# CHAPTER I

# INTRODUCTION

## 1.1 Background

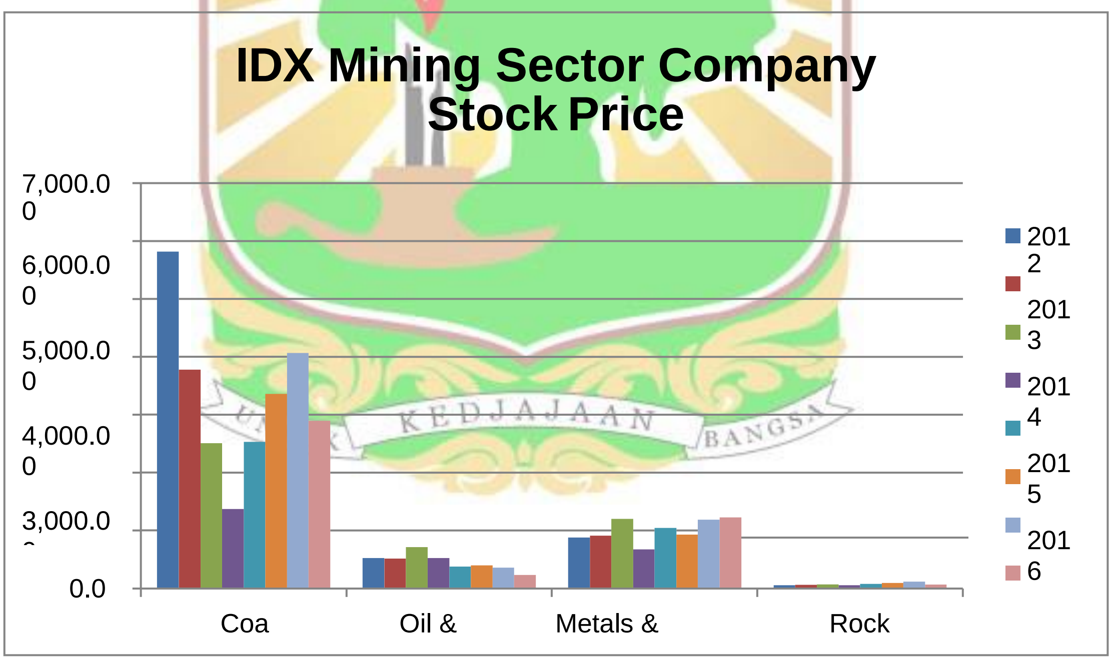
In an era of increasingly competitive industrialization, every company must certainly improve its competitiveness continuously. High competition in both the domestic and international markets requires companies to be able to maintain or gain competitive advantage by giving full attention to the company's operational and financial activities. The short-term objective of the firms is to gain maximum benefit by using existing resources, while the long-term aim of the company's is to increase the company value.

A significant growth of new companies which make the business world competition in Indonesia become more stringent so that each company competes to be able to survive and become the best company. Especially for companies engaged in mining, services, trade, manufacturing. This encourages each company to make various innovations and business strategies to avoid bankruptcy. One way to improve competition is to upgrade the company's value.

One of the sectors that dominates firms already listed on the Indonesia Stock Exchange (IDX) is coal mining companies. Every company will certainly make an achievement of increasing work, of course in the mining sector competition which aims to increase the value of the firm, one of which is from the share cost. The worth of the stock price is the right index to measure the efficacy of the companies. With the higher the worth of the company, the higher the share price.

The share price is a parameter of the desire of investors to own shares in a company. If the stock price of a company continues to increase, investors will judge that the firm is successful in controlling its business. The confidence of investors is very useful for the issuer, because if there are more people who do trusting the issuer, their willingness to invest in the issuer is getting stronger. So that if there is more demand for an issuer's shares then can increase the share price. Vice versa, if the share price has decreased continuously, it means that it can reduce the value of the issuer in the eyes of shareholders. The following is a graph of how the mining sector's stock price conditions from 2012 to 2019.

