

## CHAPTER I

### INTRODUCTION

#### 1.1 Research Background

Due to present pace of Indonesia's business development, capital market as an economic instrument is said to be an indicator of economic development of country. It's possible since capital market is a means that can raise long-term funds from the public to be channelled to productive sectors while enabling optimal allocation of funding sources. With the presence of the capital market, it is believed that there will be an increase in economic activity because companies can operate on a larger scale thanks to alternative funding, which will ultimately boost income and the wellbeing of the larger community. Since investment in a company is one of a tool to carry out its business activities, hence many companies go public on the capital market to seek funds from investors. This can be overlooked at increasing number of companies registered on Indonesian Stock Exchange to sell their shares to investors.

The meaning of investment itself is investing some money or capital in a company or project in hope to obtain some benefits in the future (Violita, 2019). This might be interpreted as an investor making a sacrifice in order to increase the return on future investments. By optimizing the existing financial excess, investors hope to secure their financial future. The kind of investment that will be selected to

achieve these goals can be decided upon once investors have established their investing objectives. Investments can take two forms: monetary investments like stocks and bonds, or fixed assets like factories, buildings, or machinery (Virlics, 2013).

Financial investment is one type of capital market investment which done through share's purchases. When a stock price is low, investors will purchase shares; when it is high, they will sell shares. Investors can benefit by purchasing shares at a discount and selling them at a higher price. Stock investing has emerged as one of several investment possibilities in the modern period that appeals to both local and foreign investors. Certain regulations and the ease in accessing the capital market, both small and upper-class investors find shares to be an attractive investment. It is reflected that capital market investors consisting of stock, bond and mutual fund investors increased by 1.85 million investors to 12.16 million investors. Meanwhile, specifically for stock investors, there was an increase from 811 thousand stock investors to 5.25 million stock investors. Retail investor participation will still have the highest portion of transactions in 2023, followed by increasing participation from institutional investors. This reflects investor confidence which is still maintained despite being faced with various challenges and the global and domestic economic situation. Therefore, before investors make investment decisions, investors need to know what factors can influence stock returns which can later be used as a point of reference in making investment decisions.

Factors that greatly affect the development of energy sector in Indonesia is the ‘war’ that has been heating up in the Middle East in recent years. The conflict in the Middle East is heating up again with Israel still at the center. This time, Iran attacked Israel with drones and missiles on Saturday, April 13<sup>th</sup> 2024 evening local time. The threat of open war occurring in the Middle East, including with allied countries such as the United States, is growing. Tehran itself said the attack followed an alleged Israeli attack on its consulate in Syria on April 1<sup>st</sup> that killed the top commander of Iran's Revolutionary Guards and following months of clashes between Israel and regional ally Iran, sparked by the war in Gaza.

Inevitably, the escalation of tensions in the Middle East has sparked global concern about the negative impacts that will follow, notably economic matters. Iran is one of the world's oil producing countries. The conflict between Iran and Israel will certainly disrupt global oil supplies and have an impact on Indonesia's trade balance in which has a significant impact on oil prices, because Iran's strategic location in the Strait of Hormuz is feared to disrupt global oil supplies. It is very likely that the Energy Sector Index to fluctuate again as happened during the Russia-Ukraine war in 2022 as shown in the graph below, through 2022 IDXENERGY has a significant increase. All types of investment were affected by the Russi-Ukraine war, where the stock market, world gold prices, crypto and exchange rates are very sensitive to crises occurring in the world, where investors must be careful and responsive to crises that might occur (Agustina & Barus, 2023). Sensitivity to the issue of ongoing war in the Middle East makes investors careful

in making investment decisions in energy companies in Indonesia Stock Exchange to prevent certain losses.

