CHAPTER I

INTRODUCTION

1.1 Background Research

Indonesia is a developing country with the fourth largest population in the world, that consist two hundred million people, which means that the demand for the property and real estate sector will increase every year, hence the property and real estate sector has an important role in contributing to the growth of the national economy. In fact, this sector is believed to be able to become a benchmark for economic growth in the future (Soelaeman Soemawinata head of Indonesian real estate organization).

According to Santoso (2009) the property and real estate industry is one sector that signals a fall or the development of a country's economy. This indicates that more and more companies engaged in the property and real estate sector indicate the growing economy in Indonesia. Indonesia was also listed as one of the countries experiencing a high property industry acceleration, besides China, India, Russia and Brazil. In 2012 Indonesia ranked seventh after China, the United States, India, Russia, Brazil and the United Kingdom.

Investment in property and real estate in general is long-term in nature and will grow in line with economic growth and is believed to be a promising investment. According to Michael C Thomsett there are various types of investments in property and real estate in general can be divided into three, namely, residential property, which includes apartments, housing, and multi-unit buildings;

commercial property, which is property that is designed for business purposes such as goods storage buildings and parking areas, land and industrial property, namely investments in property that are designed for industrial purposes, for example, factory buildings.

Stock market prices are a measure of the company's performance index, namely how far management has managed the company on behalf of shareholders, thus stock prices in the capital market are indicators of company value, namely how to increase shareholder wealth which is a general corporate objective.

But in the fact, most of some property and real estate companies can't be separated from the act of using financial ratios. One of usefullness of financial ratios for price stock is to predicting fluctuate of stock price.

In the research of Widiyanti and Colline (2017), they states stock prices occur in accordance with market demand and supply. Demand for shares is influenced by investor expectations of the company issuing shares. The better the financial performance of a company, the higher the expectations of investors. This causes the shares to be increasingly in demand and the stock price will be even higher. Conversely if the financial performance of a company is not good, then the expectations of investors will be low, so investors are not interested in investing in these shares. This makes the stock price decline, corporate financial performance can be done by analyzing financial statements. One form of financial statement analysis is to analyze financial ratios. Financial ratios are grouped into five namely liquidity ratios, solvability ratios, activity ratios, profitability ratios and market ratios.

According to Darmadji and Fakhruddin (2001), states that the price index stock is an indicator that shows the movement of stock prices. One analytical tool in assessing stock prices is through fundamental analysis of the company through financial ratio analysis.

Irawati (2005) reason of companies use financial ratios are that techniques analysis that is used as a measure of the financial condition of a company in a certain period, or the business results of a company in a certain period by comparing two variables taken from the company's financial statements, both the balance sheet and profit and loss. Financial ratio can provide a good indicator for analysts. Financial ratio analysis based on historical financial data has the purpose of giving a indication of the company's performance in the future. To measure the financial performance of a company, a ratio is known as a financial ratio.

According to Megawati (2018), company use financial ratios to an effort to attract investors to invest, a company must be able to show optimal financial performance using financial statements. Financial statements are used to measure performance and predict future prospects of the company by using stock prices and measures that are often used in fundamental analysis, namely financial ratios. In the company's financial statements there are ratios that are considered by investors to invest. These financial ratios include liquidity, solvency, profitability, activity, and market value.

According to Brigham and Houston (2013) there are five performance financial ratios, namely liquidity ratio, asset management ratio, debt management ratio (in this study proxied by debt equity ratio), profitability ratio (in this study

proxied by return on investments, return on equity, net profit margin), and market value ratios .

There are many researchs and topics written to analyze the factors that stock price. However, the results of some studies have not provided significant consistency. There are several factors that encourage the fluctuating of stock price, such as ROI, ROE, DER, profitability, audit quality, financial leverage and many more. In some previous studies there are inconsistencies, so research on the factors that affect the stock price is one thing that is quite interesting. This study choose property & real estate industry as an object research because this industry have bright prospects in the future by looking at the potential for a growing population in Indonesia, more and more with the number of developments in the housing sector, apartments, shopping center , and office buildings that make investors interested to invest funds so that the prospect of stock trading expected to continue increasing also this industry can survive and resistant on crisis. Although in the crisis condition property & real estate industry still needed by people.

1.2 Problem Identification

Based on background research described, the problem is stock price that affected by some factors. Analytical tool used as a reason of management's company to use financial ratios. According to those background research, the problem formulation concluded whether some factors like ROI, ROE, NPM, and DER affect stock price in property & real estate industry listed on Indonesia Stock Exchange or not.

The purpose of this research are to find the background problem in fluctuating of stock price, and to find out about the effectiveness of financial ratios on management and the company daily user. This research also to analyze the effect of independent variables (ROE, ROI, NPM, DER) to price stock in the research object.

1.3 Structure of The Research

This research is designed by following the structure. The first chapter of this study is a general description of background of research, problem formulation identification, structure of the research and conclusion of research. The second chapter of this study describe the review of previous studies that can give the thorough research formation. The third chapter of this study describe the hypothesis of the research. And also provide the conceptual framework of the research.

The fourth chapter of this study focuses on the method of conducting the research including research design, type and source of data, population and sample the definition of variables. And also explains about the analysis technique that used to analyze the data. The fifth chapter of this study is the result of testing and analyzing the data. This chapter also shows the discussion about the result and the correlation between the variables. The sixth chapter tells about the conclusion in the research and also describe the limitation of research