**Figure 1.1 IDX Mining Sector Stock Price Index 2012 - 2019**




**Source: Yahoo Finance, processed.**

Figure 1.1 above shows the development of mining stock prices trend in Indonesia from 2012 to 2019. Based on the chart above, it is clear that coal mining stock prices dominate the mining sector share prices. Coal mining is a sector that is experiencing fluctuating stock price levels compared to the oil, rock and metal sectors. The graph in the coal mining sector from 2012 to 2019 shows that the highest share price was in 2012 with a value of IDR 5,814.60. However, the share price level decreased in 2013, and decreased drastically in 2015 with a share price of only IDR 1,374.62.

This can happen because the world oil price, which is the reference for the mining sector, has also decreased. During this period, Indonesian mining companies, apart from struggling to overcome the problem of weak commodity prices, also decreased demand from China and other developing countries. This has resulted in a significant decline in the financial performance of mining companies in Indonesia.

And this causes investors to choose to avoid risks, especially investors in Indonesia who tend to take profits to be able to realize short-term gains which will have an impact on the Composite Stock Price Index (IHSG), on the other hand mining (Satyatama and Sumantyo, 2017).

After experiencing a dilution in 2015, mining stocks can support the strengthening of Indonesia's stock index. Meanwhile, during 2016 to 2018 the mining sector stock price index continued to experience a significant increase. The increase in share prices in the mining sector cannot be separated from the recovery in world oil prices. 2019 does not seem like a lucky year for the mining sector stock index. The decline in the performance of the mining sector stock index cannot be separated from the decline in coal prices throughout 2019. This was caused by an excess supply of coal in the global market.

Based on the explanation of Stock Price conditions, every company that issues shares is very concerned with stock prices (Sari and Priyadi, 2016). The company's financial performance can affect the stock price, which we can get through the company's financial performance (Rutika, Marwoto, & Panjaitan, 2015) shows good conditions, it will attract investors to invest in the company. This description, of course, is determined by several studies that have been carried out by Utami and Darmawan (2019) found positively and have not significant connection among variable of ROA with the stock price, with variable of DER have positive and insignificant effect toward stock prices. However in other research found the result of DER have negative but not significant, and with the result of CR have positive effect but not significant (Anah et al., 2018).

Based on previous evidence, some studies only discuss a few variables such as the variables ROA, CR, DER only and many results from different studies are of course different. The author is interested in broadening the discussion on variables added to external factors, namely inflation and GDP, because of the combination of the results of several studies, I want to see the results for the coal mining sector. So after the explanation above the authors are excited to analyzing this case with the title:

**"THE INFLUENCE OF FACTORS INTERNAL AND EXTERNAL TOWARDS STOCK PRICES ON MINING COMPANIES LISTED ON THE IDX DURING 2012 - 2019"**

## 1.2 Research Problem

1. How does Profitability, Liquidity and Solvency Rate towards Stock Price in Coal Mining Industry that listed in BEI 2012-2019.
2. How does Inflation and Gross Domestic Product Rate towards Stock Price in Coal Mining Industry that listed in BEI 2012-2019.

## 1.3 General Research Objective

1. Determined the influence of Profitability, Liquidity and Solvency Rate towards Stock Price in Coal Mining Industry that listed in BEI 2012-2019.
2. Determined the influence of Inflation and Gross Domestic Product Rate towards Stock Price in Coal Mining Industry that listed in BEI 2012-2019.

## 1.4 Systematic of Writing

The writing system aims to provide a thorough explanation of this research. The following is the systematic of writing in this paper which consists of six chapters, as follows:

**Chapter I: Introduction**

For the first part be composed of background, problem of research, general research objective, the last is systematic of writing.

**Chapter II: Literature Review**

In this chapter explains the theories that support the variables studied. This chapter is also supplemented by previous research related to the title of this research.

**Chapter III: Theoritical Framework and Research Methodology**

While this chapter contains the theoritical framework, types and source of data, research models, definitions of variables and methods of analysis of the data obtained.

**Chapter IV: General Overview**

In this section describes about the trend that happened in each of variable that is affect the stock prices on mining companies.