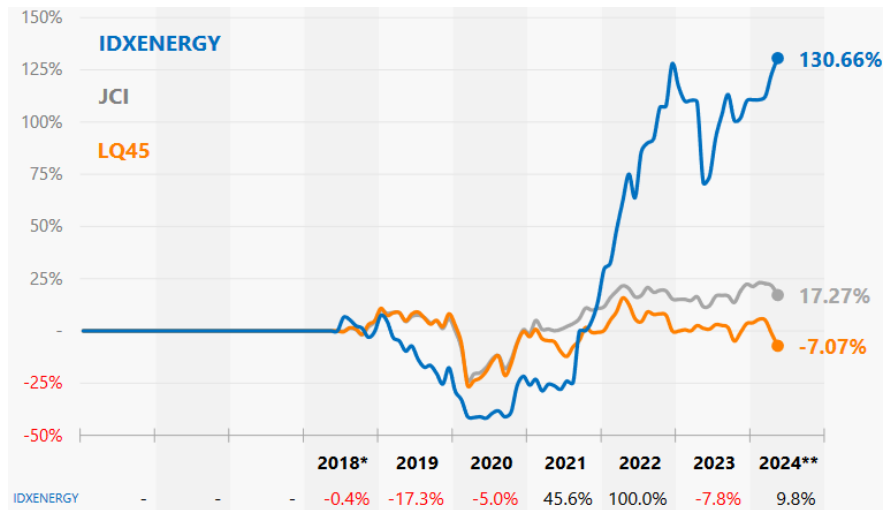


Figure 1 Historical Performance IDXENERGY on Jul 13, 2018 - May 31, 2024

Sources: (Indonesia Stock Exchange, 2022)

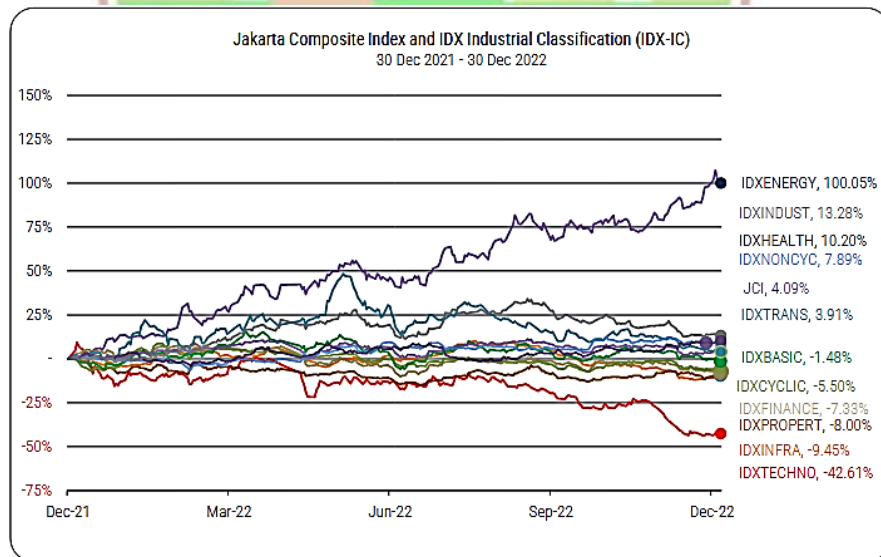


Figure 2 Jakarta Composite Index and IDX-IC through 2022

Sources: (IDX, 2023)

Based on the graph above, it can be seen that the performance Energy Sectoral Index has slowly improved since the beginning of June 2023 until now even though have dropped in the beginning of the year of 2023. The result of an increase in commodity prices is the driving force for IDX Energy's improvement. Oil prices touched their highest level in 10 months amid the threat of limited supply and increased demand from China due to the country's economic recovery. Meanwhile, its noted that on a month-to-date (MTD) basis, several stocks in the energy sector occupy the top leaders of the IHSG. These shares are shares of PT Bayan Resources Tbk. (BYAN) which rose 2.8 percent, PT Medco Energi International Tbk. (MEDC) which shot up 50 percent, and PT Adaro Energy Indonesia Tbk. (ADRO) which rose 6.4 percent. As recorded year to date (YTD), the movement of the energy index is still corrected by positive 5.44 percent.

