it is most likely that other investors will continue to view the company as profitable place to put their money in (Downes & Heinkel, 1982). Putting it in practice, instinctively, any positive signs of performance that a company report will be met by additions in funds invested.

Interestingly, in regard to the previously mentioned statement, despite reporting significant positive performance, we can still identify companies experiencing a fall in their values. As consideration, the table of calculation below shows the correlation between Net Profit or, in this case, ROA and PBV (stock price) of the sample companies that does not align with the theory proposed by the writer or the previous researches results and analysis.

Based on the figures presented in Figure 1.5. Indofood CBP Sukses Makmur Tbk. (ICBP) will still experience a drop in its stock price despite providing a better performance in 2022 (comparative to 2021). Other companies such as Budi Starch & Sweetener Tbk. (BUDI), Siantar Top Tbk. (STTP), and Prima Cakrawala Abadi Tbk. (PCAR) also experienced similar changes in their consequent years. Additionally, companies such as Unilever Indonesia Tbk. (UNVR) and Garudafood Putra Putri Jaya Tbk. (GOOD) exhibits an inversed relation, with performance increasing while Price to Book Value decreasing.

Figure 1. 5 Comparison of Return on Asset and Price to Book Value

No.	Company Name (CODE)	Year Compared	Return on Assets (in million Rp)	Price-to-Book Value (in million Rp)	Return on Assets (in million Rp)	Price-to-Book Value (in million Rp)
1	Budi Starch & Sweetener Tbk. (BUDI)	2019 / 2020	1,68%	0,36	2,16%	0,34
2	Siantar Top Tbk. (STTP)	2020 / 2021	13,99%	4,66	16,04%	3,00
3	Unilever Indonesia Tbk. (UNVR)	2021 / 2022	37,57%	36,28	31,43%	44,86
4	Indofood CBP Sukses Makmur Tbk. (ICBP)	2021 / 2022	5,17%	2,22	6,29%	1,85
5	Garudafood Putra Putri Jaya Tbk. (GOOD)	2022 / 2023	6,53%	3,16	3,62%	6,31
6	Prima Cakrawala Abadi Tbk. (PCAR)	2022 / 2023	1,24%	1,66	4,72%	0,87

Source: Prepared by Writer (2025)

Given these dynamics, this paper has to purpose to analyze the impact of Earning Power on Company Value within Indonesia's consumer non-cyclical sector.

By understanding this relationship, stakeholders can make informed decisions to navigate the complexities of the current economy. Furthermore, this research facilitates the same variables as Madinah & Arifin (2023) (Earning Power as the predictor variable towards the dependent variable Company Value, and Profit Growth as moderation) with Company Size, Capital Structure, Leverage, and Liquidity towards Company Value while having Profit Growth as a Moderating Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019-2021. In their research, Madinah & Arifin (2023) found that Earning Power has no significant effect (negative coefficient) on Company Value, but its effect became significant when moderated with Profit Growth, indicating Profit Growth is suitable as a moderator.

In addition to the previous explanation regarding the emphasis on the consumer non-cyclical sector, Nursela et al. (2024) and Mulyanti & Rimawan (2022) also researched the same sector as the writer's choice. The main article as reference of this study, which is authored by Madinah & Arifin (2023) researched on the manufacturing sector, alongside Sutrisno (2020), Wijayaningsi & Yulianto (2021), Erawati et al. (2022), Wulandari et al. (2020), Huriquduq (2022), and Ristiani & Sudarsi (2022).

To ensure that the findings of this study accurately represent current market dynamics and business conditions, the research period was deliberately set to span five years, from 2019 to 2023. This timeframe was selected not only to capture recent developments but also to ensure access to relevant, reliable, and up-to-date data within the scope of the study. By focusing on this period, the study aims to reflect both pre- and post-pandemic market conditions, as well as recent global economic shifts, thereby enhancing the robustness of the analysis. It is highly expected that the result of the study can offer meaningful contributions to the understanding of company valuation and thus depict its stock market price performance, providing valuable insights for investors, corporate decision-makers, and future academic research.

With respect to the considerations discussed, the writer is inclined to undertake a study entitled: **"THE ROLE OF EARNING POWER MODERATED BY PROFIT GROWTH TOWARDS COMPANY VALUE IN CONSUMER NON-CYCLICAL SECTOR"**.

1.2 Problem Formulation

In light of the background outlined earlier, this paper seeks to explore the research questions:

1. To what certain extent does Earning Power impact Company Value in the consumer non-cyclical companies listed on the Indonesia Stock Exchange?
2. Does incorporating Profit Growth as moderation alter the relationship between Earning Power and Company Value within the consumer non-cyclical companies listed on the Indonesia Stock Exchange?

1.3 Objective of the Research

The objective of this research is to analyze:

1. The role of Earning Power towards Company Value within the consumer non-cyclical companies listed on the Indonesia Stock Exchange.
2. The moderating impact of Profit Growth in the relationship between Earning Power and Company Value in the consumer non-cyclical companies listed on the Indonesia Stock Exchange.

1.4 Benefits of the Research

The following are some of the benefits that the research can offer to various audiences:

1. Academical Benefit

This study provides a reference point for future academic work on the impact of Earning Power towards Company Value, with the moderation of Profit Growth, within the non-cyclical sector. It also invites further research to address current limitations and enhance future findings.

2. Practical Benefit

The findings of this study aim to help consumer non-cyclical companies gain deeper insight into how their Earning Power and Profit Growth influence Company Value—offering meaningful contributions to the understanding of company valuation and thus depict its stock market price performance; additionally, providing valuable insights and encouraging informed decision-making and strategic self-assessment for investors, corporate decision-makers.

1.5 Problem Limitation

To maintain a clear and focused direction, this research is subject to the limitations below:

1. The paper is confined to specific variables: Company Value as the dependent variable, Earning Power acting as the primary independent variable, Profit Growth as the moderating variable, and Firm Size, Leverage, Capital Structure, and Liquidity as control variables. Other potential factors influencing Company Value are not considered.
2. The analysis focuses exclusively within the consumer non-cyclical companies that is listed on the Indonesia Stock Exchange, using secondary data defined by the criteria detailed in subsequent chapters.
3. The research covers a five-year period, from 2019 to 2023.
4. The study is limited to companies operating within the Indonesian market.