**Chapter V: Empirical Result and analysis**

This portion endwise of the outline result, discussion of description in object research, data analysis and description.

**Chapter VI: Conclusion and Recommendations**

The closing portion is the final part of the research that includes the conclusion of findings and suggestions derived from the previous chapters discussion.

**CHAPTER II**

**REVIEW OF LITERATURE**

## 2.1 Theoretical Review

### 2.1.1 Investment

Investment at this time is simply a placement of a variety of funds with the aim of getting a range of benefits in the future. In general, investments can be divided into two groups, namely real asset investments (real assets), and financial asset investments (financial assets). Investment in real assets can take the form of land, gold, machinery or structures, in the other side the investment in financial assets can take the form of deposits, stocks, and bonds. Nearly all investments in primitive economies are real asset investments, while more in financial assets is invested in the modern economy. (Herlianto and Pujiastuti, 2009:10).

According to Halim (2005:21), Investing is simply the placing of a variety of assets in the expectation of receiving future profits at this moment. Until entering the investment world knowledge in the investment world is required to attain this expectation. This knowledge is important as a guide when entering the world of investments full of risk and uncertainty.

Investment is a commitment to setting funds for one or some investment objects in the hope that they will gaining in the future. Yield and risk are the two elements inherent in every capital or fund invested. Such two components always have a comparable, reciprocal relation. Generally the higher the risk, the bigger the results obtained and the smaller the risk the smaller the results will be obtained (Jumiyanti Indah Lastari, 2004).

### 2.1.2 Stock

Definition of stock can be interpreted as a sign of possession of some people or entity in a firm or restricted responsibility of company. The form of shares is a piece of paper which explains that the owner of the paper is the holder of the company that issued the securities. The size of the investment value that is invested in the company determines the value of ownership (Darmadji and Fakhruddin, 2001:15).

### 2.1.3 Stock Price

The share price is the price listed on the stock exchange at a specified time which is influenced by the market mechanism, namely the level of demand and supply of these shares (Jogiyanto, 2010: 130). While, the stock prices are worth according to Sartono (2001: 34) where people are willing to pay for each share.

According to Ang in Indarti (2011), since the sell price is the price of a share in the current market, the price on the market is the price that is most readily decided. If the stock exchange market closes, then the closing price is the market price. So this is the price of the market, which notes a stock's ups and downs.

### 2.1.4 Inflation

Boediono (1998) in Astuti (2013) defines inflation briefly, which is the tendency for prices to rise generally it will continuously. An increase in the price of an item can be said to be an inflation fact if the increase in the price of the item can trigger an increase in the goods cost in general and continuously in the sense not just temporary. When an increase in production costs is greater than the price increase that the company will enjoy, the profitability of the company would decrease. In addition, what causes a decrease in the purchasing power of the rupiah invested is an increase in inflation. Therefore, purchasing power risk may also be called inflation risk. If inflation increases, investors usually want an additional inflation premium to compensate for the decline in purchasing power they experience.

The rise in inflation, on the other hand, will lower the desire for the rupiah's invested buying strength. The risk of Inflation will be referred as the risk of buying strength. If inflation has increased or increased, investors generally demand an additional inflation premium to compensate for the decline in purchasing power they experience (Tandelilin, 2010: 103)

Inflation rate can have positive or negative effects depending on the level of inflation itself, excessive inflation can hurt the economy as a whole, which can make a company go bankrupt. So it can be concluded that high inflation will reduce stock prices in the market. While being very low will result in slowing economic growth so, in the end the stock prices also move slowly. The difficult job is to create an inflation rate that can move the business world into a lively, economic growth can cover unemployment, companies obtain adequate profits, and stock prices move normally (Samsul, 2006: 201).

### 2.1.5 Growth Domestic Product

In principle, share prices on economic growth can be source from investors and households holding shares through capital relationships, rising stock prices and indications of potential income. Increased wealth will increase household, thereby increasing the gross domestic product and growth of economic (Adam, 2015).

According to Karl and Ray (2009: 25) GDP is final goods and services, goods that have been used are not included anymore and securities transactions and also not included output produced abroad by factors of production that are owned in the country.

