

The Effect of Profitability, Company Size and Capital Structure on Stock Prices in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange

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Abstract

This study aims to determine the effect of Profitability, Company Size, and Capital Structure on Stock Prices in Consumer Goods Industrial Sector Companies Listed on the Indonesia Stock Exchange (IDX). The type of research used is descriptive research and verification research. The data used in this study is secondary data obtained from the IDX official website (www.idx.co.id). Methods of data collection using the form of documentation. The data analysis used is quantitative analysis. The analysis technique is multiple linear regression. The results of the joint study of profitability, firm size, and capital structure variables have a significant positive effect on stock prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange. Profitability and firm size have a significant positive effect on stock prices, while the capital structure significantly negatively impacts stock prices.

Keywords: Profitability, Company Size, Capital Structure, Stock Price

JEL Code: G32, M21, N15, N20

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1. Introduction

The company was founded to benefit from its business, whether engaged in services, goods, electronics, textiles, etc. The proceeds will be used to continue the company's operations and fund all company needs. Before and after the company was founded, the company will continue to need capital. This capital can come from own capital or foreign capital. The public and investors have a significant influence in advancing the company, especially concerning the paid-

up capital. From the investor's point of view, an underlying reason for an investor to invest is to take advantage of the excess funds they have and strengthen business relationships or earn profits.

Investments in the capital market have related information regarding the dynamics of stock prices and company value. From this information, the shareholder or investor can make decisions about the shares of companies that are eligible to be selected. Stocks are commodities classified as having high risk; this is due to the nature of stocks that are sensitive to changes. It can be from changes whose sources come from outside or within the country, for example, changes in the economic, political, monetary, and regulatory fields and changes in the industrial sector as well as in the company that issues shares (issuer) itself.

Azis, Mintarti & Nadir (2015: 80), the stock price is defined as the price in the real market and is the price that is most easily determined because it is the price of a stock in the ongoing demand, or if the market is closed, then the market price is the closing price. Brigham and Houston (2010: 7) state that share price determines shareholder wealth. Maximizing shareholder wealth translates into maximizing the company's share price. The stock price at any given time will depend on the cash flows expected to be received in the future by the average investor if the investor buys the stock. This study's factors that affect stock prices include profitability, company size, and capital structure.

Sumiart dan Indrawati (2019: 91) profit-generating companies are financially sound. Profitability is the result of several policies and decisions made by the company. Profitability means the company's ability to generate profits. The ratios used to Calculate profitability show the combined effects of liquidity, asset management, debt, and the company's operating results.

Dewi & Sudiartha (2017: 22) company size is a company picture that shows the company's success which can be reflected in the total assets owned by the company. The larger the company's size, the higher the level of debt used, which aims to develop the company's prospects. Sumiati dan Indrawati (2019: 177) capital structure is related to permanent company funding, which includes long-term debt and equity. The theory of capital structure (Capital Structure) explains whether long-term spending policies can affect firm value (Firm Value), the company's cost of capital, and the company's stock market price.

The consumer goods industry sector companies listed on the Indonesia Stock Exchange (IDX) are a group of companies that are very influential and needed by everyone and are one of the businesses that cannot possibly die because of the need for food and basic human need. The consumer goods industry sector is not too large, but this sector can provide additional income for the state through transactions carried out in this sector. The following is an overview of the average share price, profitability, company size, and capital structure of companies in the consumer goods industry sector in 2015-2020:

