Chapter I:
Introduction

1.1 Background

Investor's demand for a stock is influenced by a variety of information that they had from their accounting information presented in the financial statements. Announcement of the financial statements is the moment awaited by investors, because of the financial reports that investors can know the progress of the issuer which is used as one of the considerations to buy or sell certain stocks that they have owned (Venkates,Madhu Tyagi,Ganesh,2012). For investors who do analysis of the company, accounting information published by companies already adequately describe developments in the company and what has been achieved with the analysis of financial information. Investors can determine the ratio between the intrinsic value of the company's stock compared to the market price of stock of the company concerned.

The information required by investors not only fundamental information, but also information that is technical. Fundamental and technical information that can be used as a basis for investors to predict the return, risk or uncertainty, the amount, timing, and other factors associated with investment activities in the capital markets. Fundamental analysis is a method of finding out the future price of a stock which an investor wishes to buy. It relates to the examination of the intrinsic worth of a company to find out whether the current market price is fair or not, whether it is overpriced or under priced. It believes that analyzing the economy, strategy, management, product, financial status and other related information will help to choose shares that will outperform the market and provide consistent gains to the investor. It is the examination of the underlying forces that affect the interest of the economy, industrial sectors and companies.   The information is fundamental obtained from the company's internal conditions and technical information that is obtained from outside the

company, such as economic, political, financial, and other factors. Baresa, Suzana, Sinisa Bogdan, and Zoran(2013) have research entitled Strategy of stock valuation by fundamental analysis and found that as one of the best ways to fight against many factors that make the uncertainty, arises fundamental analysis. Fundamental analysis also examine various financial statements with the aim to asses a real value of company's stock. The strength and accuracy of the analysis conducted investor affect the size advantage will be accepted.

In addition, the reason for choosing a manufacturing company as an object in this research because this industry is the industry's most actively traded stock on the Indonesian Stock Exchange (BEI) and also this sector does not significantly affect external factors cause the consumer any circumstances continue to make purchases of these products. Stock returns in Manufacturing companies are reported tend to be stable. Manufacturing Companies have also average total debt higher than other industrial companies. Where they share views on various calculations in predicting stock prices in the future by using financial ratios such as Price Earnings Ratio (PER), Price to Book Value (PBV ratio) and Dividend Yield (DY), with the hope to get a higher stock return.

Estimation of real worth of a stock is made by considering the earning potential of the company which depends on investment environment and factors relating to specific industry, competitiveness, quality of management, operational efficiency, profitability, capital structure and dividend policy. Debt to Equity Ratio (DER) shows the structure of the capital employed by the company. The higher the Debt to Equity Ratio showed greater than total equity total debt used by the company, as a result investors tend to avoid stocks that have the value of Debt To Equity Ratio is high.

Price Earning Ratio (PER) is the ratio of stock price to earnings per share. Investors in the capital market that has been developed using the Price Earning Ratio to gauge whether a stock is underpriced or overpriced and becomes an important measure on which the judgment

of investors in buying or selling stock of a company. The company's value then is indicated by using Price Book Value (PBV). This ratio shows how a company is able to create corporate value relative to the amount of capital invested and also be used as an alternative approach to determining the value of a stock (Tandelilin, 2010: 194). Firm size affects investor decisions for their business risk factors, This relates to the possibility of bankruptcy for a company, where a company with a larger size is considered more resistant to the crisis will be easier for companies with a larger size to obtain loans or external funds. Companies are assessed less provide large profits but have certainty in terms of profitability . According to Thomas and Chen (2015) an investor expects to receive dividend payments for the period during which he holds a stock. higher prices of stocks must be associated with higher expected future dividends; similarly, high returns must be associated with upward revisions in expected future dividends.

1.2 Research Questions

In order to fill a gap in this area of interest, author formulated research questions in this research is consistent with the background described above, are as follows:

1. Does the Price Earning Ratio (PER) partially affect the stock return on Manufacturing companies listed on the Stock Exchange from 2011-2014?

2. Does Price to Book Value (PBV) partially affect the stock return on Manufacturing companies listed on the Stock Exchange from 2011-2014?

3. Does Debt to Equity Ratio (DER) partially affect the stock return on Manufacturing companies listed on the Stock Exchange from 2011-2014?

4. Does Firm Size partially affect the stock return on Manufacturing companies listed on the Stock Exchange from 2011-2014?

