

## Financial Performance Based on Profitability, Liquidity, Solvency and Its Impact on the Stock Price of Companies Listed in Consumer Goods Sector at Indonesia Stock Exchange from Year 2008-2014

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### ABSTRACT

*The research is a result of the need for the Indonesian people to strive for greater financial security through investment awareness. To achieve financial security, the public must be knowledgeable of various forms of investing. Investing in stocks is a popular and profitable option for interest investors. A clear understanding of stock investment is required for investors seeking optimal benefits from their investment. The study will use historical data, ROA, ROE, NPM, CR, DTA, DTE, and stock prices from period of 2008-2014 to evaluate and value selected stock of four companies listed in the consumer goods sector at Indonesia Stock Exchange. The results indicated that financial performance of PT. Unilever Indonesia Tbk., PT. Martina Berto Tbk., and PT. Mandom Indonesia Tbk., has an impact on its stock price as the results is significant at  $\alpha = 0.05$ .*

**Keywords:** Indonesia Stock Exchange, Consumer Goods, Financial Performance

### INTRODUCTION

The capital market serves as an economic pillar in most countries. The capital market allows for buyers and sellers to meet and find suitable, worthwhile opportunities. Owners can find the most optimal return for their investment. Whilst issuers are provided a chance to efficiently collect their long term investment funds from investors. The capital market is a favorable option for most investors. It does not mean that the capital market is without risk; all forms of investments serve some degree of risk. With risk comes reward, which is precedent in the capital market. It's high risk; high return is what attracts most investors. Purchase of equity stocks is a preferred investment choice for most investors. Investment in stocks entail purchasing shares from a stock market with hope for a future return that is greater than the original amount invested in such stock.

Efficient investment is an investment that has the benefits of maximum return, with a known level of risk or an investment that bears minimal risk with its minor reward. With any level of risk and return, investors must analyze relevant information about the stocks to determine which investment will deliver an optimal return. There are many methods that can be used to decide the proper value in which the investment offers. The most important aspect in investing is deciding the value of the stock prior to its purchase. Investor must value the stock prior to purchasing shares to determine if the listed price of the stock is equal to its "Actual" value. A company that has entered the capital market or has gone through an Initial Public Offering (IPO), the value of the company is often reflected through the price of its company's shares. Meaning the price of the share is a measurement of its intrinsic value, also known as its fair value.

The performance of the company can be seen financially through its financial statements. The health of the company essentially describe in the statements. Stock exchange is one way to measure the economy development of a country. Any country that shows prosperity often times can be seen through its consuming people. The Consumer Goods Industry sector in the Indonesian stock exchange has several sub sectors, and one of them is Cosmetic and Household Needs Sub Sector. The companies that represent this sub sector are, PT. Unilever Indonesia (UNVR), PT. Martina Berto (MRTO), PT. Mustika Ratu (MRTA), and PT. Mandom Indonesia Tbk (TCID). Each are established companies that has recorded its performance through its financial ratios.

The following table 1 indicates financial ratios of the PT. Unilever Indonesia Tbk, from year 2008-2014.

**Table 1. PT. Unilever Indonesia**

<i>Year</i>	<i>ROA %</i>	<i>ROE %</i>	<i>NPM</i>	<i>CR %</i>	<i>DTA %</i>	<i>DTE %</i>	<i>Stock Price</i>
2008	37	77.6	15.5	100.4	52.2	109.6	7800
2009	40.7	82.2	16.7	100.3	50.5	102	11050
2010	38.9	83.7	17.2	85.1	53.5	115	16500
2011	43.4	113.1	17.7	65.2	62.5	167	18800
2012	43.1	121.9	17.7	63.7	65	185.8	20850
2013	44.5	125.8	17.4	67.1	66.5	198.6	26000
2014	42.5	124.8	16.6	71.5	67.8	210.5	32300

The following table 2 indicates financial ratios of the PT. Martina Berto Tbk, from year 2008-2014.