### 2.1.6 Debt to Equity Ratio (DER)

One aspect that is assessed in measuring a company's performance is the aspect of corporate leverage or debt. Debt is an important component of a company. Debt to Equity Ratio describes the ratio of debt and equity for company funding and shows how a company is able to manage the company's capital properly to meet its obligations. If the value of this ratio is large, then the company's ability to pay its obligations is met, the opportunity to get a loan will also be higher (Sawir, 2014).

Debt to Equity Ratio (DER) is a ratio of gross debt and total capital. Debt to Equity Ratio (DER) is used to measure the level of use of the debt to the overall equity owned by the company (Ang, 1997).

Debt to Equity Ratio (DER) is used based on research by Wachoviz and Home (in Suharli, 2005), "Debt to equity is calculated by simply dividing the total debt of the firm (including current liabilities) by its shareholders equity". Debt to Equity Ratio (DER) provides an explanation of the capital structure owned by the firm. So provides an explanation of the structure of capital possessed by the firm. Then, this ratio can determine the level of debt ratio that has not been paid by the company. If the company has a large level of debt, it can also reduce the level of trust of investors, as investors prefer to avoid stocks with high DER. The level of the solvency ratio decreases when there is an increase in the amount of debt in absolute terms. So that it will have an impact on reducing the company's return value

### 2.1.7 Return on Assets (ROA)

Return On Assets is used to assess how much the level of effectiveness from the firms in producing a profits with utilizing the assets it has. To get the results from Return On Assets, namely by dividing Net Income After Tax by Total Assets.

Profitability is the ability to earn the profits for a company. This ratio attempts to trying to see how much the company can do to produce income for a given period of time and to provide a summary of the efficacy of management in carrying out its activities. Effectiveness is seen from a profit produced from a sale and investment of the firm. Ratio of profitability calculated by Return on Assets. (Brigham and Houston, 2010).

In other side, Fahmi (2013) concluded that ROA aims to see how investments that have been invested can provide a return on profits as planned and expected before. And the investment is actually the same as the funds of the company that are planted or placed.

### 2.1.8 Current Ratio (CR)

Based on invention by Brigham and Houston (2010, 134) Current Ratio is determined by dividing current assets with current liabilities, this ratio indicates the extent to which current liabilities are covered by assets that are expected to be converted into cash in the near future. The higher the ratio, the greater the willingness of companies to pay the bill. This will influence the investor interest to investing in the company, so the stock price of the company will increase. Therefore CR is moving towards stock prices.

The theory is supported by Bagherzadeh, Safaina, and Roohi (2013) ,which stated that the Current Ratio partially positive and have significant effect toward stock prices. It was concluded that, the high Current Ratio indicates that the better the company is in managing its current assets so that it can meet the company's ability to meet its obligations. Vice versa, low current ratio means that there is a liquidation problem. Low current ratio is relatively riskier, but shows that management has operated its current assets effectively (Jumingan, 2011: 124)

## 2.2 Stock Market theory

### 2.2.1 What factors determine the stock prices

There are several factors that influence the volatility of stocks according to Romli et al., (2017) :

**a) Trading Volume**

Stock trading volume is the number of shares of an issuer that are traded on the capital market every day at a price level agreed upon by the seller and buyer of shares. If there is no information about stocks, investors are more likely to hold on to their shares (hold), so that the trading volume decreases because there are not many shares sold, it will result in low volatility. Vice versa, if investors receive a lot of information about a stock, investors will sell a lot of their shares, this will result in increase in volume of trading. As a result of this increase in trading volume, the volatility will also increase

**b) Inflation**

inflation is an economic condition where the rate of price increase occurs over a long period of time. Inflation in general can occur because the level of the money supply is more than needed. Inflation is an economic phenomenon that can never be completely eliminated. The efforts made are usually limited to reducing and controlling it.

**c) Exchange Rates**

The Rupiah exchange rate is a comparison of the price of the Rupiah currency with other currencies of other countries. The trade between countries in which each country has its own medium of exchange which requires a ratio of the value of one currency to another, which is called the exchange rate.

