

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

The development of the property business in Indonesia is growing rapidly and peaked in 2014. This sector is considered become one of indicator of economic health of a country. Property and real estate industry can stimulates to economic activities since the increasing of activity in property and real estate industry will drive more activities in other sector. In this case, the property sector has the multiplier effect by encouraging a range of activities from other economic sectors (Martin, 2005). In addition, the development of the property sector cause a chain reaction to the growth of other industrial sectors and employment (Prihantini, 2009).

The development of the property business in Indonesia at this time gives the good opportunity for investors. The opportunities will attract more foreign investors to plant their money in Indonesia. Based on “Emerging Trends in Real Estate Asia Pacific 2007-2013 Surveys” told that Jakarta is one of the most prospective city in property investment. We can see the result of the surveys from the table below :

Table 1.1

City	2013	2012	2011	2010	2009	2008	2007
Jakarta	1	11	14	17	20	20	19
Shanghai	2	2	2	1	5	1	2
Singapore	3	1	1	5	2	2	4
Sydney	4	3	6	6	14	15	16
Kuala Lumpur	5	17	15	15	10	11	15
Bangkok	6	14	17	19	18	18	8

City	2013	2012	2011	2010	2009	2008	2007
Beijing	7	5	7	3	12	6	9
China – secondary city	8	-	-	-	-	-	-
Taipei	9	8	13	11	8	16	5
Melbourne	10	7	9	9	11	17	6
Hongkong	11	13	4	2	3	5	11
Manila	12	18	20	20	19	19	18
Tokyo	13	16	12	7	1	3	3
Seoul	14	19	16	4	6	7	13
Guangzhou	15	6	8	12	16	9	7
Shenzen	16	-	-	-	-	-	-
Auckland	17	20	18	16	17	14	-
Hou Chi Minh City	18	10	11	13	13	8	12
Banalore	19	9	10	14	4	12	10
Mumbai	20	15	3	8	7	10	17
New Delhi	21	12	5	10	9	13	14
Osaka	22	21	19	18	15	4	1

Source : *Emerging Trends in Real Estate Asia Pasific 2007-2013 Survey*

In 2013, Jakarta crowned the world's number one in property investment shift Singapore that previously existed in the first position. The development of property in Indonesia can be seen from the growth and the market capitalization of its property sector.

Table 1.2

Market Capitalization and Growth of Property Sector in 2007 - 2013

Years	Property Sector's Market Capitalization	Total Capitalizations	Property Sector Growth	Market Share
2007	111.576	1.988.326	-	5,6%
2008	46.454	1076.491	-58,3%	4,3%
2009	67.693	2.019.375	45,8%	3,4%
2010	120.069	3.247.097	77,3%	3,7%
2011	142.629	3.537.294	18,8%	4%
2012	224.705	4.126.995	57,6%	5,4%
2013	234.531	4.219.020	4,3%	5,6%

Table 1.2 above shows the market capitalization, market share, and the growth of the property sector during the period 2007-2013. Property sector's growth in 2008 showed negative number 58,3%. This decline in 2008 is the consequence of the crisis in Indonesia reflexed by the decreasing of capitalization and growth in property sector. The return of Property and real estate began in the year during the period 2009-2013 in which an increase in the average capitalization and market share.

Restoring the economic condition after crisis, business growth of national property to be very high. This condition give good opportunity to the company in property and real estate industry and especially for investors to take good return from their business and investment.

Table 1.3

Closing Price and Average Monthly Return in Property Sector Stock Index

Period 2007-2013

Years	Stock Prices			Return
	Hi	Low	Close	
2007	207.347	185.717	202.586	
2008	176.973	157.001	164.767	-0,187
2009	138.248	126.005	133.824	-0,188
2010	180.596	166.873	175.941	0,315
2011	216.434	195.787	207.788	0,181
2012	297.676	276.760	292.722	0,409
2013	446.987	384.607	419.240	0,432

Resource: IDX Monthly Statistics 2007-2013/www.idx.co.id

Table 1.3 shows the movement of closing price and average monthly return in property sector for 2007 – 2013. Based on the movement of stock price, we can figure out return rate may be received by investors on their investment in the property sector throughout the 2007-2013. Return is one of the factors that motivate and reward the investor's courage to bear risk on its investments (Tandelilin, 2001).

Capital market is one of resource that allow company to raise capital for long term among of others alternative to expand their business. Capital market plays important roles to mobilizing capital resources from people to financial instrument like stocks and bonds for investment purposes. Capital markets are markets for buying and selling long term financial instrument, either in the form of debt and equity capital, whether issued by governments, public authorities, and private

companies (Hamzah,2005). For most people that have free cash to invest, capital market is one of option to plant their money. The advantage of investing in financial instrument is the liquidity of money invested so that investor can take their money anytime.

Stocks is the most attractive financial instruments traded in capital market by investors, since the stocks have high return compared to other investment in capital market. Stock is a security that has a claim on the income and assets of a company. Securities interpreted as a claim on the future income of a borrower being sold by the borrower to the lender, often called financial instruments (Horne and Wachowicz, 2007). Consequently, investors like to invest in the company that give highest return by buying their stocks. Commonly known as “high risk high return” investment, investors need to analyze and evaluate the stocks for minimizing the risk. Investor usually conduct some analysis before deciding to buy the stock, they are fundamental analysis and technical analysis.

