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THE INFLUENCE OF CURRENT RATIO (CR) AND RETURN ON ASSETS (ROA) ON STOCK PRICES IN PLANTATION SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to determine the influence of Current Ratio (CR) and Return on Assets (ROA) on stock prices in the Plantation Sector Companies listed on the Indonesia Stock Exchange (IDX), both partially and simultaneously. The population and sample in this study are plantation sector companies listed on the Indonesia Stock Exchange from 2016 to 2018. The data analysis technique used is multiple linear regression analysis, classic assumption tests, model testing, and hypothesis testing. The test results show that Current Ratio (CR) has an influence on stock prices, followed by Return on Assets (ROA) which also has an influence on stock prices in plantation sector companies.

Keywords: Current Ratio (CR); Return on Assets (ROA); Stock Price.

Introduction

The capital market is an alternative source, apart from banks, that has important advantages over banks. One of its advantages is that by utilizing funds from the capital market, companies do not need to allocate funds every month or year to pay interest. Instead, companies must pay dividends to investors. The capital market also allows investors to choose from various investments that align with their expected profit and risk levels, enabling efficient allocation of funds. However, the level of investment in the capital market is still much lower than the level of investment in savings. One reason for this is that investing in savings is relatively straightforward, while investing in stocks is more complex due to dividends and the unpredictability of stock price changes (Subekti & Ghofar, 2016).

The presence of the capital market in the modern economy is crucial for all countries worldwide, including Indonesia. The high demand for goods and services due to the increasing global population requires companies, both in the service and trade sectors, to meet all the orders demanded by the global community. Indonesia, categorized as a developing country, has a high demand for goods and services. This is evident from the growing number of new companies emerging in Indonesia, both domestic and foreign, because of the potential market in Indonesia.

The capital market can be a strategic alternative for economic development in Indonesia. Its growing presence demonstrates that the capital market is increasingly necessary to fulfill the needs of the public for goods and services. Companies' capital needs can be realized when they participate in the capital market.

The capital market plays a vital role in the development of Indonesia's economy. Technological advancements and the globalization trend make Indonesia's capital market a potential icon in Southeast Asia. The progress of the capital market cannot be achieved without support from the government and the public. The government's role includes creating political and legal stability, ensuring an investment-friendly climate in Indonesia, and acting as a guardian in economic activities. Meanwhile, the public can participate by investing in stocks in the capital market.

Darmadji and Fakhruddin (2012) state that the capital market is expected to boost economic activities because it provides an alternative source of funding for companies. Companies can operate on a larger scale, ultimately increasing their revenue and the prosperity of the wider community. This objective can be achieved through financial decision-making in selecting funding sources that affect a company's value, up to achieving an optimal capital structure. Making the right funding decisions involves internal sources (retained earnings and depreciation) or external sources (debt and equity), or a combination of both, while considering the costs and benefits associated with each funding source due to their distinct financial consequences and characteristics.

Darmadji and Fakhruddin (2012) also state that the stock price index is an indicator reflecting stock price movements. One of the analytical tools for assessing stock prices is through fundamental analysis of companies using financial ratio analysis.

Stock prices can be considered as an indicator of a company's success, where market strength in the stock exchange is shown by the buying and selling transactions of those stocks in the capital market. The occurrence of these transactions is based on investors' observations of a company's performance in increasing its profits. Changes in a company's stock price indicate changes in the company's performance over a specific period. A company's performance can be assessed through its financial performance, which is derived from periodic financial statements.

Overall, the capital market serves as a critical financial instrument in Indonesia, with the potential to contribute significantly to the country's economic development. It provides opportunities for companies to access funds, facilitates efficient resource allocation, and allows investors to participate in the growth of businesses.

Table 1 Stock Prices of Companies in the Sub-Sector of Plantation

No	Emitter	Stock Price (IDR)		
		2016	2017	2018
1	Astra Agro Lestari Tbk.	16.775,00	13.150,00	59.125,00
2	Austindo Nusantara Jaya Tbk.	1.990,00	1.200,00	1.150,00
3	Golden Plantation Tbk	120,00	97,00	50,00
4	PP London Sumatra Indonesia Tbk.	1.740,00	1.420,00	1.250,00
5	Provident Agro Tbk.	456,00	328,00	260,00
6	Sampoerna Agro Tbk.	1.910,00	2.570,00	2.370,00
7	Salim Ivomas Pratama Tbk.	494,00	464,00	460,00
8	Tunas Baru Lampung Tbk.	990,00	1.225,00	865,00

Source: Processed Secondary Data

Stock prices can experience fluctuations, resulting in instability, which many companies, including those in the plantation sector listed on the Indonesia Stock Exchange may experience. The Indonesia Stock Exchange is a platform that facilitates buying and selling securities for companies and investors.