**Table 2. PT. Martina Berto**

<i>Year</i>	<i>ROA %</i>	<i>ROE %</i>	<i>NPM</i>	<i>CR %</i>	<i>DTE %</i>	<i>DTA %</i>	<i>Stock Price</i>
2008	0.96	2.96	0.63	192	77	25	N/A
2009	8.03	24.51	4.31	176	73	24	N/A
2010	11.04	31.44	6.49	159	69	24	N/A
2011	7.88	10.65	6.58	408.1	35.24	26.05	410
2012	7.47	10.48	6.34	371.02	40.25	28.7	380
2013	2.64	3.58	2.52	399.14	35.55	26.23	305
2014	0.47	0.64	0.44	395.42	36.5	26.74	200

The following table 3 indicates financial ratios of the PT. Mustika Ratu Tbk, from year 2008-2014.

**Table 3. PT. Mustika Ratu**

<i>Year</i>	<i>ROA %</i>	<i>ROE %</i>	<i>NPM</i>	<i>CR %</i>	<i>DTE %</i>	<i>DTA %</i>	<i>Stock Price</i>
2008	6.3	7.3	7.2	631.1	16.8	14.4	153
2009	5.7	6.6	6.1	717.9	15.6	13.5	395
2010	6.3	7.2	6.6	761.4	14.5	12.6	650
2011	6.6	7.8	6.9	606.6	17.9	15.2	500
2012	6.8	8	6.7	601.7	18	15.3	490
2013	-1.5	-1.8	-1.9	605.4	16.6	14.1	465
2014	1.5	1.9	1.7	361.3	29.9	23	350

The following table 4 indicates financial ratios of the PT. Mandom Indonesia Tbk, from year 2008-2014.

**Table 4. PT. Mandom Indonesia**

<i>Year</i>	<i>ROA %</i>	<i>ROE %</i>	<i>NPM</i>	<i>CR %</i>	<i>DTE %</i>	<i>DTA %</i>	<i>Stock Price</i>
2008	12.61	14.07	9.26	809.78	11.59	10.39	5500
2009	12.53	14.15	8.97	726.31	12.92	11.44	8100
2010	12.55	13.86	8.96	1068.45	10.41	9.43	7200
2011	12.38	13.72	8.46	1174.29	10.82	9.77	7700
2012	11.9	13.7	8.1	772.7	15	13.1	11000
2013	10.9	13.5	7.9	357.3	23.9	19.3	11900
2014	9.4	13.6	7.6	179.8	44.4	30.7	17525

Financial ratios can be used to see the condition of the company. Through the ratios, analysis can be made on its solvency, liquidity, activity, and profitability, furthermore its market value. Two common approaches found in stock analysis is technical and fundamental analysis. Historical data is the preferred form of data used in the development of the market price within a stock or index over a set time period based on market trends and conditions. Fundamental analysis is used to estimate and determine future stock prices, including the fundamental values that will affect future stock prices. Investors should properly assess their investment choices prior to making critical investment decisions such as purchasing shares in a new company. An accurate assessment will provide a clearer picture of prospective companies' future values. A company's financial statement is a key form of information used to determine the value of an investment. The level of performance and operational efficiency of a company is shown through their financial reports. Investors can make use of a company's financial statements to evaluate the company's performance through their financial ratios. An investor can then get a better understanding of the strengths and weaknesses of prospective stock investments and determine the appropriate course of action.

Therefore, the study aimed to look on financial performance based on profitability, liquidity, solvency and its impact on the stock price of companies listed in consumer goods sector at Indonesia stock exchange from year 2008-2014.

## **REVIEW OF RELATED LITERATURE**

Investing is putting your money to work for you (Tyson, 2011:1). An investment can be defined as the commitment of funds to one or more assets that will be held over some future time period. Investments is concerned with the management of an investor's wealth, which is the sum of current income and the present value of all future income (Jones, 2009:3) Traditionally, investment is viewed as additions to the stock of physical capital. The rate of physical capital accumulation, which equals gross investment, is determined by the rate of profit earned by the capitalist investors. Thus, an increase in the savings rate, which allows a higher level of investment and capital goods creation, will increase the growth rate of the economy, *ceteris paribus* (Sengupta, 2011:19).

