CHAPTER I
INTRODUCTION

1.1 Background Problem

Security Market is a system of interconnection between all participants that provides effective conditions to buy and sell securities, to attract new capital by means of new security issuance, to transfer real assets into financial assets, to invest money for short and long term periods with the aim of deriving profit. The determination of the factors that stimulate the investments in the stock exchange markets has been well researched, both theoretically and empirically.

Capital Market can be said to be a means in which the securities and long term securities are traded. The sources of funding for capital market especially the long term funds for enterprises and the increased investment options, the chance to increase the utility function of each investor becomes larger. Considering Capital Market, a company can get funds which are relatively cheap. This is because the companies do not need to pay for the cost of capital and also, the cost of capital can be reduced so as to increase or expand more investment opportunities. Due to this, there will be a positive effect on the employment, utilization of technology and the natural resources that already are in existence. Generally, the development and trading volume of the stock attracts the aspects of interest by employers in particular and the society at large. For this reason, the stock market is expected to provide information that will be required by investors in deciding whether the investment is reliable or not. In turn, this increases the growth of the buying and selling of securities in capital market which ultimately opens a separate opportunity for the employers to increase the funding and investment opportunities for the public at large.

For investors, the Capital Market is a tool that can be used to invest in financial assets in addition to deposits and savings. According to Anoraga and Pakarti, Capital Markets are divided into two major groups. These groups are instrument owners which are in the form equity and debt instruments in the form of bonds. The securities which are mostly traded in the Capital Markets are referred to as Stock. In this case, the shares are securities which gives a proof of ownership or individual ownership and which are the institutions that are issued by a company which is formed as a Limited Liability Company.

The main purpose of companies aiming to issue shares is to get funding, to expand and maintain the company's future survival, and have a chance where it can show the company's prospects, because companies can finance those investments which are efficient and have the best means of allocating funds to productive and efficient projects.Several studies have been made to determine the factors that mostly affect the stock prices. It is often observed that stock prices tend to fluctuate with factors like financial ratios. This research has been supported by various other researchers that the Stock Price is significantly affected by the financial ratios.

Indonesia changed from being an economy that was highly dependent on agriculture into a more balanced economy which the percentage share of manufacturing in the country's GDP quickly exceeded that of agriculture. For this reason, the research is based solely on manufacturing companies. The table bellows shows the remarkable development during the last five decades in the percentage shares of the three main economic sectors with regards to Indonesia's gross domestic product.

Table 1.1

Industries vs. Agriculture

In Percentage

GDP % on	1968	1980	1996	2010
Agriculture	51	24	16	15
Industries	13	42	43	47
Services	36	34	41	37

Source: World Bank

This also indicates that Indonesia lessened its traditional dependency on primary exports, although it still remains relatively high.

Al-Tamimi et.al (2014) researched on the factors that affect the stock prices in the UAE financial Markets from the period of 1990 – 2005 with a sample consisting of 17 companies. The results indicated a strong and positive of the EPS on the UAE stock Prices. In another research conducted by Malhotra and Tandon (2013) of the determinants of the factors that affect the Stock Prices in India, a sample of 100 companies were used that were listed in the National Stock Exchange (NSE) in the years 2007 – 2012 by using linear regression model, the results showed that the firm's Price Earning Ratio, Price to BookValue and the Earning per Share have a significant positive association with the firm's Stock Price, while the Debt to Equity Ratio has a significant inverse association with the price of the firm's stock. In another research conducted in Turkey, Er and Vuran (2012) analyzed the factors that affect stock prices of 64 manufacturing companies that are listed in the ISE during the period of 2003 – 2007. The results indicated that the stock performance, financial structure, activity ratios, profitability ratios can be used to explain the stock returns as well as the oil prices, economic growth, exchange rate , interest rate and the money supply. A comparative study of 4 randomly chosen Automobile and Information Technology industries Stocks in India that was conducted by Geetha and

Swaaminathan (2015) for a period of 4 years shows that the Price Earning Ratio, Earning per Share, Price to BookValue has significant effect on the Stock Price whereas the Debt to Equity Ratio doesn't have positive or negative effect on the Stock Price. Sharit, et al (2015) analysed the determinants affecting share prices in the Bahrain Financial Market. The study consisted of a panel set of 41 companies listed in the Bahrain Stock Exchange for the period 2006 – 2010. The variables used were RoE, PBV, EPS, DER, and PER showing that these variables are significant determinants of share prices in the Bahrain market. This suggests that investors can make optimum investment decisions and be assured fair returns if they consider these determinants which have evolved to be the significant contributors to the market price of shares in Bahrain.