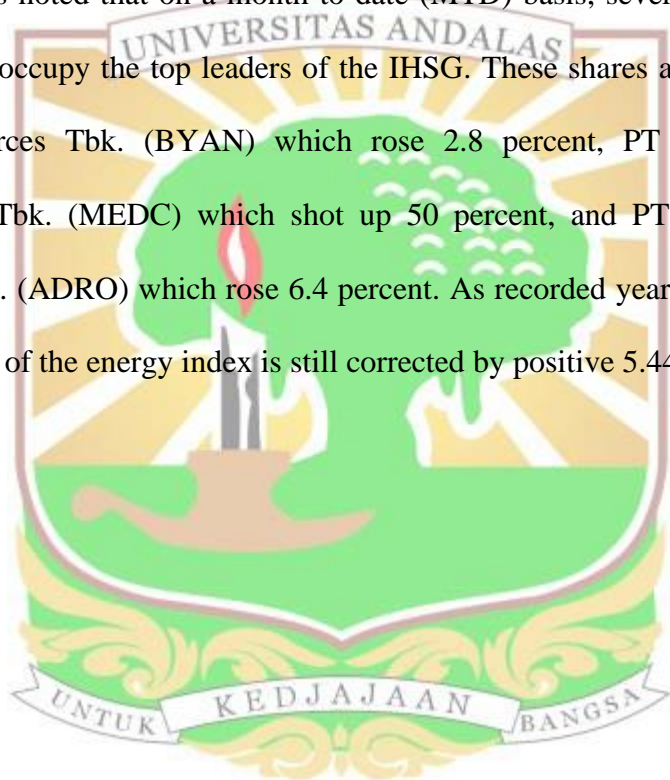


Table 1 Sectoral Index Performance per August 2023

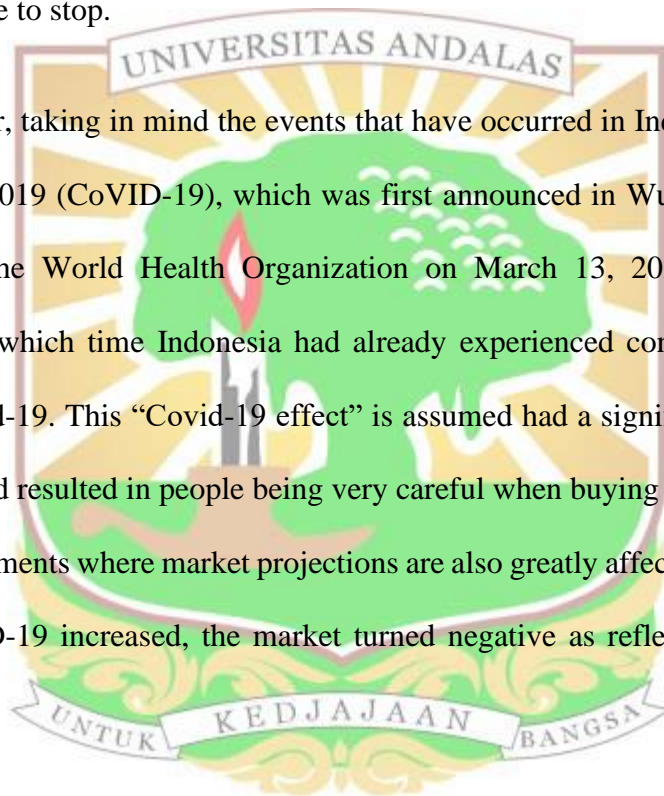
No	Indeks Sektoral	Persentase (%)
1	IDXENERGY	0.39%
2	IDXINFRA	0.07%
3	IDXFINANCE	-0.25%
4	IDXTECHNO	-0.28%
5	IDXNONCYC	-0.54%
6	IDXHEALTH	-0.54%
7	IDXBASIC	-0.88%
8	IDXPROPERT	-0.92%
9	IDXCYCLIC	-0.94%
10	IDXTRANS	-1.06%
11	IDXINDUST	-1.36%

Sources: *IDX 2023, compiled by CNBC Indonesia*

On Friday (18/8/2023) the energy sector index (IDXENERGY) became one of two sectors that turned green when the Composite Stock Price Index (IHSG) fell and left the psychological level of 6,900. According to data from the Indonesian Stock Exchange (BEI), the JCI fell 0.59% to 6,859.91, continuing its decline of 0.21%. In a week, the JCI fell 0.48% and in a month, it fell 0.06%. Of the 11 sectoral indices, 9 indexes turned red. Only IDXENERGY and infrastructure (IDXINFRA) turned green, respectively 0.39% and 0.07%. IDXENERGY's increase was supported by coal-related issuers which strengthened in line with the increase in commodity prices. Ship issuers carrying coal and oil and gas commodities also jumped high, such as RIGS which flew by 18.64% and SOCI 14.92%. Meanwhile, SGER and ARII coal trading shares jumped 12.92% and 9.41%. Shares of ADRO subsidiary, ADMR, were also leveraged 6.31%. ADRO itself rose 0.79%.