Risk, as we see it, refers to the likelihood that we will receive a return on an investment that is different from the return we expect to make. Thus, risk includes not only the bad outcomes (returns that are lower than expected), but also good outcomes (returns that are higher than expected) (Damodaran, 2012:58). Basically, investment risk refers to the chances of losing money on a particular investment. As you would expect, the higher the risk, the higher the potential return, but also the higher the potential loss. The total risk associated with an investment is made up of systematic risk and unsystematic risk. Systematic risk emanates from common factors that affect all investments. Unsystematic risk is due to unique factors affecting a particular company (Beelaerts, 2010:23). Almost all investments have some risk, but you can control the amount by choosing your funds and investments with care (Constas, 2001).

Markets are conduits through which buyers and sellers exchange goods, services, and resources. In an economy there are three types of markets: a product market where goods and services are traded; a factor market where labor, capital, and land are exchanged' and a financial market where financial claims are traded. The financial market, in turn, channels the savings of households, businesses, governments to those economic units needing to borrow (Johnson, 2014:6). Financial markets perform the essential economic function of channeling funds from households, firms, and governments that have saved surplus funds by spending less than their income to those that have a shortage of funds because they wish to spend more than their income (Eakins and Mishkin, 2012:2).

The capital market is a financial market for long-term securities. Corporations may raise funds in a capital market by selling bonds, preferred stock, and common stock. Other capital market instruments include bonds, mortgages, state and local bonds, term loans, and leases. The primary market, also called the new issue market, is a financial market for the original sale of new securities. This market is not a physical trading exchange or location, but represents a telecommunications network for selling new securities. The secondary market, also called the aftermarket, is a market for trading existing securities among investors, either directly or through an intermediary. Secondary markets exist for bonds, stocks, options, futures contracts, and other financial assets (Baker, 2005:326).

The ownership of a corporation is divided into transferable units known as shares of stock. There are several categories, or classes, of stock. Individuals and companies buy stocks because they expect to profit when the corporation makes profits. Corporations issue two basic types of stock: common stock and preferred stock. (Biedenweg, 2009:10) The most common type of equity investment is the ownership of the common stock that is issued by a

corporation. Companies sell common stock to investors to raise money to purchase new property and equipment, pursue new investment opportunities, and to generally grow their businesses. Most large companies list their common stock on national and global stock exchanges so that their stock is more liquid and can be easily bought and sold by a large number of investors (Lawless, 2010:37).

Financial statements are the only direct source for gauging a business's financial performance- they tell the story about profitability, financial health, and the ability to pay obligations, including returning earnings to stockholders. While past performance cannot predict future profits, it does show how one company has performed against competitors in the same industry, and current trends indicate a company's future direction. The universal nature of financial statements simplifies the comparison of companies in different industries (Kline, 2007:9). Public corporations in the US and many other countries are required to prepare and disclose the following financial statements to the public on a periodic basis: balance sheet, income statement, statement of cash flows, and statement of retained earnings (Baker 2009:20)

The stock price is simply the current market price, and it is easily observed for publicly traded companies. By contrast, intrinsic value, which represents the "true" value of the company's stock, cannot be directly observed and must instead be estimated. Market equilibrium occurs when the stock's price equals its intrinsic value. If the stock market is reasonably efficient, gaps between the stock price and intrinsic value should not be very large and they should not persist for very long (Brigham and Ehrhardt, 2011:305). Furthermore, there are many factors that can affect the stock price. These factors according to Moyer et al (2009:12) include:

1. Economic Environment Factors. The factors in the economic environment includes the following: Level of economic activity; tax rates and regulations; competition, including the threat of new competitors and substitute products; laws and government regulations; unionization of employees; International business conditions and currency exchange rates; and, bargaining power of buyers
2. Major Policy Decisions Under Management Control. The factors included in major policy decisions under management control includes the following: products and services offered for sale; production technology; marketing and distribution network; investment strategies; employment policies and compensation packages for managers and other employees; ownership form--proprietorship, partnership, or corporation; Capital structure--use of debt and equity to finance the firm; working capital management policies;
3. Dividend policies
4. Amount, Timing and Risk of Expected Cash Flows
5. Shareholder Wealth (Market Price of Stock)
6. Conditions in Financial Markets that includes: Interest rate levels, Investor optimism; and, anticipated inflation.