Considering the above researches that shows the main the factors that affect the stock prices are analyzed through *Price to Earnings Ratio (PER), Debt to Equity Ratio (DER), Return on Assets (ROA), Earning per Share (EPS)* and *Price to Book Value (PBV)*, this research will be conducted with the aim of analyzing which factor affects the Stock Prices of manufacturing companies listed in the Indonesia Stock Exchange has the most.

This research will use all the companies that are listed in the Indonesia Stock Exchange. The data is taken for the yearly period of 2011 to 2015. The following is a sample of the companies from the listed companies. These companies are taken as a sample because they are some of the few companies that have issued dividends only for a period of one year in the span of the 5 years being researched in this paper:

1. PT Toba Pulp Lestari Tbk
2. Chandra Asri Petrochemical
3. Duta Pertiwi Nusantara
4. Indo AcidatamaTbk
5. PT BerlinaTbk

Based on the data that was availed at idx.co.id, the historical share prices for the years 2011to 2015 is as shown in table 1.2.

TABLE 1.2

HISTORICAL SHARE PRICES

In Rupiah

	2011	2012	2013	2014	2015	AVERAGE
Highest	1479.05	1418.4	1144.3	1023.533	1022.683	**1183.489**
Lowest	1224.183	1121.117	909.25	929.6834	933.6	**984.5361**
Open	1470.625	1394.195	1180.305	1149.417	1154.806	**1234.903**

Source: idx.co.id

From the above table, it can be seen that the highest stock prices from the year 2011 to 2015 has an average of rp. 1183.489, whereas the lowest price was rp. 984.5361. This difference can be due to the investors buying stocks in large quantity. This could be because the investors have seen the good performance of the company's financial statements.

In this case, we can deduce that one of the factors that affect the stock price is the Price Earning Ratio (PER). According to Bringham and Houston (2009:160), PriceEarning Ratio (PER) is the price of one share of common stock divided by the earnings per share. This ratio shows how much money the investor is willing to pay for the stock of every dollar of current earnings of the company. Usually Price Earning Ratio (PER) is analyzed through investment theory. Before making investment decisions, the investors need to conduct an assessment of the company by looking into the financial statements. One of the aspects that the investor will assess is the financial performance of the company. If the demand for the stock is increased, the company has a better chance to generate more profits by increasing the share price. With effect to variable Price Earning Ratio (PER), according to Stella (2009:75), a positive PER has a significant effect on the stock prices. Although according to FaraDharmastuti (2004:126) , he claims that the Price Earning Ratio need not have a positive effect on the stock price. On the contrary, Octasari (2006:121) states that the Price Earning Ratio (PER) may have a negative effect but not neccesarily have any significance with the stock price.

Using the same companies mentioned above for the same period of time, we are going to see the effect of the Price Earning Ratio (PER) with data from capitalcube.com.

TABLE 1.3

THE PRICE EARNING RATIO (PER)

As a Ratio

	2011	**2012**	**2013**	**2014**	**2015**
Pt Toba Pulp Lestari	3602.565	-58.0796	35.00985	81.7951	71.82381
Chandra Asri Petrochemical	24319.45	-1600.29	19833.33	10365.74	6334.937
Duta Pertiwi Nusantara	43.18761	9.32351	2.564541	8.869807	7.717474
Indo Acidatama	14.09129	19.73996	18.82832	20.83333	34.48276
PtBerlina	28.67816	29.71065	-42.1131	7.808442	-33.0625
Average	**5601.594**	**-319.919**	**3969.525**	**2097.009**	**1283.18**

Source: idx.co.id

From the above Table 1.3, we can see that the average Price Earning Ratio (PER) was the highest in 2011 at 5601.594. It will be right to say that in this year, the average stock price was high due to the increased purchase of shares by the investors. The next factor that can affect the stock price is the Debt to Equity Ratio (DER).According to Bringham and Houtson, 2006, Debt to Equity Ratio (DER) is the measure of the percentage of funds that are provided by the creditors. Companies that do not have the leverage means using their own capital totally. A company will take debts because of three reasons;

a. The lender will focus on the amount of collateral for the loans that are provided.

b. By using this debt taken, if the company gains higher profits, then the owner of the company will as well benefit from this gain.

c. The owners will obtain the funds and thus they will not lose the control of the company.

