CHAPTER I

INTRODUCTION

1.1.Background of Research

In globalization era, many companies are always making the expansion to compete with its effort to survive its company from bankruptcy. The expansion is followed by the huge amount of money that has to be expensed. Consequently, the company must look for how to get huge amount of money that has to be expanded. To get huge amount of money, the alternative way to get it is debt financing or equity financing. If the company tend to make equity financing to get high amount of money by issuing the stock in stock market, then it will have two parties involved and expect for profit in that transaction. First party is the party that needs the money from the other party (issuer) and the second party is the party that has amount of money (investor). The issuer is the company that needs expansion of their product to get the highest profit for company. The expansion needs amount of money to expand the aspect of the resources. Therefore, the company needs investors to get the amount of money with shared profit as the compensation to investor. In financial report it is called as dividend.

Indonesia is the country which is known as one of the developing countries on the world. The equity financing is not the newest problem in Indonesia. The stock trading in Indonesia has already existed since the colonial period, when Indonesia was still named Hindia Belanda. The securities trading in Batavia (now named as Jakarta) started on December 14th 1912, in Surabaya which started on January 11th 1925, and in Semarang on August 1st 1925. The securities trading activities were closed when the second World War occurred. At that time, the trading securities had not organized. That's why it was hard to find the historical data of securities trading from that time. After Indonesia got its independence, the government was issuing Regulation Number 15 year 1952 regarding the stock exchange. The main factor to re-open the stock exchange was to control the 3% Indonesian Obligation (ORI 3%) year 1950. The trading activity was controlled by *Perserikatan Perdagangan Uang dan Efek* (PPUE) which started from November 1st 1951. Unfortunately, the economy condition was getting fall along with the decline of political and security situation at that time until the year 1965.

In 1965, Mr. Soeharto became the president of Indonesia's Republic. Under the leadership of Mr. Soeharto, the government started to use the open economic system by issuing Regulation of Foreign Assets Investment in 1967, and also Regulation of Domestic Assets Investment in 1968. In ten years after those regulation had been issued, Indonesia's economy situation got inclined. Thus, in August 10th 1977 the stock exchange activity was reactivated by the opening of Jakarta Stock Exchange (JSX). Until this day, stock market has been one of the most popular ways to invest money with the satisfied return.

Economic growth is increasing rapidly in Indonesia, which is also followed by growth of manufacture that needs to be invested by the investors in Indonesia. Investor is needed in order to get return of the investment. As Hidayat (2009) explained that stock market gives a huge impact to economy of country because it gives two functions which are economic function and financial function. Stock market has economic function because it provides facilities which bridge two parties which include the investor and issuer. Stock market also has a financial function because it gives possibility and opportunity to get returns for investor, according to characteristic of chosen investment. Indonesia's stock market also moves forward to provide services between investor and company which sell stock in Indonesia stock market or it can be called as going concern company. By selling the stock to the domestic or foreign investor, going concern company can expand more about the resources, improve the value of company, improve the stock price of company, and improve the chance to lead the competitor which can finally improve the profit of the company.

Stock becomes developed increasingly as the world economic growth. Many investors come to Indonesia's stock market in order to get high return of the company. But it always has many risks besides high return of investment. This risk is reflected to the uncertain return which cannot meet to the investor satisfaction in the future. This problem appears because the fluctuation of the stock price always relied on the politic, economy, and industrial changes in Indonesia and world. Furthermore, having many parties that influence for changing the price of stock, owner, manager, debtor, employee, and the environment of the company are parties that cannot be ignored.

As the time goes by, the investor tries to predict the stock return to get the investor expectation which is to expect the highest return for certain company. To predict the stock return of the stock market, the investor needs much information to predict the stock return that will be issued by the company. The information must be gathered as much as possible and analyzed by investor before making decision. Financial information is always considered as the basic information that investor believes to make decision in one period. The financial information includes balance sheet, income statement, cash flows, etc. Although financial statement can reduce the risk of stock price, but it's not the major indicator to reduce the risk of the stock price. Non accounting information also plays the important role to influence the stock price. It includes the trend of stock price, performance of the environment, and other external companies.

Investor has a right to know the situation of internal company to make decision for his stock. One way to get the information of the internal company is to look at the financial statement. In this way, investor can understand the situation of the company within one year period. This is the only way to link between the external and internal party to understand the development and profit that company earned in certain period. Based on the function of the financial statement it is to record the financial activity that company has done in one period. Because the financial statement is important to external and internal party, the manager of company will work very hard in order to get a satisfied financial statement.