Strengthening coal commodities at the end of 2023 it caused by boiling temperatures hitting China, Vietnam into Europe, causing electricity use to increase and the need for coal to rise. In addition, Australian Liquefied Natural Gas workers' strike poses a significant risk to energy commodity prices, because reduced production will disrupting Australian supplies. Gas, which is a substitute for fossil energy fuel, coal, has the potential to experience price increases if Australian workers decide to stop.

Further, taking in mind the events that have occurred in Indonesia in 2020, Coronavirus 2019 (CoVID-19), which was first announced in Wuhan, China was reported by the World Health Organization on March 13, 2020 as a Global Pandemic, at which time Indonesia had already experienced confirmed positive cases of Covid-19. This “Covid-19 effect” is assumed had a significant impact on investment and resulted in people being very careful when buying goods, specially making investments where market projections are also greatly affected. When cases of the COVID-19 increased, the market turned negative as reflected in figure 1 before.



Fluctuations in stock index that occurred during the period 2021 to early 2024 had quite great influence on investors' interest in carrying out investment activities on this index. If the index trend is rising, it means that stock prices on the IDXENERGY are also experiencing an upward trend, which allows investors to get high returns. On the other hand, if the index position is weakening, it means that share prices on the IDXENERGY in general are also declining and so are returns.

Basically, when investors will be more careful in investing in companies that experience quite high return fluctuations, because they aim to make a profit, so investors need to consider carefully and gather the various information needed before making a decision to invest.

Subsequently, the return value of each company is different from each other. Investors will not get the same return from each existing company. Company's return depends on various things such as the company's performance and strategy in managing its assets. Financial ratio analysis is an alternative choice for testing whether financial information produced by company financial accounting is useful for classifying or predicting stock returns in capital market. Financial ratio is powerful to predict future stock returns and have higher predictive power compared to other ratios (Kheradyar et al., 2011). The company's strengths and weaknesses in the financial sector can be identified through financial ratio analysis. Before investing in a company registered on IDX Energy Sector or IDXENERGY, investors need to evaluate the company's financial performance, including by calculating stock returns using financial ratios. There are many factors that influence stock returns, mainly using financial ratios.

Financial ratios are quantitative measurements that are used to analyze a company's overall financial health in order to improve investment decisions. They're an excellent tool for determining how lucrative and efficient a company is set up to be (Institute, 2020). Price To Book Value (PBV) has a positive and significant effect on stock returns, whereas Earnings Per Share (EPS), Price



Earnings Ratio (PER), and Debt Equity Ratio (DER) have positive and significant effects (L. et al., 2023). Earnings per Share has a positive and significant effect on stock market returns of companies listed on Bursa Malaysia (Ruhani & Mat Junoh, 2023). With the exception of the Chinese winning portfolio, firm-specific information (ROA, ROE, and EPS) is shown to be significantly connected with stock return in COVID-19 and to be correlated with stock return in US and Chinese portfolios (Loang & Ahmad, 2022). Return on Equity and Price to Book Value have positive and significantly affect the stock returns from national stock exchange, India (Chhajer et al., 2020). Combining B/M ratio and ROE with risk factor allowed for some explanation of the variability in Brazilian stock returns (Cordeiro da Cunha Araújo & André Veras Machado, 2018). Market return, Price Book Value (PBV), Earning Yield (EY), Return on Asset (ROA), and Market performance all have an positive significant impact on Stock Return; however, only Return on Asset (ROA) has a negative, insignificant impact on Stock Return (Daniswara & Daryanto, 2019). And many others research of stock return by applying financial ratios by researchers such as Badwan & Awad (2023); Chandra et al. (2019), Hatem (2017); and Prayitno (2020).