**d) Interest Rate**

Namely the price of the use of money expressed in percent for a certain period of time. The definition of an interest rate as a price can also be expressed as the price to be paid in the event of an exchange between one rupiah now and one rupiah.

### 2.2.2 Behavior of Interest Rate

**a) Determinants of Asset Demand**

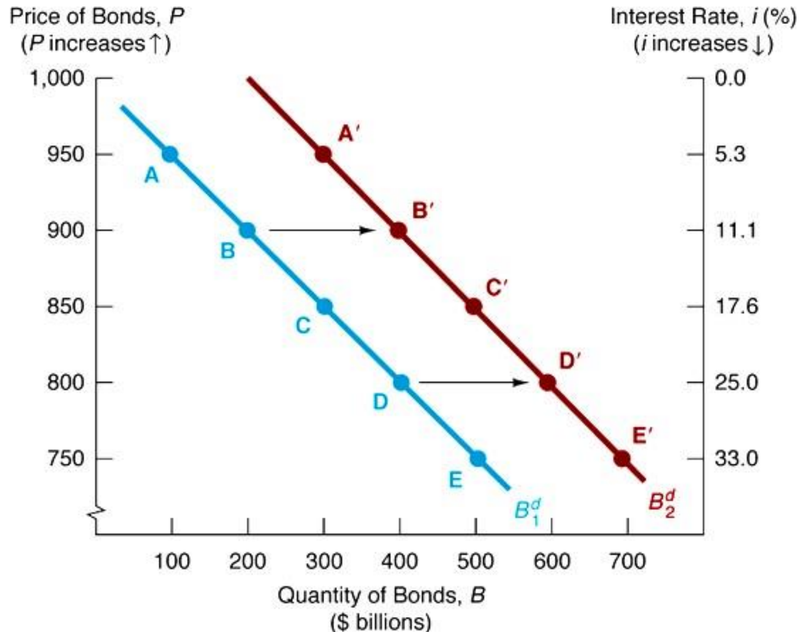
Before going on to the supply and demand analysis of the bond and financial markets, we must first understand what determines the quantity demanded of an asset (Mishkin, 2016:82).

1. Wealth
2. Expected Return
3. Risk
4. Liquidity

**b) Factors that shifts the demand curve for bonds**

1. *Wealth*: With rising wealth the demand curve for bonds moves to the right side
2. *Expected interest rates*: Higher expected interest rates moving the demand curve to the left side
3. *Expected Inflation*: An increase in the expected rate of inflation causing the demand curve move to the left
4. *Risk*: The increasing risk of bonds causes the demand curve to move to the left side
5. *Liquidity*: An increase in the liquidity of a bond causes the demand curve to move to the right side