Fundamental analysis is the study of a company's financial strength, based on historical data; sector and industry position; management; dividend history; capitalization; and the potential for future growth. The combination of historical information and fiscal status collectively represent all data not directly related to the price of stock, and this body of information is used to define value investing and to compare one stock to another (Thomsett, 2006:6). Ashshofia and Sulistiyani (2009) studied the effect of economic crisis in America on

Indonesia capital market looking at the Indonesian companies financial statement. The study resulted in that there is no significant differences before the economic crisis in America during the year 2004-2006 and the US Economic crisis in 2007-2009 is the liquidity ratio, profitability ratios and market ratios. Another study by Pangaribuan (2009) shows the influence of financial ratios comprise of solvency position, liquidity position, and profitability position on the stock price of automotive industrial sector of the then Jakarta Stock Exchange (JSX). The results shows that only return on asset which is on profitability position has a significant and positive affect on stock price which has 55.9% contribution to the changes on stock price. Thus, fundamental analysis ideally helps you identify businesses that sell goods and services for more than what they paid to produce them. Fundamental analysis is your tool to evaluate how good a company is at turning raw materials into profits (Krantz, 2009:13).

## METHOD OF STUDY

The research used descriptive method in the study. The operational variables used in the study include independent variables and dependent variables. The independent variables of the study is financial performance consists of: Return on Asset (ROA), Return on Equity (ROE), Net Profit Margin, Current Ratio (CR), Debt to Asset (DTA), and Debt to Equity (DTE). The dependent variables used in the study are stock price. The data used in this study is from the stock closing price and financial ratios of PT. Unilever Indonesia Tbk. (UNVR), PT. Martina Berto (MROT), PT. Mustika Ratu Tbk. (MRAT), and PT. Mandom Indonesia Tbk. (TDIC) from the year 2008-2014 of the consumer goods sector. The data was analyzed using statistical method such as Pearson Correlation, t-test, and Coefficient Determination.

## RESULTS AND DISCUSSION

The following are results on four companies observed from the Consumer Goods sector, specifically in the Cosmetics and Household Needs Sub Sector listed in the Indonesian Stock Exchange regarding the companies' financial performance impact towards stock price .

### PT. Unilever Indonesia

Based on the data given in the financial report of PT. Unilever Indonesia, Tbk., one of the prominent Consumer Goods company in Indonesia with products such as Home & Personal Care, Foods & Ice Cream with trusted brand name like: Lifebuoy, Vaseline, Pepsodent, Rinso, etc., the following analysis was given. The data was analyzed using statistical method and described as follows:

**Table 1. PT. Unilever Indonesia**

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Sig.</i>	<i>Interpretation</i>
ROA	0.735	0.540	0.030	Significant
ROE	0.884	0.781	0.004	Significant
NPM	0.439	0.193	0.162	Not Significant
CR	-0.775	0.601	0.020	Significant
DTA	0.905	0.819	0.003	Significant
DTE	0.922	0.850	0.002	Significant

The table 1 above shows that there is a significant correlation between ROA, ROE, CR, DTE and DTA towards stock price, at  $\alpha = 0.05$ , as t-count > t-table resulted in p-value < 0.05.

Furthermore, the research also indicated that ROA, ROE, DTA, and DTE has a positive and strong to very strong correlation. However, CR was indicated to have a negative correlation, meaning that the increase in current ratio resulted in the decrease in stock price. This signified that the ratios have impact on the changes in stock price of PT. Unilever Indonesia Tbk.