Refer to earlier studies, it can be seen that ROA and PBV are factors frequently used as determinants to predict stock returns by researchers. It is supported by (Wirasedana & Ery Setiawan, 2020) where “results of ratio analysis using a separate approach (simple regression) show that the ratio with the greatest predictability is ROA followed by ATO, ROE, DER and EPS. The overall nature of the relationships confirmed the predicted relationships except for DER where the

results showed a positive relationship contrary to the negative predictions”. Thus, in order to corroborate earlier studies, the most widely used ratios—Return on Assets (ROA), Return on Equity (ROE), Earnings per share (EPS), and Price to Book Value (PBV)—were taken as consideration as factors that influence stock returns of this research.

The ratio of a company's profitability to its total assets is called Return on Assets. Investors can use it to assess how well a firm uses its resources to turn a profit. It indicates that the business is efficiently turning a profit from its assets if the ROA is high. ROA is a ratio that illustrates the extent to which an asset contributes to net income (Daniswara & Daryanto, 2019). Furthermore, companies with high levels of profit are typically more appealing to investors. According to investing theory (Tandelilin, 2010), projections of future cash flows and profits play a major role in stock valuation.

Return on equity calculate how efficient the business uses its shareholders' equity capital to produce net income. This is a metric used to assess a company's return to its common and preferred stockholders. Because ROE has direct effect on a company's intrinsic value, investors use it as one of the ratios to evaluate the stock return of a company (Daniswara & Daryanto, 2019). There is a similarity between ROA and ROE where if the company has no debt, then ROE and ROA have the same result. But ROE will surpass ROA if the business has financial leverage. Due to the fact that debt will increase the company's cash flow, its assets will rise. Return on Equity (ROE) and Return on Assets (ROA) are the ratios used to measure the

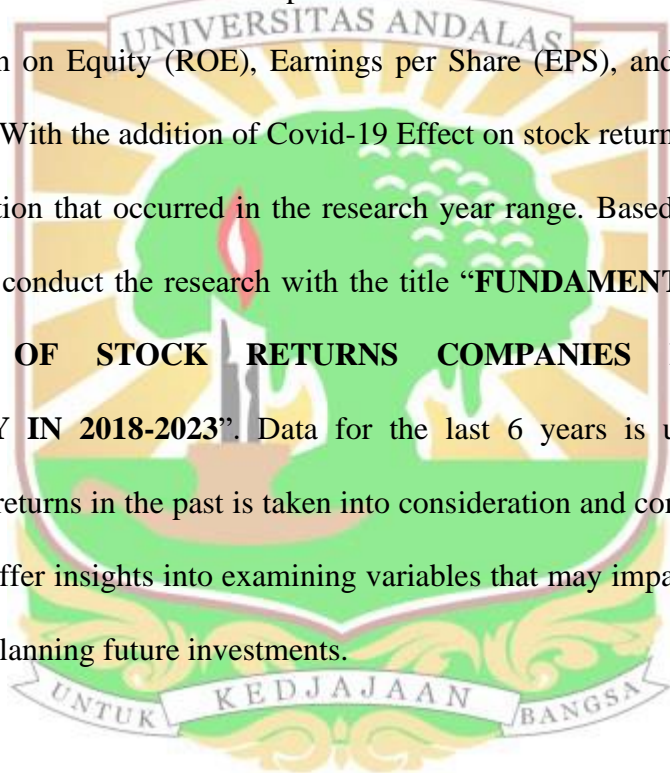
company's financial performance since they show the returns on the operations of the company as a whole.

Profits per Share shows how much money a firm produces for each share of its stock, which helps investors determine how profitable the company is. By dividing the net profit of the business by the total number of outstanding shares of common stock, the EPS is calculated. Nonetheless, it is thought that a corporation is more lucrative if its EPS is larger. Further, investors will use estimates of Earnings per Share (EPS) to identify investment opportunity in industries with prospects while examining returns from industry (Tandelilin, 2010).

Price to Book Value Ratio indicating investor's worth by comparing market and book value. Companies with a PBV above 1 have higher market value. Lower PBV firms are considered advantageous or "good buys". PBV is significant for firms that are near bankruptcy.