It is to be noted that, if there is higher financial leverage, then it is likely that the price of stock will be low because the company will have less than optimal in the operations if the debt is to be collected at any given time . In addition, also proved that a negative effect of the Debt to Equity Ratio (DER) will have a significant impact on the stock prices. However, other authors showed contradictory results in that, it stated that a positive Debt to Equity Ratio (DER) has no significant effect on the stock prices whatsoever.

Based on data found at idx.co.id, the Debt to Equity Ratio faired as below in table 1.4

TABLE 1.4
DEBT TO EQUITY RATIO (DER)
In percentage

	2011	2012	2013	2014	2015
Pt Toba Pulp Lestari	1.54132	1.55879	1.54008	1.57571	1.51979
Chandra Asri Petrochemical	1.01202	1.36055	1.24341	1.22365	1.10283
Duta Pertiwi Nusantara	0.33956	0.19788	0.16443	0.15622	0.1629
Indo Acidatama	0.4319	0.4937	0.33847	0.40905	0.56141
PtBerlina	1.6805	1.69769	2.8781	2.83741	3.25551
Average	**1.00106**	**1.06172**	**1.2329**	**1.24041**	**1.32049**

source: idx.co.id

Based on the table above, we can see that the average Debt to Equity Ratio (DER) for the five companies increased in the course of the years 2011 to 2015. This means that the companies depends on debts in order to develop the business and thus it has a higher risk.

The third factor that affects the stock price is Return on Assets. According to Brigham and Houston, Return on Assets (ROA) is the ability of a company to gain from its own capital. It is a measure of the rate of return on total assets. Return on Assets (ROA) in financial analysis has a very important meaning in that it is very comprehensive. If the ratio is high, then it means that the company's performance is optimal. In this case, investors will prefer to put their investments in such companies. This in turn will have an adverse effect on the stock price. The stock price will increase since many investors will be making purchases. Taking into consideration the findings of Susilawati (2005:111), a negative Return on Assets (RoA) will have a significant impact on the stock prices, whereas according to WulandariSaso, he states that a negative Return on Asset ratio will have no significant influence to the stock prices. However, on the findings of Stella (2009:104) the findings suggest otherwise. This shows that a positive Return on Assets (RoA) has no significant effect on the stock prices whatsoever.Based on the data found at capitalcube.com, the table 1.5 below will show us the effect of Return on Assets for the five companies in a period of 2011 to 2015.

TABLE 1.5
RETURN ON ASSETS (ROA)
In percentage

	2011	2012	2013	2014	2015
PT Toba Pulp Lestari	0.00011	-0.0097	0.01008	0.00422	0.00199
Chandra Asri Petrochemical	0.00482	-0.0503	0.00436	0.00899	0.01704
Duta Pertiwi Nusantara	0.02263	0.11508	0.22579	0.05739	0.05648
Indo Acidatama	0.06641	0.04217	0.03801	0.0312	0.01641
PtBerlina	0.06201	0.06435	-0.0083	0.03966	-0.01
Average	**0.0312**	**0.03232**	**0.05399**	**0.02829**	**0.01638**

source: idx.co.id

The table 1.5 above shows that the average Return on Assets (RoA) for the five companies reduced as at year 2014 which means that the companies has the capacity to manage the profits and total assets.

The final factor that may affect the stock price is Price to Book Value. This ratio, as described by Brigham and Houston as the ratio of stock market price to its book value gives the indication as to how the investors regards the company. Companies which are well regarded by investors, which means that have low risk and high growth, have a high Price to Book Value ratio. Stella on the other hand considers that stocks with a low Price to Book Value (PBV) ratio as a safe investment opportunity. On an efficient capital structure, the stock price will reflect all the information that can be available about the market, thus if a company does not consider this ratio, there is a likelihood of the company suffering losses.

If an investment will be made considering the capital market, then there ought to be done an assessment of the company. After knowing the value of the company, it is then possible to value the company's stock price as well and they will be able to know whether it is overvalued or undervalued.

If the value of the stock price in the market is considered more than the value of the company, the future stock price will decrease. Meanwhile, if the value of the stock price is found to be less than the value of the company, the future stock price will increase (Darsono and Ashari 2005). Stella (2009:45) on the other hand, states that a negative Price to Book Value (PBV) ratio will have a significant impact on the stock price, whereas, Susilawati (2005:127) states quite the opposite in that, a positive PBV will have no significance on the stock price. Based on the data availed at capitalcube.com, the Price to Book Value has been calculated to give the following results in table 1.6.