**PT. Martina Berto**

Based on the data given in the financial report of PT. Martina Berto, Tbk., one of the prominent cosmetics and *jamu* company founded by Martha Tilaar, the following analysis was given. The data was analyzed using statistical method and described as follows:

**Table 2. PT. Martina Berto**

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Sig.</i>	<i>Interpretation</i>
ROA	0.969	0.939	0.015	Significant
ROE	0.965	0.931	0.018	Significant
NPM	0.977	0.955	0.012	Significant
CR	-0.078	0.006	0.461	Not Significant
DTE	0.185	0.034	0.407	Not Significant
DTA	0.177	0.031	0.412	Not Significant

The table 2 above shows that there is a significant correlation between ROA, ROE, and NPM towards stock price, at  $\alpha = 0.05$ , as t-count > t-table resulted in  $p$ -value < 0.05. Furthermore, the research also indicated that ROA, ROE, NPM, has a positive and very strong correlation towards stock price. This shows that the increase in ROA, ROE and NPM resulted in the increase in stock price. However, CR, DTE, DTA, results was not significant. This result signified that the ratios of profitability ratios of ROA, ROE and NPM have impact on the changes in stock price of PT. Martina Berto Tbk.

**PT. Mustika Ratu**

Based on the data given in the financial report of PT. Mustika Ratu, Tbk., one of the prominent cosmetics and *jamu* company founded by Mooryati Soedibyo, the following analysis was given. The data was analyzed using statistical method and described as follows:

**Table 3. PT. Mustika Ratu**

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Sig.</i>	<i>Interpretation</i>
ROA	0.057	0.003	0.452	Not Significant
ROE	0.051	0.003	0.456	Not Significant
NPM	-0.012	0.000	0.489	Not Significant
CR	0.363	0.132	0.212	Not Significant
DTE	-0.283	0.080	0.269	Not Significant
DTA	-0.295	0.087	0.260	Not Significant

The table 3 above shows that there is a low to very low and not significant correlation between ROA, ROE, NPM, CR, DTE, DTA towards stock price, as t-count < t-table resulted

in  $\rho$ -value  $> 0.05$ . This signified that the ratios don't have impact on the changes in stock price of PT. Mustika Ratu Tbk.

**PT. Mandom Indonesia**

Based on the data given in the financial report of PT. Mandom Indonesia, Tbk., one of the prominent consumer goods company in Indonesia with product such as: Gatsby, Pucelle, and Pixy Lady, the following analysis was given. The data was analyzed using statistical method and described as follows:

**Table 8. PT. Mandom Indonesia, Tbk**

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Sig.</i>	<i>Interpretation</i>
ROA	-0.968	0.937	0.000	Significant
ROE	-0.694	0.482	0.042	Significant
NPM	-0.916	0.839	0.002	Significant
CR	-0.825	0.681	0.011	Significant
DTE	0.947	0.897	0.001	Significant
DTA	0.954	0.910	0.000	Significant

The table 8 above shows that there is a significant correlation between ROA, ROE, NPM, CR, DTE and DTA towards stock price, at  $\alpha = 0.05$ , as t-count  $>$  t-table resulted in  $\rho$ -value  $<$  0.05. Furthermore, the research also indicated that DTA and DTE have a positive and very strong correlation. However, ROA, ROE, NPM and CR are indicated to have negative correlation, meaning that the increase in ROA, ROE, NPM and CR resulted in the decrease in stock price. These results signified that the ratios have impact on the changes in stock price of PT. Mandom Indonesia, Tbk.

**CONCLUSION**

Based on the results and discussion above, the study concluded that investors must also consider other factors that affect the Stock Price before purchasing stocks. From the four company observed in the study, PT. Unilever Indonesia, Tbk., PT. Martina Berto Tbk., and PT. Mandom Indonesia Tbk., shows that their ratios can predict the changes in their stock price based on the observed year of 2008-2014. On the other hand, PT. Mustika Ratu, Tbk ratios can't.

**SUGGESTION**

The point of this study suggests that prior to buying shares, investors should be aware of all the factors that can affect the price of a stock including the condition of the economy. A careful analysis of selected companies to invest must be made to ensure selected stocks can withstand unexpected economic turmoil, such as a recession. For a company to survive through a recession it must continue to be a leading innovator in its industry. It must continue to expand its product line to meet its consumer's ever-changing wants and needs. With product development, PT Unilever can expect an increase in sales and profits. Which will be beneficial to the welfare of current shareholders and entice investors interested in investing in PT Unilever Indonesia Tbk.



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