This research is greatly focused on main sentiment in global energy sector markets in which they mainly influenced by trading activity in Asian markets. Market forecasts show a "wait and see" trend as investors are waiting for stronger positive signals to gain more return (profit). The influence of international issues is reflected by the market reactions and sentiments that occur in the stock market. The stock market reaction occurs due to information entering the market which is ultimately responded to by investors as their ultimate goal are to get more profit (return), which is the result (profit or loss) obtained from an investment. There are two factors that investors frequently consider when making their investment

selections, first determine the expected return and then amount of risk that must be faced as a logical consequence of the investment decisions that have been made. Hence, before making an investment, investors must be aware of all the factors that may have an impact on the future stock returns that they will use as a benchmark to make investment decision making in energy sector business. One-way investors can take is to carry out fundamental analysis based on financial ratios. Financial ratios that can be taken as consideration to predict stock returns include: Return on Asset (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Price to Book Value (PBV). With the addition of Covid-19 Effect on stock returns in accordance with the situation that occurred in the research year range. Based on the context above, author conduct the research with the title “**FUNDAMENTAL FACTOR ANALYSIS OF STOCK RETURNS COMPANIES LISTED ON IDXENERGY IN 2018-2023**”. Data for the last 6 years is used where the movement of returns in the past is taken into consideration and comparison. Thus, research can offer insights into examining variables that may impact stock returns for investors planning future investments.



## **1.2 Problem Statement**

Based on research background above, problem statements are as follows:

1. Does Return on Assets affect Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023?
2. Does Return on Equity affect Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023?

3. Does Earning per Share affect Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023?
4. Does Price to Book Value affect Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023?

### 1.3 Research Objective

The purpose of this research are as follows:

1. To determine the effect of Return on Assets to Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023.
2. To determine the effect of Return on Equity to Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023.
3. To determine the effect Earning per Share to Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023.
4. To determine the effect of Price to Book Value to Stock Return of companies listed on IDX Sector Energy (IDXENERGY) in 2018-2023.

### 1.4 Research Contribution

Based on the research objectives above, the contributions that expected from this research are as follows:

1. Theoretical contribution

The results and contributions of this research aim to increase the insight and knowledge of researchers of fundamental analysis based on financial ratios regarding stock return of companies listed on IDX Sector

Energy (IDXENERGY) in 2018-2023. In addition, this research can be used as researchers reference material of further research, especially regarding the analysis of return on assets, return on equity, earning per share and price to book value for assessing company' stock return.

## 2. Practical contribution

This research is expected to be used as consideration and improvement of the companies' financial performance on stock return. Furthermore, these results can be used as investors information to invest in IDX Sector Energy (IDXENERGY) during 2018-2023.

### 1.5 Scope of Research

The scope is intended so that the research writing does not come out of the purpose of writing and is expected to be in accordance with the aims and purposes of writing. In addition, to avoid a discussion that is too broad, the author limits the problems in this research, namely: “Fundamental Factor Analysis of Stock Returns Companies Listed on IDX Energy in 2018-2023”. The variables used in this study consisted of two variables first, independent variable is a variable that affects other variables and second, dependent variable is a variable that is influenced by other variables. The identified variables are as follows; 1) Independent variables, such as: Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Price to Book Value (PBV) and 2) Dependent variable is Stock Return.

## **1.6 Outline of Research**

To assist get it in inquire about, the structure of this investigate is as takes after:

### **CHAPTER I: INTRODUCTION**

This chapter contains research background, problem of the research, research objective, the advantages of research and outline of research.

### **CHAPTER II: LITERATURE REVIEW**

This section provides an overview of the variables conceptually and systematically arranged with hypotheses that support each variable used for analysis as well as a framework for the development of research questions.

### **CHAPTER III: RESEARCH METHODS**

In the research methodology section, it is used as part of presenting the object of research, namely the population and sample used, the source of the data obtained, techniques in data collection, and techniques in analysis.

### **CHAPTER IV: ANALYSIS AND DISCUSSION**

This chapter contains an explanation of the research results which will be described by the author based on the results obtained from data that has been processed using the system and hypotheses that have been made.

### **CHAPTER V: CONCLUSION**

This chapter is a closing which contains the conclusions from the results of the analysis and puts forward some suggestions as improvements for further research.