TABLE 1.6

PRICE TO BOOK VALUE (PBV)

In percentage

	2011	2012	2013	2014	2015
PT Toba Pulp Lestari	0.000819	0.001046	0.000652	0.000642	0.000287
Chandra Asri Petrochemical	0.000504	0.000334	0.000286	0.00026	0.000251
Duta Pertiwi Nusantara	0.003879	0.003843	0.002007	0.001751	0.001508
Indo Acidatama	0.000222	0.000207	0.000159	0.000152	0.000147
PTBerlina	0.006536	0.007087	0.001927	0.001641	0.001927
Average	**0.002392**	**0.002503**	**0.001006**	**0.000889**	**0.000824**

source: idx.co.id

The table 1.6 above shows that the average Price to Book Value (PBV) ratio increased in the year 2011 from 0.002392 to 0.002503. This is likely due to the fact that the stock price was valued higher than its per-share price. The increase in stock prices makes the investor assume that the company has better future prospects.

As from the year 2013 to 2015, it can be seen that the ratio dropped drastically, which could mean that the stock price was undervalued.

This research is aimed at developing the research done by Stella (2009:78) which was about the influence of Price to Earning Ratio (PER), Debt to Equity Ratio (DER), Return on Assets (RoA) and the Price to Book Value (PBV). On the other hand, my research will include one more variable of Earning Per Share (EPS) which was borrowed from a previous research by Saso and Wulandari (2006:67). In this case, the aim of adding this variable is to develop the previous researches and also evaluate how this variable affects the stock price.

This leads me to my last variable which is the Earning Per Share (EPS). William J. O'Neil (2003) states that, fluctuation on EPS is the only element important for the process of selecting the best leading stocks todat.The higher percentage the better. According to Darsono and Ashari 2005, investors are usually interested in the profitability. The Earning Per Share (EPS) is achieved by dividing the net income with the outstanding stock. This is basically associated with the outstanding shares of a company and the price at which the stock market can manipulate in order to compare the company's performance with the money that was invested in the company.This ratio can advesly affect the stock price, therefore the investors will definitely purchase the shares in accordance to the sensitivity of the ratio. Dharmastuti (2004) and Nugroho (2009) showed that the positive influence of the Earning per Share (EPS) can affect the stock price. Nevertheless, Sparts (2005) is of the opinion that EPS has a negative effect on stock prices.The table 1.6 below shows the data that was availed from capitalcube.com on EPS.

TABLE 1.7
EARNING PER SHARE (EPS)
In percentage

	2011	**2012**	**2013**	**2014**	**2015**
PT Toba Pulp Lestari	0.26	-21.35	28.73	12.46	7.53
Chandra Asri Petrochemical	0.15	-1.45	0.15	0.27	0.52
Duta Pertiwi Nusantara	11.78	64.13	174.82	46.6	47.63
Indo Acidatama	3.98	2.82	2.66	2.4	1.45
PTBerlina	58	72	-14	77	-20
Average	**14.834**	**23.23**	**38.472**	**27.746**	**7.426**

source: idx.co.id

The table 1.7 above shows that the average Earning per Share (EPS) tends to fluctuate from the year 2011 to 2012. The year 2013 had a relative increase which means that the net income relative to the share price had increased but then there was a drastic fall in the year 2015.

The difference between this research and the previous researches is the number of variables used to evaluate the effect of stock prices. While the previous researches uses 5 variables which are Price Earning Ratio (EPS), Debt to Equity Ratio (DER), Return on Assets (RoA) and the stock price, this research uses six variables which in addition to the above mentioned there is Earning per Share (EPS).

This research is based on the manufacturing sector, because manufacturing companies have a continuous operating activities from processing raw materials into finished goods, where these products are on high demand thus are always on operation. As most manufacturing companies are listed in the Indonesia Stock Exchange, the results of this research can be associated with the manufacturing companies that are listed in the manufacturing sector of the Indonesia Stock Exchange. The five previously mentioned companies were found with the help of sahamOk.com

Following the steps of previous researchers, Stella (2009), this research uses regression analysis techniques as well. Based on the above findings, this research is therefore entitled **"DETERMINANTS OF FACTORS THAT AFFECT THE STOCK PRICE OF MANUFACTURING COMPANIES LISTED IN THE INDONESIA STOCK EXCHANGE IN THE YEARS 2011 – 2015"**