To maintain liquidity, all plantation companies are required to meet their short-term obligations or Current Ratio. Current Ratio is a ratio of Current Assets to Current Liabilities. This ratio indicates the multiple by which current wealth that can be quickly turned into cash covers short-term debt. A Current Ratio of 200% is sometimes considered satisfactory for a company, but the actual working capital and the magnitude of the ratio depend on several factors. A universal standard or ratio cannot be defined for all companies (Munawir, 2005).

In this study, liquidity ratios are represented by the Current Ratio (CR). CR is one of the liquidity ratios used to measure a company's ability to meet short-term obligations. It is chosen because high short-term liquidity levels provide investors with confidence in the company's ability to pay dividends (Ginting, 2018). According to Andianto (2014), "this ratio shows the extent to which current obligations are covered by assets expected to be converted into cash in the near future."

Current Ratio is a liquidity ratio used to assess a company's ability to pay its short-term obligations or debts when they fall due. In the research by Erlyna (2015) on the influence of CR, DER, and ROA on stock prices, it is stated that the Current Ratio has a significant impact on stock prices. Similarly, in the study by Septinus (2017) on the influence of CR, ROA, DER, and PER on stock prices, it is stated that the Current Ratio has a significant impact. The research by Pratiwi and Djazuli (2016) on the influence of CR, DER, ROA on stock prices also states that the Current Ratio has a significant impact on stock prices.

To maintain profitability, all companies are required to meet the level of generating net profit or Return on Assets. ROA is a ratio that indicates the return on total assets used in the company.

According to Girsang et al. (2019), Return on Assets is a tool for measuring a company's overall ability to generate profits with the total assets available within the company. Profitability ratios are used to determine a company's ability to manage its assets. In this study, profitability ratios are represented by the Return on Asset Ratio (ROA). ROA is chosen because it assesses how effectively a company utilizes its resources to generate profits and helps determine the return a company provides for each dollar of owner's equity (Sutriani, 2014).

Return on Assets is a profitability ratio used to measure a company's ability to generate profits from investment activities. In Erlyna's research (2015) on the influence of CR, DER, and ROA on stock prices, it is stated that Return on Assets has a significant impact on stock prices. Similarly, in Septinus's study (2017) on the influence of CR, ROA, DER, and PER on stock prices, it is stated that Return on Assets has a significant impact on stock prices. Firnanda's research (2021) on the influence of PER, ROA, and DER on stock prices states that Return On Assets has a significant impact on stock prices, as does the research by Pratiwi, Miftahuddin, and Amelia (2020) on the influence of CR, DER, and ROA on stock prices.

Research methods

This research employs the explanatory research type, which aims to test the influence of the variables Current Ratio (CR) and Return on Total Assets (ROA) on the variable y, which is stock price. The population for this study consists of companies in the plantation sector listed on the Indonesia Stock Exchange (Bursa Efek Indonesia) from 2016 to 2018. The sample for this research is selected using purposive sampling, a technique that determines the sample based on specific considerations (Sugiyono, 2010).

The data required for this research are secondary data, which are data presented in a ready-made form or data that have been processed by other parties. The secondary data used in this study are financial reports of plantation sector companies obtained from the online portal of the Indonesia Stock Exchange, which is www.idx.co.id.

Table 2. Operational Definitions of Variables

Variable	Operational Definition	Measurement Method	Scale
CR (X1)	The ratio measuring a company's ability to pay short-term liabilities with its current assets.	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Rasio
ROA (X2)	The ratio used to measure the net profit from asset utilization.	$\frac{\text{Net income}}{\text{Total Assets}} \text{X } 100\%$	Rasio
Stock Price (Y)	The base price of a stock used in the calculation of the stock price index.	Closing Price Ratio	Rasio

The model to be employed in this study is multiple linear regression, utilizing the SPSS (Statistical Product and Service Solution) program. This analysis aims to elucidate the influence of all independent variables on the dependent variable. The regression model used is represented by the following equation:

$$Y = a + b1\ X1 + b2X2 + e$$

Where:

Y = Stock Price

a = Constant

b (1, 2) = Regression Coefficients

X1 = Current Ratio (CR)

X2 = Return on Assets (ROA)

e = error

Results

Hypothesis Test

T Test

Table 3. Partial t-Test Results.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.601	.664		11.442	.000
	X1	.852	.103	.332	5.425	.003
	X2	.755	.034	. 721	4.556	.000

a. Dependent Variable: Y

Current Ratio (CR) (X1) has an influence on Stock Price (Y)

The t-test results indicate that the calculated t-value for the Current Ratio (CR) (X1) variable is 5.425, with a tabulated t-value of 2.026. It is evident that the calculated t-value (5.425) exceeds the tabulated t-value (2.026). Furthermore, the t-value's significance for the Current Ratio (CR) (X1) variable is less than 0.050, specifically 0.003. Therefore, the null hypothesis (Ho) is rejected, and the alternative hypothesis (Ha) is accepted. Consequently, it can be concluded that there is a statistically significant influence of the Current Ratio (CR) (X1) on Stock Price (Y).

Return on Assets (ROA) (X2) has an impact on Stock Price (Y).