Every company must have a financial statement as evidence of their daily transaction during their production activity annually. According to wikipedia.com, a financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. Thus, we can conclude that financial statement depicts the status of a company in financial. The financial statement is commonly used in assessing the company's ability. The process in assessing a company's ability through its financial statement is called as financial statement analysis.

Financial statements are prepared to meet external reporting obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through the analysis and interpretation of financial statements.

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. There are various methods or techniques that are used in analyzing financial statements, such as comparative statements, schedule of changes in working capital, common size percentages, funds analysis, trend analysis, and analysis ratio.

To decrease the possibility of losing in return, there are several factors that must be observed by an investor. One of the method which is commonly used is analysis ratio. Analysis ratio is a financial ratio that becomes the focus to make prediction about stocks, which consists of liquidity ratio, leverage ratio, profitability ratio, efficiency ratio, and market ratio.

Liquidity ratio is the ability of a company to fulfill the financial obligations that must be done immediately, or the company's ability to fulfill obligations at the time billed. Financial obligations of a company are basically classified into two types, the first is the financial obligations associated with the parties outside the company (creditor) which is called the liquidity of business entities, and the financial obligations associated with the production process (internal company) which is called the liquidation of the company.

Leverage ratio is the ability of a company to funding its company activity through the liabilities. For example debt to equity ratio, and debt to total asset ratio. Profitability ratio is the ability of the company to generate profits during the given period. For example the GPM, OPM, NPM, ROA, and ROE. Efficiency ratio is used to assess the company ability in managing its assets so it can be used to the company's cash flow. For example the total asset turnover. Market ratio is a ratio that assesses the market price with book value of the company. For example PER, DY, DPR, PBV.

In stock market, the demand's law also exists. The better number of financial ratios, the higher the demand of the related stock. The increasing of demand will cause the increasing stocks' price also. Thus, the financial ratio can be one of the alternatives to analyze the company through its financial statement which will be evaluated further and would be giving a depiction of the price of company's stock.

This research is aimed to continue the previous research that has been done by Sasongko (2002), Antara and Lestari (2005), Limbong (2006), Hijriah (2007), Nurmalasari (2008), Lindayati (2011).

1. Sasongko (2002), *"Pengaruh EVA dan Rasio-Rasio Profitabilitas Terhadap Harga Saham"*. The aim of this research is knowing the effect of EVA and profitability ratio to the stock's price of manufacture company that lists in IDX. The research objects is the manufacturing company that listed in IDX for year 2001 – 2002. The method that was used multiple regression method. The result from this research is the Return on Assets (ROA), Return on Equity (ROE), Return on Stock (ROS), Break Even Point (BEP), and Earning Value Assets (EVA) are not giving any effect to the stock's price. While the Earning Per Share (EPS) is influencing the stock's price.
2. Antara and Lestari (2005), *"Faktor- Faktor yang Mempengaruhi Kinerja Saham Perusahaan Agribisnis di BEJ"*. The aim of this research is to knowing are the EPS, NPM, PER, ROI, and ROE giving any influences to the stock's price. This research object is the agriculture companies in IDX year 2001 – 2004. The method that used is purposive method. The result from this research is the EPS,

NPM, PER, ROI, and ROE are simultaneous influencing the stock's price.

3. Limbong (2006), *"Analisis Faktor Fundamental dan Risiko Sistematik Terhadap Tingkat Keuntungan Saham Perbankan di BEJ"*. The aim of this research is to knowing the effect from fundamental ractor and sistematics ratio to the stock's price. In this research, they are using the logistic regression method. The research object are the banking company in IDX. The result of this research are :
   - The fundamental factor and systematic risk is influence to the stock;s price of the company in simultaneous.
   - In partial, the fundamental factor (RORA, NPM, and LDR) is significant influence to the company's income.
4. Hijriah (2007), *"Pengaruh Faktor Fundamental dan Risiko Sitematis Terhadap Harga Saham Properti di BEJ"*. The aim of this research is to find out the effect of the fundamental factor and sistematic risks to the stock's price of the property companies that listed in IDX for year 2002-2006. The research object of this research is the property companies that listed in IDX for year 2002-2006. This research is using explanatory description method. The result of this research are :
   - ROE, PER, and BV were partially influencing the stock's price
   - ROA, ROE, DER, PER, EPS, and BV were significantly influence the stock's price.