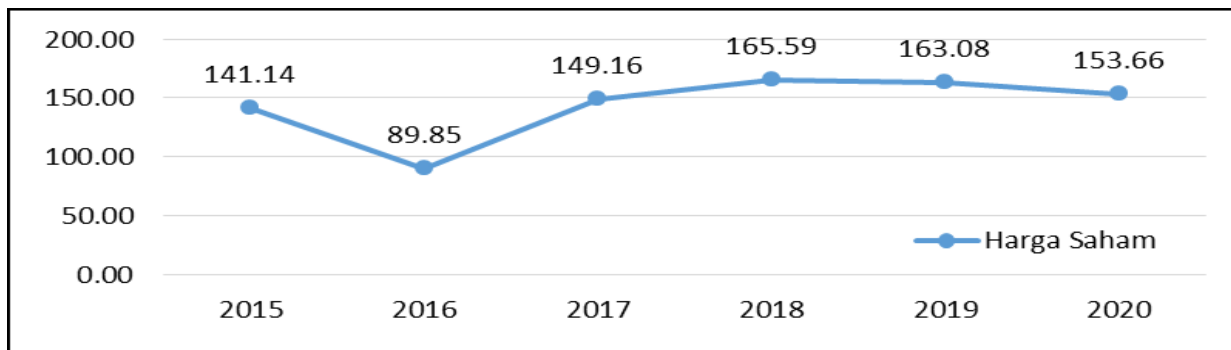


Figure 1. Average share price of companies in the consumer goods industry

Figure 1 above shows that stock prices in consumer goods industrial sector companies on the Indonesia Stock Exchange in 2015-2020 fluctuated or experienced changes in stock prices, both increasing and decreasing according to economic conditions that occurred in Indonesia.

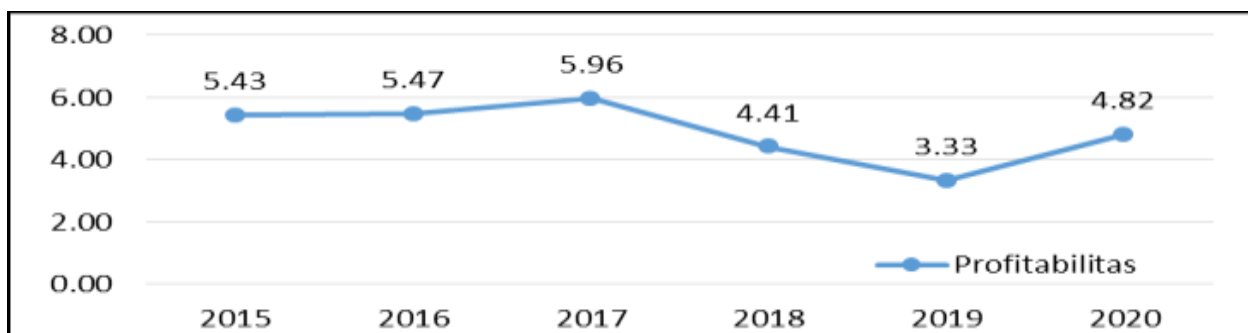


Figure 2. Average profitability of companies in the consumer goods industry.

Based on the picture above, it can be seen that the amount of profitability calculated by the Return On Assets (ROA) of companies in the consumer goods industry sector listed on the Indonesia Stock Exchange has fluctuated from year to year. The highest average occurred in 2017, 5.96%, while the lowest average company profitability occurred in 2019, 3.33%. It shows that in 2017 the capital invested in assets in the company was able to generate maximum profit for the company, while in 2019, these companies experienced a decline in generating profits. Research on the effect of profitability on stock prices has been carried out by Rianisari, Husnah dan Bidin (2018), with the results of profitability research having an impact on stock prices, while Putra & Dana (2015) with the results of his research that profitability does not affect stock prices.