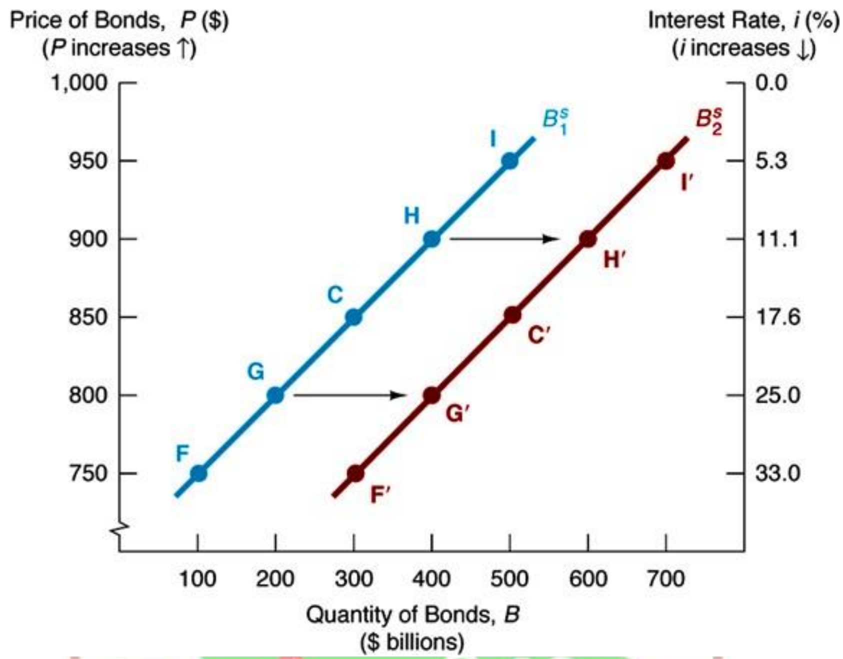
**Figure 2.1 Demand for Bonds**




c) **Shifts in the supply for bonds:**

1. *Expected profitability of investment opportunities*: the supply curve move to the right side
2. *Expected inflation*: an increase in expected inflation move the supply curve for bonds to the right side
3. *Government budget*: increased budget deficits move the supply curve to the right side

**Figure 2.2 Supply for Bonds**

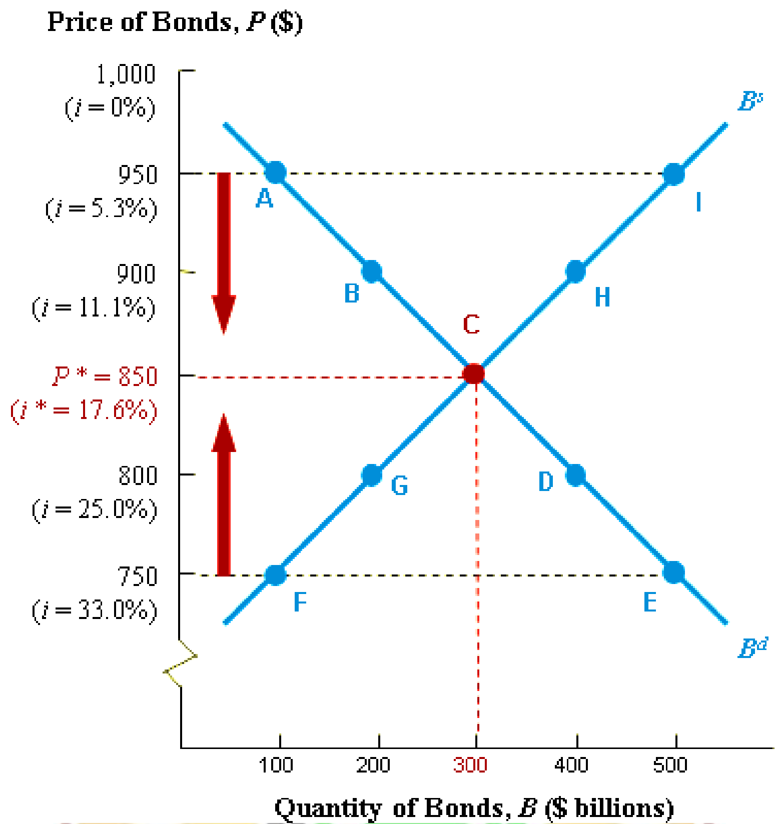



**d) Shifts in the supply for bonds:**

Based on figure above, the Market Equilibrium :

1. Happen when $B^d = B^s$, at $P^*$ = \$850, $i^*$ = 17.6%
2. When $P$ = \$950, $i$ = 5.3%, $B^s > B^d$ (excess of supply): $P$ will decrease to $P^*$, and $i$ will increase to $i^*$
3. When $P$ = \$750, $i$ = 33.0, $B^d > B^s$ (excess of demand): $P$ will increase to $P^*$, and $i$ will decrease to $i^*$

**Figure 2.3 Supply and Demand for Bonds**




## 23 Empirical Review

To support the research that the author is going to do, the writer has several sources of previous research that can be used as an example and benchmark in conducting research and testing and comparing the results of previous research with the findings obtained.

Economically, the higher the rate of return received, the higher the ability of company to use the asset owned to gain profit (Husnan and Pudjiastuti, 2015). With this statement stated that ROA can describe how effectively the company uses its assets into profits. In line with the theory before, Idawati and Wahyudi (2015) partially Return On Assets (ROA) variable has no significant effect on stock prices.