The t-test results indicate that the calculated t-value for the Return on Assets (ROA) (X2) variable is 4.556, with a tabulated t-value of 2.026. It is observed that the calculated t-value (4.556) is greater than the tabulated t-value (2.026). Furthermore, the t-value's significance for the Return on Assets (ROA) (X2) variable is less than 0.050, specifically 0.000. Therefore, we reject the null hypothesis (Ho) and accept the alternative hypothesis (Ha). Consequently, it can be concluded that there is a significant influence of Return on Assets (ROA) (X2) on Stock Price (Y).

F Test

Table 4. Results of the F-Test (Simultaneous Test)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.419	3	24.140	15.323	.000[b]
	Residual	56.716	36	1.575		
	Total	129.134	39			

a. Dependent Variable: Y

b. Predictors: (Constant), X1, X2

Considering the critical F-table (F-table) value of 2.87, let's compare it to the calculated F-value (F-test). It is evident that the F-test exceeds the F-table, with a value of 15.323 compared to 2.87. As a result, we accept the alternative hypothesis (Ha) and reject the null hypothesis (Ho). Consequently, it can be concluded that the regression model in this study, encompassing both Current Ratio (CR) (X1) and Return on Assets (ROA) (X2), collectively exerts a significant impact on Stock Price (Y).

Discussion

The Influence of Current Ratio (CR) on Stock Prices

Based on the aforementioned research findings regarding the influence of Current Ratio on Stock Prices in plantation companies listed on the Indonesia Stock Exchange, it can be concluded that the calculated t-value (5.425) exceeds the tabulated t-value (2.026) at a significant level of 0.003 < 0.05. This signifies the rejection of the null hypothesis (Ho) and the acceptance of the alternative hypothesis (Ha). The results of the hypothesis testing indicate a positive and statistically significant partial effect of Current Ratio on Stock Prices in plantation companies listed on the Indonesia Stock Exchange.

As suggested by Kurniawan, Munawar, & Amwila (2020), Current Ratio exhibits a positive influence on stock prices due to its reflection of the level of safety (margin of safety) for short-term creditors or the company's capacity to settle its short-term debts.

These findings are in line with prior research conducted by Erlyna (2015) on the Influence of Current Ratio, Debt to Equity Ratio, and Return On Assets on Stock Prices, the study by Septinus (2017) concerning the influence of Current Ratio, Return on Assets, Debt to Equity Ratio, and Price Earning Ratio on Stock Prices, and the research conducted by Pratiwi, Miftahuddin, & Amelia (2020) regarding the Influence of Current Ratio, Debt to Equity Ratio, and Return on Assets on Stock Prices. All of these studies affirm that Current Ratio significantly affects stock prices.

The Influence of Return on Assets (ROA) on Stock Prices

Based on the research findings regarding the influence of Return On Assets on Stock Prices in plantation companies listed on the Indonesia Stock Exchange, it can be concluded that the calculated t-value (4.556) exceeds the tabulated t-value (2.026) at a significant level of 0.000 < 0.05. This implies the rejection of the null hypothesis (Ho) and the acceptance of the alternative hypothesis (Ha). The results of the hypothesis testing indicate a positive and statistically significant partial effect of Return on Assets on Stock Prices in plantation companies listed on the Indonesia Stock Exchange.

As mentioned by Fahmi (2012), Return on Assets is often referred to as Return on Investment because ROA assesses the extent to which an investment can provide the expected return on the actual assets invested or deployed by the company. Similarly, as noted by Sari (2020), Return on Assets is a ratio that reflects the return on the amount of assets utilized in the company. Return on Assets is also a measure of management effectiveness in managing its investments.

These research findings align with the results of a study by Siampa, Murni, & Rogi (2020), which concluded that Return on Assets has a positive and significant partial influence on Stock Prices.

Conclusion

Based on the research findings and the discussions presented earlier, conclusions can be drawn from the study regarding the influence of Current Ratio, Debt to Equity Ratio, and Return on Asset on Stock Prices in plantation companies listed on the Indonesia Stock Exchange (IDX).

The research results indicate a positive and significant relationship between Current Ratio and Stock Prices in plantation companies listed on the Indonesia Stock Exchange. Furthermore, the study reveals a positive and significant relationship between Return on Asset and Stock Prices in these listed plantation companies. Additionally, when considered together, Current Ratio and Return on Asset collectively influence Stock Prices in plantation companies listed on the Indonesia Stock Exchange.

In light of these conclusions, several recommendations can be made: For the companies, it is recommended to improve their Current Ratio, as a higher ratio can positively impact the company's stock price. Enhanced liquidity enables companies to secure loans from investors or creditors more easily, and these funds should be managed effectively to boost overall profitability.

Management teams seeking to increase their company's stock prices should focus on improving profitability by efficiently managing all assets to generate higher profits, thereby increasing the company's overall value and stock price. Investors should consider Return on Asset as a key factor in their investment strategies. A rising Return on Asset signifies improved company performance, potentially leading to increased dividends for investors.

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