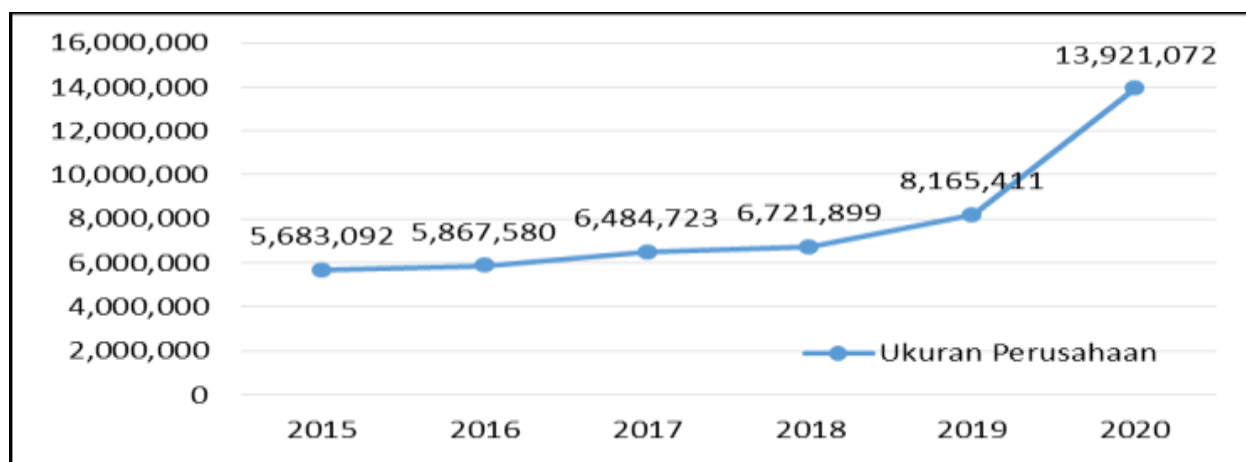


Figure 3. Average company size in the consumer goods industry

Based on the picture above, it can be seen that the company's size calculated by looking at the company's total assets in the consumer goods industry sector listed on the Indonesia Stock Exchange fluctuates from year to year. The highest average occurred in 2020, 13,921,072, while the smallest average company size occurred in 2015, with total assets of 5,683,092. The graph shows that the total assets in 2015-2018 were still stable from year to year, but in 2020 the total assets of companies in the consumer goods industry sector experienced a reasonably high increase. It happens because of macro factors that are happening globally. It means that sales made by the company can increase the total assets owned by the company and assist the company in financing its operational activities from the profits obtained through sales. Research on the effect of company size on stock prices has been carried out by Rosita, Isharijadi & Murwani (2018) with the results of the study that company size affects stock prices, while Wijanti & Sedana (2013) with research results on company size does not affect stock prices.

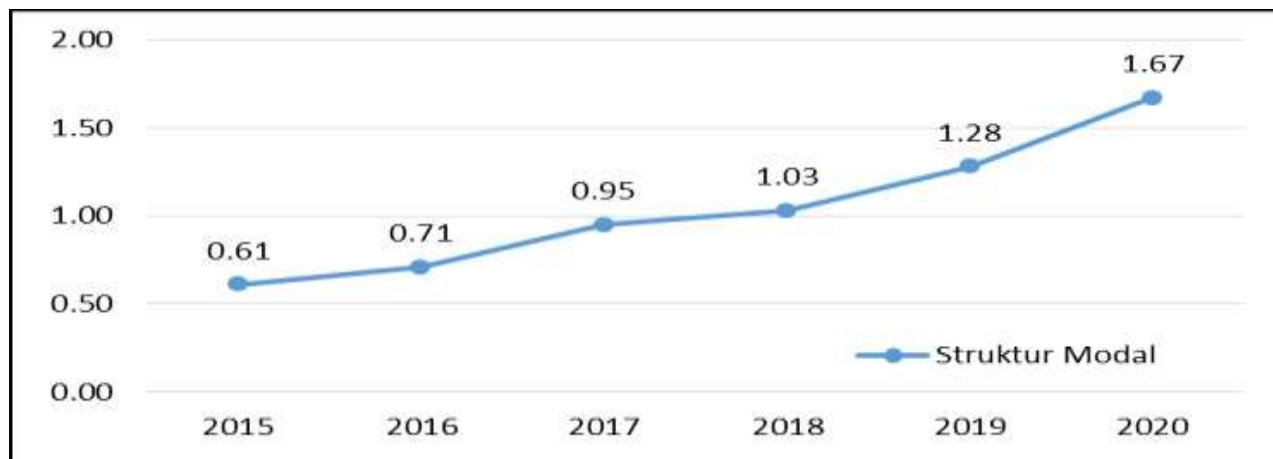


Figure 3. The average capital structure of companies in the consumer goods industry

Based on the figure above, it can be seen that the capital structure is measured using the Debt to Equity Ratio (DER) in the consumer goods industry sector listed on the Indonesia Stock Exchange fluctuates every year. The highest average occurred in 2020, 1.67%, while the lowest average Debt to Equity Ratio (DER) appeared in 2015, which was 0.61%. This means that the company's ability to meet all of its debts or obligations by using all of the company's equity has not been maximized. Research on the effect of capital structure on stock prices has been carried out by Wehantouw (2017). with the results of research that capital structure affects stock prices, while the research of Irham (2014) with the results of his research that capital structure does not affect stock prices.