Although individually ROA positively influence on stock prices. this shows that investors tend to focus more on seeing how much profit can be generated per strip of shares rather than knowing how companies manage their assets to make profits. This result is strengthened by the findings of Ilmiyono (2019) which states that ROA significantly influences stock prices. And in line with others research by Watung and Ilat (2016) who conduct ROA testing of share price in banking company in Stock Exchange of Indonesian, get the result positive and significant. The results of the study is similar to the results of research previously were done by Safitri (2016) found that ROA has significant and positive toward stock price.

Meanwhile, the other research find the different results that ROA does not affect share prices. This means that a company that has a high or low ROA does not have to have a high or low share price, because the rate of ROA does not greatly affect a company's stock price. Thus, ROA which always increases does not always have the potential to attract investors (Utami and Darmawan, 2019).

Current Ratio is the capability of the company's current assets to guarantee their current debt. The more current ratio increases, the firm is capable to manage its current assets appropriately. If the current ratio is low, the stock market price will decrease. High current ratio also illustrates the company is not maximizing the assets it has (Tumandung et al., 2017).

Research conducted by Anah et al., (2018) explained that Current Ratio (CR) has a positive and not significant effect on stock prices. Finding of the study is similar to the results of research previously were done by Asmirantho and Somantri (2017) found that CR is not influential and positive on the stock price. However different results with findings Tumandung et al. (2017) found that CR has no significant effect on share prices. And Different result from other researcher get CR has a significant and positive toward Share Prices (Valintino and Sularto, 2013).

Debt to Equity Ratio is the one of ratio show the value of the amount of debt equal to the value of equity. Corporate bankruptcy can be measured from this ratio, if the higher the ratio, the higher the risk of company bankruptcy. This ratio so crucial to use to measure the company's prospect profile so that the company's stock price can reach stable and even move up so that investors are willing to invest their capital in the company concerned. (Tumandung et al., 2017) found that DER have a perfect significant and negative effect toward stock price.

On another hand, Asmirantho and Somantri (2017) found that Debt to Equity Ratio does not significant and positive. In the same output of the research get same finding, Debt to Equity Ratio (DER) has a negative and not significant effect on stock prices (Anah et al., 2018). The finding of this research is similar to the finding of research previously were done by Utami and Darmawan (2019) found that ratio of DER does not affect toward stock prices, not significant and negatively.

Furthermore, there are several factors which affect the level of stock price movements for macroeconomic sector, one of which is GDP and inflation. In theory, stock prices on economic growth can be obtained with wealth, rising share prices, and future wealth good news for investors and households holding the stock. Increasing wealth can increase households, which in turn can increase gross domestic product and growth of economic (Adam, 2015).

According to Anita and Negoro (2019) found that Gross Domestic Product positively and not significant effect on share prices. On another hand Paul and Mallik (2003) found that GDP has a significant and positive toward stock prices. In line with the result of reseacher before by Omorokunwa and Ikponmwosa (2014) get the GDP has a significant and positive toward stock prices

If it happens high inflation is usually associated with economic conditions that are overheated. That is, economic conditions experiencing demand for products that exceed the product supply capacity, so prices tend to increase. Inflation that is too high will also cause a decline in the buying strength of money. In other side, high inflation can also minimizing the level of real income that investors get from their investments so this will affect stock prices (Masrin and Sumarni, 2016).

According to Masrin and Sumarni (2016) found the Inflation has been shown to have a negative relationship and not significant impact on share prices. In line with the result before Lutfiana (2017) found that Inflation has significant and negative relationship toward stock price. However different results with findings (Qamri et al., 2015) which states that the results of the inflation ratio have a negative but significant relationship.

## 2.4 Hypothesis

H1: ROA positively and significantly influences stock prices.

H2: Current Ratio positively and not significantly toward stock prices.

H3: Debt Equity to Ratio negatively and not significant toward stock prices.

H4: Gross Domestic Product positively and significant toward on stock prices.

H5: Inflation negatively and significant toward stock prices