5. Does Dividend yield partially affect the stock return on Manufacturing companies listed on the Stock Exchange from 2011-2014?

6. What are PER, PBV, DER, Firm Size and dividend yield simultanously effecting stock returns on Manufacturing companies listed on the Stock Exchange from 2011-2014?

1.3 Contribution of Research

This research is expected to be useful to give an idea that can give benefit directly or indirectly to the various parties, among others:

1. Author

This research is a valuable experience that can broaden the knowledge about the application of science theory that the authors obtained in college with the actual application and try to develop an understanding of financial statement analysis are applied in capital market investments.

2. Student

Provide greater insight into the understanding and application of financial ratios, and can be a reference for further studies related to the influence of the financial information on stock returns, so as to obtain a description of the correspondence between the facts on the ground with these problems with the science studied and expected to be useful as an input of documents to supplement the means needed in the provision of research materials in conducting further research.

3. Company

This research is expected to provide an overview and suggestions for the management company to better maintain and pay attention to the financial ratios and fundamental analytics particularly with regard to return the company because it will affect investor interest in investing activities.
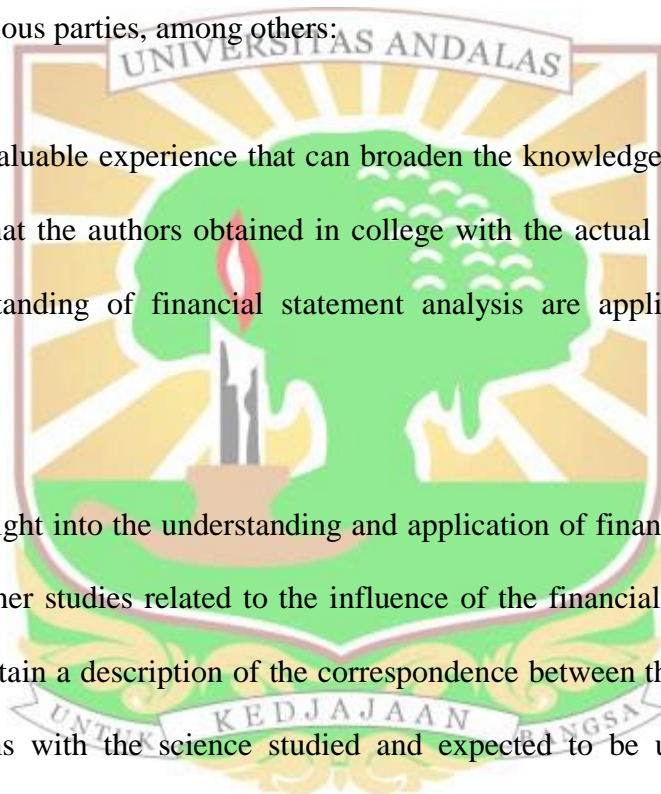
1.4 Writing Systematics

Chapter **1:** Introduction

The introduction dwells upon the problem background, the research question and the research purpose: why is this problematic topical? The specificity of this research paper is here highlighted, and a preview of the expected results is exposed in this section.

Chapter **2:** Literature Survey

The theoretical framework exposes grand theories that lead and serve as basis to thus thesis. The main keywords and major key concepts are highlighted and explained about Stock Return, Capital Market, Fundamental Analysis also concern about Previous Research and Hypothesis development so that the topic would be accessible to a broader audience. The key concepts might not be all re-used in the analysis, yet they might be required for the general understanding of the problematic.

Chapter **3:** Research Method

The methodology part is a focus on the research methodology that is leading this thesis: how is the research conducted? What are the variables ? how is the collecting data method? This methodology part, relatively large, is important as it has to demonstrate that this research paper is reliable, replicable and valid.

Chapter **4:** Results and Discussion

Throughout the regression analysis methodology, the theories expressed in the theoretical framework are tested and analyzed with empirical findings. The data collection in Manufacturing Company and the interpretation of information gathered throughout analysis are categorized in results and analysis and value stocks return to be more accurate influenced by fundamental analysis in the conclusions.

Chapter 5: Conclusion

In this chapter, the findings are summarized on the first part of the conclusion. The results will provide an answer for the research question, the limitation and the advise from the author about the research. The other the paragraph is dedicated to further researches that can complement this research.