Based on the background of the problem, the researcher is interested in conducting research with the title "The Effect of Profitability, Company Size and Capital Structure on Stock Prices in Consumer Goods Industrial Sector Companies Listed on the Indonesia Stock Exchange."

2. Literature Review

2.1 Stock Price

According to Husnan and Pudjiastuti (2015: 23), the stock price is the present value of the income that investors will receive in the future. As seen from the Closing Price (Annual).

2.2 Profitability

Sumiati and Indrawati, (2019: 91) companies that generate profits are financially sound. Profitability is the result of some policies and decisions made by the company. To measure profitability, the following formula will be used:

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

2.3 Company Size

Company size is a measure that classifies the size of the company through assets owned, sales, or market capitalization (Arifin & Agustami, 2016: 29). The larger the size of the company, the higher the level of debt used which aims to develop the company's prospects. Company size is measured by the total assets (TA) owned by the company, which can be used for company operations.

2.4 Capital Structure

Irham Fahmi (2014: 106) states that the company's capital structure or capital is permanent financing represented by long-term debt, preferred stock, and shareholder equity. Ratios to measure capital structure are Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR). The debt to equity ratio reveals how the company's funding is used from the capital structure owned

by the company, which comes from long-term debt and capital from equity with the following formula:

$$DER = \frac{\text{Total Hutang}}{\text{Total Ekuitas}}$$

3. Research Method

The data used in this study is secondary data based on financial reports obtained through the official website of the Indonesia Stock Exchange. The population in this study is the consumer goods industry sector companies listed on the Indonesia Stock Exchange, as many as 58 companies with a research period of 6 years from 2015-2020. The sample was conducted using a non-probability sampling method, namely by using a purposive sampling technique. The criteria used are consumer goods industrial sector companies registered during the research year, publish complete financial reports, and do not move from sector to company. Based on these criteria, 36 sample companies met the criteria; the following are the names of the sample companies in this study:

Table 1. Sample

No.	Kode	Nama Perusahaan	No.	Kode	Nama Perusahaan
1.	ADES	Akasha Wira International, Tbk	19.	HMSP	Hanjaya Mandala Sampoerna Tbk.
2.	ALTO	Tri Banyan Tirta, Tbk	20.	DVLA	Darya Varia Laboratoria Tbk.
3.	BTEK	Bumi Teknokultura Unggul, Tbk	21.	INAF	Indofarma, Tbk
4.	BUDI	Budi Starch Sweetener Tbk, PT.	22.	KAEF	Kimia Farma Tbk.
5.	CEKA	Cahaya Kalbar Tbk, PT.	23.	KLBF	Kalbe Farma Tbk.
6.	DLTA	Delta Djakarta Tbk, PT.	24.	MERK	Merck Indonesia Tbk.
7.	ICBP	Indofood CBP Sukses Makmur Tbk, PT.	25.	PYFA	Pyridam Farma, Tbk
8.	IIKP	Inti Agri Resources, Tbk	26.	SIDO	Industri Jamu Dan Farmasi Sido Tbk.
9.	INDF	Indofood Sukses Makmur Tbk, PT.	27.	TSPC	Tempo Scan Pacific Tbk.
10.	MGNA	Magna Investama Mandiri, Tbk	28.	ADES	Akasha Wira International, Tbk
11.	MLBI	Multi Bintang Indonesia Tbk, PT.	29.	KINO	Kino Indonesia Tbk.
12.	MYOR	Mayora Indah Tbk, PT.	30.	MBTO	Martina Berto, Tbk
13.	PSDN	Prasidha Aneka Niaga, Tbk	31.	MRAT	Mustika Ratu, Tbk
14.	ROTI	Nippon Indosari Corporindo Tbk, PT.	32.	TCID	Mandom Indonesia Tbk.
15.	SKLT	Sekar Laut Tbk, PT.	33.	UNVR	Unilever Indonesia Tbk.
16.	STTP	Siantar Top, Tbk	34.	CINT	Chitose Internasional Tbk.
17.	ULTJ	Ultrajaya Milk Industry And Trading Company Tbk, PT.	35.	KICI	Kedaung Indah Can, Tbk
18.	GGRM	Gudang Garam Tbk.	36.	LMPI	Langgeng Makmur Industri, Tbk

Sumber : Data processed by the author, 2021.

