

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

Reported on the IDX website, the Capital Market has a major influence on the economic system in Indonesia, the Indonesia Stock Exchange (IDX) is one of the stock exchanges which has now become the most popular capital market benchmark in Indonesia. PT Indonesia Stock Exchange (IDX) presents stock information to the finances of various companies. Stock information along with the company's financial information is very important for shareholders.

Furthermore, it is explained that Shares (stock) is one of the instruments in the financial market which is now the most popular. Issuing shares is one of the company's option when deciding to carry out the funding process for the company. On the other hand, stocks are also the most widely chosen investment instrument for investors at currently because stocks are able to provide a significant level of profit.

Shares can also be interpreted as a sign of capital participation from a private party either party (business entity) or limited liability company. By contributing part of the capital, then the party can be said to have owned part of the rights to the company's income, part of the rights to the company's assets, and the right to attend the General Meeting of Shareholders (GMS). (<https://www.idx.co.id/id>)

A stock market index is a summary of information related to the stock market performance of the market's index, as well as acting as an indicator to show the performance of the stocks that are distributed in the market. According to Niko Ramadhani's insights (Akseleran, 2021), the Indonesia Stock Exchange (IDX) now has eleven (11) favorite index, including : individual index, sectoral share price index, composite share price index (JCI), LQ45 index, shariah index, main board index, development board index, compass 100 index, BUSINESS-27 index, PEFINDO25 index, and SRI-KEHATI index.

Transaction performance is certainly different for each security contained in the capital market. LQ45 itself consists of 45 stocks listed on the IDX which have the highest liquidity and largest market capitalization and passed the selection through several provisions. Based on the data that can be obtained, it is written that at the end of 2021 the share price level of the LQ45 is at the level of 931.41 (a decrease of 0.37%), followed by the end of 2022 at the level of 974.33 (an increase of 4.60%). (<https://www.google.com/finance/>)

Investors must have a handle on information regarding stock price fluctuations utility in terms of making decisions about company shares that can be declared worth to be owned. The importance of accurate information about the financial performance of a company, such as Profitability (ROA), Debt to Equity Ratio, Earning Per Share Ratio, and Price to Book Value Ratio. The decision-making

process certainly depends on the company's fundamental factors. This stock valuation is intended to minimize risk in terms of obtaining profits, because stock investment holds a high risk but promises a fairly large profit.

According to the insights of Brigham and Houston (2015) in A Labiba, M Rasmini, and N Kostini (2021) shareholder's wealth is determined by the share price. The effort maximizing the company's share price goes in the same direction as maximizing shareholder wealth. Stock prices are generally determined by the desired cash flows received in the future by the investor if the investor purchase the shares.

According to Hartono's insight (2008) in Nurul Hasanah (2021) there are two analyses to describe the possibility of future stock prices, including analysis to describe the possibility of future stock prices, and fundamental analysis. Technical analysis is the process of analyzing using market data from a stock, such as the opening price value, the highest or lowest price value, as well as the closing price value which is provided in the form of a graph and used to see changes in stock prices at a later stage. While fundamental analysis is an analysis process that focuses on the data in the financial statements, one of which is through the company's financial ratios. n using the medium of analysis in the form of ratios will be able to explain and even give an overview to the analyzer about the good or bad financial health of a company, especially if the ratio number is compared to the comparative ratio number intended as a standard.

There are several financial ratio variables used in this study, such as Profitability (ROA), Debt to Equity Ratio, Earning Per Share Ratio, and Price to Book Value Ratio.

In the phenomenon that occurred in 2021-2023, where the economic conditions in Indonesia and even the world are not in the good condition. However, there are several stocks that are able to maintain a balance of stock prices and rankings on certain indexes. Based on the descriptive phenomena above, the researcher is interested in conduct research with the title Effect of Profitability, Debt to Equity Ratio, Earning Per Share Ratio, and Price to Book Value Ratio on LQ45 Stock Price.

1.2 RESEARCH HYPOTHESIS

- **Effect of Profitability on Stock Price of LQ45 Index**

Profitability has an important role for companies in terms of maintaining business continuity over a long period of time, this is because profitability can show future prospects. In this research, the Profitability indicator that will be used is Return On Assets (ROA). Almira & Wiagustini's insights (2020) in Wahyuni, E. S., Febrianti, S. (2023) that the term Return On Assets (ROA) is the ability to generate net profit from a capital that has been invested in all of assets. The net profit in mention is final profit after tax. Profitability is the ability of a company to earn profits in terms of sales, assets, and certain share capital. The ability of a company in terms of earning profits will certainly attract investors to invest their capital. The higher investor's interest in a

company's shares, the larger share price will also be offered. So the higher the Profitability (ROA) value in a company, the higher the share price that will be offered.

Based on the description above, it can be concluded :

H1 : Profitability / Return On Assets (ROA) affects the Stock Price of the LQ45 Index.

- Effect of Debt to Equity Ratio on Stock Price of LQ45 Index

Debt to Equity Ratio (DER) can provide an overview of the company's funding sources, which can have an effect on stock market reactions, stock trading volume, and automatically affect the stock price. According to Fuji's insights (2021) in Rosid. A (2024) that if debt is managed appropriately, it can raise the stock price. However, if the debt is managed inappropriately, it will reduce the stock price.

Based on the description of the theory, this research proposes the following hypothesis :

H2 : Debt to Equity Ratio affects the Stock Price of the LQ45 Index.

- Effect of Earning Per Share Ratio on Stock Price of LQ45 Index

Earning Per Share (EPS) illustrates the company's ability in obtaining profits. According to Cashmere's insights (2013) in Halim, B. D., Hafni, L (2019) earnings per share can be used as an indicator of success in achieving profits for shareholders / investors. o it can be said that earning per share able to show how much profit is received by investors on the shares that have been invested. The higher the amount of net income per share which is a benefit for investors, the higher growth in stock prices on the stock exchange which ultimately affects investor's interest at terms of investing in the company. Therefore, the higher Earnings Per Share value in a company, the higher stock price that will be offered.

Based on the description of the theory, this research proposes the following hypothesis :

H3 : Earning Per Share Ratio affects the Stock Price of the LQ45 Index.

- Effect of Price to Book Value Ratio on Stock Price of LQ45 Index

Through the Book Value Ratio / Price Book Value (PBV) investors can find out how much the market values the book value of a company's shares. According to Prasetyorini's insights (2018) in Satriawan & Bagana (2023) the higher Price to Book Value Ratio of a company, the higher market confidence in the company. So the higher Price to Book Value Ratio in a company, the higher stock price will be offered.

Based on the description of the theory, this research proposes the following hypothesis :

H4 : Price to Book Value Ratio affects the Stock Price of the LQ45 Index.

Through the explanation of the four (4) points above, this research proposes a new hypothesis as follows :

H5 : Profitability, Debt to Equity Ratio, Earning Per Share Ratio, and Price to Book Value Ratio affects the Stock Price of the LQ45 Index.

1.3 CONCEPTUAL FRAMEWORK

The conceptual framework for this research, as follows :

Picture 1.3 Conceptual Framework

