

CHAPTER I

INTRODUCTION

1.1 Research Background

Exactly to the year 2021, at the third week of March, the mix index composite or IHSG (Index Harga Saham Gabungan)'s number reach up to 6,356.16. This number has grown increasingly well looking at how it performs last year, at 5,979.07 (OJK, 2021). Not to mention the increasing number of total companies listed, the market capitalization, traded volume and the value traded. Each company that are listed in the stock index, can be traded its stock, or invested.

Each day, the stock prices always change. It could be higher or lower than the first opening price. The stock prices can be affected by both internally and externally. Externally affected such as the political risk, risk-free, interest rate and inflation. While internally, the stock price can be affected by the well management, company's performance or policies and decisions made. The external conditions could affect the stock prices more sensitively (Daniswara & Daryanto, 2020). That is why the investors need to have a serious consideration before investing. Such as taking the look at two analysis method, technical and fundamental analysis to gain from the stock return.

Taking far more detail into the company's stock return, it can be analyzed by both technical and fundamental analysis. Technical analysis itself is explained as a

help for fundamental analysis to study the past pattern, predict the future price and the turning point of stock price, that merely reflected it's financial data (Suresh, 2013). While fundamental analysis is basically the examination of combined data such as financial data, management, business concept and competition. These combined data will be taken as a fair value, in which can be the tool to determine whether the stock is undervalue or over value by comparing it to the market price (Suresh, 2013). The information needed for the fundamental analysis can be found at the company's financial statement each quarter or each year, depends on the length of expected return.

There are 5 financial ratios such as liquidity ratio, profitability ratio, solvency ratio, activity ratio and market ratio. The ratios that used for this research are profitability ratio, solvency ratio and market ratio. According to (Satryo et al., 2017), Profitability analysis is the main attraction for owners since it shows how well the company is managing its resources to create result. While the use of solvency ratio in this research is because its relationship with the company shares price, and affecting the company financial performance. And the last ratio, market ratio is used because market ratio's purpose is to know the market value of a stock directly. And the ratios used often have different result and conclusion, it is the reason for the researcher to re-examine these ratios that are used.

The dependent variable, LQ-45, is the top 45 companies that are considered as the most liquid company and known for its good fundamental aspect. These big liquid and well fundamentally companies contributed to 65% of IDX's capitalization (Nurwulandari et al., 2019). Beside of the easy access for information,

LQ-45 stock index was chosen because of the index's capability of carrying the whole capitalization of IDX. Thus, researching the LQ-45 stock price will most likely be able to represent the companies in IDX, especially in fundamental way of analysis.

To find out the fair value of the company, it can be calculated using financial ratio. Financial ratio itself is the process of determining and interpreting relationships between financial items, to make it in a more simple understandable form (Babalola & Abiola, 2013). The financial ratio can include many things, but in this study, the financial ratio that will be used are ROA (Return on Asset), ROE (Return on Equity), DER (Debt to Equity Ratio), PER (Price to Earning Ratio), and PBV (Price to Book Value). Now these financial ratios will be regressed together with the stock price to find whether it has an effect on the return of stock price for the last 10 years in LQ-45 Stock Index.

1.2. Problem Statement

The stock price as mentioned above can be affected by many things externally and internally. Also mentioned by (Daniswara & Daryanto, 2020), that the stock price react more sensitive towards external things. Hence the fundamental analysis to give the investor more insight and information, to avoid a blindly follow along and minimize the external risk (Ratulangi & Tumewu, 2019). The main idea of fundamental analysis is to find the fair value of the company and compare it to the current market price. If the fair value is below the market price, then it is undervalued, vice versa, even though the external factors may bring down the price.

1.3. Research Question

Based on the problem statement that stated above, thus the research is meant to answer these several question of:

1. Does the ROA (Return on Asset) affected the return of stock price in LQ-45 stock index from 2010-2020?
2. Does the ROE (Return on Equity) affected the return of stock price in LQ-45 stock index from 2010-2020?
3. Does the DER (Debt to Equity ratio) affected the return of stock price in LQ-45 stock index from 2010-2020?
4. Does the PER (Price to Earning Ratio) affected the return of stock price in LQ-45 stock index from 2010-2020?
5. Does the PBV (Price to Book Value) affected the return of stock price in LQ-45 stock index from 2010-2020?

1.4. Objective of The Research

The general purpose or objective of the research is to Find out on whether the Financial Ratio such as ROA, ROE, DER, PER, and PBV affect the return of stock price in LQ-45 stock index from 2010-2020. This finding later can become an insight for investors to not easily affected by the external factors, but instead believe in the company fair value. And to answer the research question detailed:

1. To find out whether the ROA (Return on Asset) of a company has an effect on the return of stock price in LQ-45 stock index from 2010-2020.

2. To find out whether the ROE (Return on Equity) of a company has an effect on the return of stock price in LQ-45 stock index from 2010-2020.

3. To find out whether the DER (Debt to Equity Ratio) of a company has an effect on the return of stock price in LQ-45 stock index from 2010-2020.

4. To find out whether the PER (Price to Earning Ratio) of a company has an effect on the return of stock price in LQ-45 stock index from 2010-2020.

5. To find out whether the PBV (Price to Book Value) of a company has an effect on the return of stock price in LQ-45 stock index from 2010-2020.

1.5. The Scope of The Research

The data is going to be obtained mostly from the IDX, Indonesia's stock exchange website that contains information regarding company's annual financial statement, and the company's market capitalization. This research will be using one index called LQ-45, that basically an index that measure the performance from 45 stocks that have good liquidity and big market capitalization. The data that will be used is the company annual statement that contains the needed data for each ratio. The research will use the only company that stays out throughout the timeline of 2010-2020. The data for the variable research such as ROA, ROE, DER, PER, and PBV is self-calculated using the data from balance sheet without taking the company annual statement's ratio analysis section. And the dependent variable, the stock price will be taken from the stock's average price in the last month of each

year, then use the delta of the current year with the previous year to find the return of the stock price.

1.6. The Benefit of The Research

The author hope that this research will be beneficial for:

1. Theory Contribution

The finding of this research is expected to give an empirical evidence on the effect of ROA, ROE, PER, DER, PBV on the stock price return in LQ-45 stock index from 2010-2020.

2. For other parties

This research is expected to reach out to other parties and improve their knowledge about the effect of ROA, ROE, PER, DER, PBV towards the stock price return, and other parties can also make this research as a reference.

1.7. Research Systematic

The research has 5 chapters consist of:

CHAPTER I INTRODUCTION

In this chapter, it will be talking about the story background of the research, the problem statement, the research questions, objective / purpose of the research, the scope of research (limitation), the benefit of the research and the research systematic.

CHAPTER II LITERATURE REVIEW

This chapter will consist of the theories needed for the research, theoretical framework, research model, and hypothesis.

CHAPTER III RESEARCH METHODS

In this chapter, wills consist of type of the research, data source, data collection method, variable, and data analysis method.

CHAPTER IV DATA ANALYSIS

This chapter will show the result of data analysis and interpretation of the data.

CHAPTER V CONCLUSION

This chapter will consist of the research's conclusion, research limitation and future research advice.