4. Results and Discussion

4.1 Classical Assumption Test Results

The normality test results, as seen from the picture pp. The plot shows that the data is normally distributed because the data spread around the diagonal line and follows the direction of the diagonal line. The autocorrelation test results show no autocorrelation in the regression model because the Durbin-Watson value is 2.229, which is between -2 to +2. The results of the heteroscedasticity test seen from the scatterplot image show that the data points spread above and below or around the number 0 and do not form a certain pattern, so it can be concluded that there is no heteroscedasticity in the previous study. The results of the multicollinearity test have a tolerance value of more than 0.1, and the VIF is smaller. Of 10, it can be concluded that the variable does not occur multicollinearity.

4.2 Multiple Linear Regression Analysis

Table 2. Multiple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	.864	.205	
1 Profitability	.475	.077	.326
Company Size	.675	.080	.820
Capital Structure	-2.817	.631	-.425

a. Dependent Variable: Harga Saham

The multiple linear regression equation is as follows:

$$Y = 0.864 + 0.475 X_1 + 0.675 X_2 - 2.817 X_3$$

4.3 Hypothesis Test Results

4.3.1 Test results together (Test F)

Table 3. Results of F . Test Analysis ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	14.965	3	4.988	63.210	.000 ^b
Residual	16.730	212	.079		
Total	31.696	215			

a. Dependent Variable: Harga Saham

b. Predictors: (Constant), Struktur Modal, Profitabilitas, Ukuran Perusahaan

Data processing, 2021.

Based on the table above, the results of the F hypothesis test with a calculated F value of 63.210 > F table 0.378 or significant F $0.000 \leq 0.05$ then means H_0 is rejected and H_a is accepted, it can be concluded that there is a positive influence on profitability, firm size, and capital structure jointly to share prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange.

4.3.2 Partial test results (t-test)

Table 4. Results of t-test analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.864	.205		4.210	.000
1 Profitability	.475	.077	.326	6.204	.000
Company Size	.675	.080	.820	8.398	.000
Capital Sturcture	-2.817	.631	-.425	-4.465	.000

a. Dependent Variable: Harga Saham

Based on the table above, it can be seen that the calculated t value for profitability is $6.204 > t$ table 1.97111, and the significant value is $0.000 < 0.05$. This shows a significant positive effect of partial profitability on stock prices. For the size of the company with a t value of $8.398 > t$ table 1.97111 and a significant value of $0.000 < 0.05$. This shows a significant positive effect of partial firm size on stock prices. And for the capital structure with a t value of $-4.465 > t$ table 1.97111 and a significant value of $0.000 < 0.05$. This shows that there is a significant negative effect of a capital structure partially on stock prices.

4.3 Discussion

4.3.1 Effect of Profitability, Company Size, and Capital Structure Together on Stock Prices

Based on the research that has been processed, the results are that profitability, company size, and capital structure affect stock prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange. This result is reinforced by the calculated F value $13,403 > F$ table 2.65 or significant F $0.000 \leq 0.05$. It can be interpreted that profitability, company size,

and moving capital structure together significantly positively affect stock prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange.

These results align with research by Jelie D. Wehantouw et al. (2017). The result of this research is that the variables of capital structure, firm size, and profitability have a significant positive effect on stock prices. Suppose the management of profitability, company size, and capital structure are carried out better and more effectively by the financial management section of the consumer goods industry sector companies listed on the Indonesia Stock Exchange. In that case, it is possible that the share price obtained in the consumer goods industry sector companies listed on the Indonesian Stock Exchange The Indonesia Stock Exchange will experience an increase in the years to come and can increase the company's profit.