Technical analysis is a security analysis discipline for forecasting the direction of prices through the study of past market data, primarily price and volume (Kirkpatrick and Dahlquist, 2006). As for fundamental analysis a ”top-down” approach bases on the fundamental factors of companies that are affected by economic factors and industry (Tandelilin, 2001). Fundamental analysis uses the information published by the company in financial statement that show the company’s performance in a given period. Stock prices will represent the performance of company, if the company’s performance is good then the stock price will rise and vice versa. The stock price is an indicator of the success of management, if a company's stock price increases then investors or prospective investors assess that the company succeeds in managing their business (Zuliarni, 2012).

The financial statements of the company is a source of information which are fundamental. The investors can evaluate financial statement using financial ratio. A Financial Ratio is an index that relates two accounting numbers and is obtained by dividing one number by the other (James C. Van Horne, 2013). Financial ratios are very important to analyze the company's financial condition.

Financial ratio analysis can be used to assess the performance of management and the company's ability to empower its resources effectively. It begins with the basic financial statements, they are balance sheet, income statement, and statement of cash flows.

Analysis and interpretation of the various financial ratios can provide better information about the financial condition and financial performance. Ratios standardize balance sheet and income statement numbers (Melicher 2008); “business ratios are the guiding stars for the management of enterprises” according to Walsh (2003) as they guide the management towards the most effective long and short term strategies. Financial ratios are also used for modelling purposes by practitioners (analysts) and researchers (Salmi 1994)

The four major categories of financial ratios measure liquidity, profitability, leverage and efficiency. As a general rule, a higher value in profitability and liquidity and lower values in leverage indicate a better financial health of a firm (Pamulu 2007).

As a general rule, the higher the score in profitability and liquidity, and the lower score in leverage indicate the better the financial performance of the firm. Ellis (2006) suggests five indicators to determine ‘Best in Class’ status of financial health of a construction firm i.e. (1) Return on assets; (2) Return on equity; (3) Fixed asset ratio; (4) Debt to equity, and (5) Working capital turnover. In addition, McCall (2006) points out that working capital is the most important ratio for construction contractors which is a direct indicator of a contractor’s short term financial strength and is used to help evaluate a contractor’s ability to fund construction projects. All these have to be taken into account when evaluating the financial performance of a firm. The property and real estate company consider has similar characteristic with construction company, they are capital intensive which fund their activity from other party’s fund outside company like Bank or other financial institution.

Good financial ratios will reflect the financial condition is good also, so it will affect the stock price (Ang, 1997). Property and real estate’s companies are not always indicate increasing in stock prices despite the financial ratios to rise, and

vice versa, it is clearly contrary to the statement (Ang, 1997 in Hanry Dwi Purnomo,2011) which states in which the company's financial performance will be a benchmark for how much risk will be borne by investors to ensure the performance of the company whether in good condition or badly done by analyzing the financial ratios of the financial statements. So theoretically if the company's financial performance to increase, then the stock price will rise and vice versa.

The number of theory and statements which states that the condition of financial ratios are good, will bring a positive influence on the financial condition of the company which will also have positive influence on stock prices. Based on the explanation above, in this study will be analyzed more about the relationship of financial ratios to stock price. This research will give the title **“Analyzing of Fundamental Factors Affecting Stock Price on Property And Real Estate Company Listed on Indonesia Stock Exchange Period 2010 – 2014”**

1.2 Problem Formulation

Based on the background above, the problems can be formulated is as follows:

1. Does (both simultaneously and partially) fundamentals factor (growth, profitability, leverage, liquidity, and efficiency) have significant influence against stock price?
2. What fundamental factors are dominant in influencing prices stock prices?

1.3 Research Purpose

The results of this study are expected to be useful as follows to determine the effect of fundamental factor against stock price of the property sector and the real estate listed on the Indonesia Stock Exchange Year 2010-2014.

1.4 Research benefit

Based on the purpose of research, the results of this study are expected to be useful as follows:

1. For the theoretical aspect, the results of this study are expected to increase knowledge in the field of accounting.
2. For a practical aspect, the results of this study are expected to be useful as input material in consider investor decision-making related to investment in shares, especially at property and real estate in Indonesian Stock Exchange.

1.5 Writing Systematic

This research consist of five part or chapters, arranged and will be explained as follow :

1. CHAPTER I : this chapter explains about the background, problem formulation, research purpose and benefit, and writing systematic.
2. CHAPTER II : this chapter explains about the agency theory, earnings management, company size, company age, leverage, ownership structure, and review of previous research to develop the hypothesis.
3. CHAPTER III : this chapter explains about research design, population, sample, data and methods of data collection, identification, measurement of research variables, and method of data analysis.
4. CHAPTER IV : this chapter explains about the result of research testing, so it can be answered the problem.
5. CHAPTER V : this chapter explains about the conclusion, research limit and opinion, and the implication of the research that has been done.