1.2 Formulation Of The Problem

Taking into consideration previous researches, it can be seen that there is a lot of fluctuations with regards to the wishes of the investors. The views of different investors vary in accordance to the stock price. An investor will buy shares at the lowest price and sell the same at a higher price. This rise and fall of the stock price can be traced back to a lot of factors, one of which is the activity of the financial statements, which includes, Price Earning Ratio (PER), Debt to Equity Ratio (DER), Return on Assets (RoA), Price to Book Value (PBV) and Earning per Share (EPS). The previous researches shows that there is a lot of difference between the above mentioned ratios as per their relation to the stock price. The PER, DER, RoA, PBV and EPS can have a positive effect on the stock price but can as well have a negative impact on the stock price.

Because of this issue of inconsistency of the ratios to the stock price, we can in turn formulate a number of questions that would be answered following this research. There is a need to analyze what factors are capable to affect the stock price. Therefore, the following questions were formulated:

1. How does the Price Earning Ratio affect the Stock Price of manufacturing companies during the years 20112011- 2015?
2. How does the Debt to Equity Ratio affect the Stock Price of manufacturing companies during the years 2011 – 2015?
3. How does the Return on Assets affect the Stock Price of manufacturing companies during the years 2011 – 2015?
4. How does the Price to Book Value affect the Stock Price of manufacturing companies during the years 2011 – 2015?
5. How does the Earning per Share affect the Stock Price of manufacturing companies during the years 2011 -2015?

1.3 Purpose And Objective Of The Research

This research's values lies in the unquantifiable benefits provided to the investors. Research coverage benefits are not immediate and the decision to invest in stock is generally a long-term process. Investors need to familiarize themselves with stock movements so as they can be confident with their investment decisions. Most previous researches support this theory that financial ratios contribute to the fluctuations of the Stock Price. In this research, the author will analyse which one of the financial ratios affects the Stock price the most.

1.3.1 Purpose Of The Research

The purpose of this research is to elaborate further on the problems that were formulated. These are:

1. To analyze the effect of the Price Earning Ration on the Stock Price of Manufacturing Companies listed in the Indonesia Stock Exchange for the year 2011 – 2015.
2. To analyze the effect of the Debt to Equity Ratio on the Stock Price of Manufacturing Companies listed in the Indonesia Stock Exchange for the year 2011 – 2015.
3. To analyze the effect of the Return on Assets on the Stock Price of Manufacturing Companies listed in the Indonesia Stock Exchange for the year 2011 – 2015.
4. To analyze the effect of Price to Book Value on the Stock Price of Manufacturing Companies listed in the Indonesia Stock Exchange for the year 2011 – 2015.
5. To analyze the effect of Earning per Share of Stock Price of Manufacturing Companies listed in the Indonesia Stock Exchange for the year 2011 – 2015.

1.3.2 Research Objectives

1. To the Investor

   This research is expected to help the investor have more insight about investment and use it as a reference when making investment decisions.
2. In Academics

This research will help in higher education to provide referencing materials solely on the aspect of the factors that affect the stock prices especially of manufacturing companies in theory as well as in practical aspect.

3. To the next Researcher

This research can be used as a reference for further research, development of the factors that affect the stock prices of manufacturing companies.

1.4 Systematic Writing

For the ease of understanding this research paper, it will be divided into 5 chapters which include the following:

- CHAPTER 1 Introduction

This chapter will cover the introduction which consists of the background problem, the main aim of taking up this research. To add to this, there will be formulation of the problem as well as the purpose and the objectives of this research.

- CHAPTER 2 Literature View

This chapter contains the theories that support this research such as the Stock Prices definition and types. It also contains the theoretical concepts of supporting theories like signaling theory, risk theory, expectation theory, investment theory and investment opportunity set (IoS). It also covers the main factors that will be used in this research that affect the Stock Price. The hypothesis as well as the researches of some previous researchers that support this research paper and the research framework.

- CHAPTER 3 Object and Research Methods

This chapter contains the research variables and operational definitions, population and sample, type and source of data, the analysis of data, the test models as well as the discussion of test models.

- CHAPTER 4 Data Analysis

This chapter contains the descriptive analysis of the data used in this research paper. It also highlights the influence of the factors that affect the Stock Prices as well as the tests like linear assumption tests, as well as the discussion of the results.

- CHAPTER 5 Conclusion, Implications and Recommendation

This chapter concludes this research with the conclusion drawn from the research, the implication of this research as well as the recommendation from the author with regards to the main objective of this research.