4.3.2 Effect of Profitability on Stock Prices

The results showed a significant positive effect of partial profitability on stock prices; this was strengthened by the t arithmetic value of $6.204 > t$ table 1.97111 and the significant value of profitability $0.000 < 0.05$. Profitability is the company's ability to manage its assets to generate profits. Companies with a high return rate on the assets they manage illustrate the company's ability to generate high profits. This shows that the company's total assets will affect the increase in net profit expected by the company and investors. So, profitability will significantly affect stock prices in the company.

This study's results align with research conducted by Ramandia (2013), Hayati (2013), and Manopo et al. (2017) and Rianisari, Husna & Bidin. (2018) state that returns on assets (ROA) has a significant positive effect on stock prices. However, this study's results differ from Fazria's (2017) research, which states that return on assets (ROA) does not affect stock prices. This means that the high or low profitability or profit earned by the company in a certain period will not affect the current stock price and will not affect potential investors to invest in the company. So potential investors do not consider whether the shares purchased will later receive dividends that will increase or decrease.

4.3.3 Effect of Firm Size on Stock Price

The results showed that the company's size partially has a significant positive effect on stock prices. The value of t arithmetic 8.398 reinforces this $> t$ table 1.97111 and significant company size $0.000 < 0.05$. Then the increase or decrease in the company's size will affect the company's stock price in that year. The results of this study are in line with several studies conducted by Ramandia (2013), Nasir, Diana, & Mawardi (2018), Pratiwi and Badjra (2020) that the firm size variable has a positive influence. Significant to stock prices. Because a company's total assets indicate the company's size at the end of the period, large categories of companies usually report financial statements faster than smaller companies. Large companies tend to have good internal control, and the management of large companies tends to receive incentives to shorten the audit time because it is monitored closely by the capital supervisor from the government. Large

company sizes tend to have more staff in the financial sector, so they are faster in completing their financial statements.

However, this study's results differ from the research of Wehantouw (2017), which states that the firm size variable does not have a significant effect on stock prices. So the size of the total assets owned by the company will not affect the movement of stock prices. While the results of research from Wijanti & Sedana (2018) also have differences, his research states that company size significantly negatively affects stock prices. This means that the size of the total assets owned and acquired by the company hurts stock prices and will affect the movement of stock prices. High total assets will cause stock prices to fall, and small total assets will increase stock prices. This will also impact investors' decisions; they tend to choose low total assets but high stock prices. Because investors want high profits from these shares.

4.3.4 Effect of Capital Structure on Stock Prices

The results showed that the company's size partially has a significant adverse effect on the capital structure on stock prices. This result is strengthened by the calculation if $t_{count} -4.465 > t_{table} 1.97111$ and significant capital structure $0.000 < 0.05$. This is because companies with higher total assets or whose total assets have been able to meet their operational needs through their internal sources, so they do not need external funds in the form of debt. This study's results align with several studies by Rahmandia (2013) and Ircham (2014), which state that capital structure significantly negatively affects stock prices. This means that if the value of the debt to equity ratio (DER) decreases, it will be followed by an increase in stock prices. Long-term creditors prefer a small DER ratio because it indicates that the more significant the number of assets funded by the owners of capital. So that the smaller the creditor's risk, which will indirectly affect the increase in share prices for capital owners. A more significant DER indicates that the business capital structure uses more funds provided by creditors to generate profits. Meanwhile, Pratiwi's (2019) research shows that capital structure does not affect stock prices. This means that the movement down or up from the value of the debt to equity ratio (DER) keeps the stock price at 6.204. This result will be a consideration for investors to invest because the profit earned from the share price will remain the same at 6.204 even though the company's debt to equity ratio (DER) is high. Suppose the company's debt to equity ratio (DER) value is high. In that case, the company's operational funding using debt increases, but the profit earned from the stock price remains at 6.204 and vice versa.

5. Conclusion

The results of jointly testing the hypothesis that the variables of profitability, firm size, and capital structure have a significant positive effect on stock prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange. The results of the partial hypothesis testing of profitability, company size, and capital structure variables on stock prices in consumer goods industrial sector companies listed on the Indonesia Stock Exchange are: There is a significant positive effect of partial profitability on stock prices, There is a significant partial

effect of company size on stock prices. There is a significant negative effect of a capital structure partially on stock prices.

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