5. Nurmalasari (2005), *"Analisis Pengaruh Rasio Profitabilitas Terhadap Harga Saham Emiten LQ45 yang Terdaftar di BEI Tahun 2005-2008.* The aim of this research is to find out are the ROA, ROE, NPM, and EPS is influence to the stock's price of the LQ45's companies. The object of this research is the companies that listed in LQ45 of IDX year 2005-2008. The method that used is multiple linear method. The result of this research are :
   - ROA, ROE, NPM, and EPS is influincing the stock's price.
   - ROA is influincing the stock's price in partially.
6. Lindayati (2011), *"Pengaruh Rasio Keuangan Terhadap Harga Saham (Studi Empiris pada Perusahaan yang Terdaftar di Bursa Efek Indonesia)"*. The aim of this research is to find out whether the Total Debt to Equity Ratio, Total Debt to Asset Ratio, Total Asset Turnover, Operating Profit Margin, Net Profit Margin, Return on Investment, Return on Equity is having influence to the stock's price. The object of this research is the company that listing in IDX. The analysis technique of this research is using the double linear regretion method. The result from this research are :
   - The Total Debt to Equity Ratio, Total Debt to Asset Ratio, Total Asset Turnover, Operating Profit Margin, Net Profit Margin, Return on Investment, Return on Equity is significantly influence to the stock's price.
   - Partially, there are only NPM, ROI, and ROE that significant influence to the stock's price

- ROI is the dominant variable in stock's price.

This research is aimed to test the strength of the conclusion from previous research considering to the unstable condition of the global economy condition nowadays. The author use the liquidity, solvency, and profitability as the variable that influence to the stock price because the information that provided by and needed by investor is a financial statement. The investor has to estimate the future for making the decision. Consequently, the investor has to analyze the strength of the company. With financial analysis which involved by ratio analysis, the investor can make decision correctly. The dependent variable of this minor thesis based on combination that previous research used. With same independent variable, dependent variable, and same population this minor thesis is tended to know the realibility and validity of previous research with use more update data. The research object of this research is the 19 companies that listed in LQ45 index from year 2009-2011. Therefore, the title of this research is: "**THE INFLUENCE OF LIQUIDITY, SOLVENCY, AND PROFITABILITY TOWARDS STOCK PRICE (Empirical Study on Listed Companies in Indonesia Stock Exchange of LQ45 in 2009-2011)**"

1.2.Research Questions

Based on the given background, the problems in this research are formulated as follows :

1. Do the Current Ratio, Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin simultaneously influence

the stock price of companies that are listed at LQ45 in the period of 2009-2011?

2. Do the Current Ratio, Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin partially influence the stock price of companies that are list at LQ45 in period of 2009-2011?

1.3.Research Objectives

The objectives of this research is to find out whether the Current Ratio, Debt to Equity Ratio, Return on Assets, Return on Equity, and Net Profit Margin have an influence to the stock price of companies that are listed at LQ45 in period of 2009-2011.

1.4.Contribution of Research

Benefits of this research are:

1. Theoretical Contribution
   a. Researcher can gain knowledge and experience in conducting research and preparing reports for the later can be a provision of current and future.
   b. This research could be used as a reference for mutual researchers who want to conduct research with issuing of stock price. Furthermore, this research provide a support to the previous findings.
2. Practical Contribuition
   a. The result is expected to be used for reference materials and additional information for all party as consideration for making decision.

b. Finding of this research could provide a contribution of the liquidity, solvency, and profitability impact to stock price. It will easier to investor to consider the proportion of the contribution of independent variable towards decision making.

1.5 Systematic Discussion

The outline of the discussion in this paper is as follow :

CHAPTER I - INTRODUCTION.

This chapter will discuss the background research, problem formulation, research objectives, the benefits of research, and system discussion.

CHAPTER II - LITERATURE REVIEW.

This chapter will explain the theory foundation that will support the research of methods that become the basis for the analysis of existing problems and solving them. The foundation of this theory is obtained from the literature study on matters related to this minor thesis research.

CHAPTER 3 - RESEARCH METHOD.

This chapter contains a description of the research method.

CHAPTER 4 - DISCUSSION AND RESULT.

This chapter discusses the methods of analysis conducted during the study, the results of the research which is based on the literature theory, and discussion based on the research methodology used in this study.

CHAPTER 5 - CONCLUSION AND SUGGESTIONS.

This chapter is the closing chapter of the writing of this research, which will explain the conclusion that the formulation are from analysis and discussion of previous chapters, and the conclusion will produce advices that can be used for further research. In this chapter also contains the limitation of research which become the scope of this research.