

THE RELATIONSHIP BETWEEN FINANCIAL RATIOS AND STOCK PRICES OF TELECOMMUNICATION COMPANIES OF INDONESIAN STOCK EXCHANGE TELECOMMUNICATION SUB SECTOR INDICES

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Abstract

For companies to obtain additional funding or capital, one alternative in mind is through the capital markets. The capital market is a means that brings sellers and buyers of securities. The place an offer to sell these securities held is by an official body called the stock exchange. Through securities trading, the public is attracted to generate funds in this case the investor to develop the economy in which the fund is capital that the company needs to expand its business. People are given the opportunity to own and profit. Stock price is a very important factor on capital market activity, and should be considered by investors in making investment because the stock price indicates the issuer achievement, because the stock price in line with the performance of the issuer. Stock price also shows the value of a company. And, it can be also said that the higher the price of the stock, the higher the value of the company and vice versa. Therefore, any company that issued the shares very concerned about its stock price. Through the company's financial statements, investor can obtain data on financial ratios and analyze it in order for them to determine whether they would predict the changes on stock price or not. Telecommunication industry is a promising industry to invest. This study is on the telecommunication industry of the Indonesian stock exchange telecommunication sub sector. The study resulted on recommendation for investors to invest in PT Telkom Indonesia because it was found that through financial ratios alone is beneficial and greatly affect the stock price especially on net profit margin ($r = 0.987$) and return on asset ($r = 0.961$). For PT. IndosatTbk and PT. Inovisi InfracomTbk the results is, there is no significant relationship of financial ratios on its stock price.

Keywords: financial ratios, stock price, telecommunication

Introduction

Over the past decade, global capital markets have experienced monetary crisis that caused many companies and financial institutions collapsed. For companies to obtain additional funding or capital, one alternative in mind is through the capital markets. The capital market is a means that brings sellers and buyers of securities. The place an offer to sell these securities held is by an official body called the stock exchange.

Through securities trading, the public is attracted to generate funds in this case the investor to develop the economy in which the fund is capital that the company needs to expand its business. In these sense, the people are given the opportunity to own and profit. In other words, the stock market can help the people to generate income. On the other hand, the company motive to sell shares is to raise

funds that will be used in the development of its business and for investors is to earn income from their capital.

Stock price is a very important factor on capital market activity, and should be considered by investors in making investment because the stock price indicates the issuer achievement, because the stock price in line with the performance of the issuer. If the issuer performance increases then the benefits that can be generated from the operations of the business would therefore increase as well. At such conditions, the relevant stock price tends to rise. Stock price also shows the value of a company. Value of the shares is an appropriate index for the effectiveness of the company. Therefore, it is safe to say that to maximize the value of the company also means maximizing shareholder wealth. And, it can be also said that the higher the price of the stock, the

higher the value of the company and vice versa. Therefore, any company that issued the shares very concerned about its stock price.

Since the millennium, stock market indices for the highest valued companies. Prices are too low often means that the company's performance is not good. However, if the stock price is too high reduces the ability of investors to purchase, causing stock prices to rise again difficult. During the dot.com boom leading up to the millennium, many firm never turned a profit, let alone a dividend. Yet their share prices soared. Despite creditable financial performance, their values plummeted. Nevertheless, with the changes in the financial position it will affect the company's stock price.

Indonesia is a developing country with a total population recorded in the census of 2010 totaled 237.6 million. The average egrowth of the Indonesian economy is quite stable and continues to increase, but at the end of the first quarter of 2013 the rate of economic growth does not reach the target of 6.2 percent but only 6.02 percent target. The inflation rate also increased due to the rupiah continued to weaken and price hike of fuel oil (BBM). However, the Composite Stock Price Index as a whole continues to strengthen and is expected to break the 5,100 as investors bought shares of big cap companies and also banks. Overall, Indonesia has made progress in the field of economy so inviting interested investors to invest in Indonesia. Gross Domestic Product rate continued to rise in late 2012 and the unemployment rate also declined.

Telecommunications industry can be said to be the industry that seems will never dim. In the present age the need for long-distance communication is such basic needs only. Due to the nature of the needs that are basic, the market for telecommunications services as are formed by it self. More over in the Indonesian population that continues to grow as well as the development of infrastructure in poor areas as are being prioritized to make the potential growth in demand for telecommunications services in Indonesia became more and more prospective. Ministry of Communication and Information Technology has declared the telecommunications sector has a major contribution in promoting national economic growth. As an illustration, the contribution of the telecommunications sector is about 13% of

the Indonesian economy. In 2011, business information and telecommunications reached around Rp. 360 trillion or an increase of approximately 20% in the last two years.

The financial statements are designed to petrify statement users to identify the relationship variables of the financial statements. With the company's financial statements, the investor can obtain data on financial ratios. Therefore the study was conducted to look on the relationship of financial ratios such as Return on Equity (ROE), Return on Asset (ROA), Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER) and current ratio (CR) on Stock Price of Telecommunication Companies in Stock Market Tele-communication Sub-Sector Indices.

Hypothesis

1. H1: There is significant correlation between financial ratios and stock market of PT. Inovisi Infracom of telecommunication companies in stock market telecommunication sub sector indices.
2. H2: There is significant correlation between financial ratios and stock market of PT. Indosat Tbk of telecommunication companies in stock market telecommunication sub sector indices.
3. H3: There is significant correlation between financial ratios and stock market of PT. Telkom Indonesia Tbk of telecommunication companies in stock market telecommunication sub sector indices.

Review of Related Literature Capital Market

According to the Tandelilin (2010:26), capital markets is a market that sells securities that generally have the age of more than one year, like stock and obligation. More over, Pandji and Piji (2003:6) sees capital markets is a trading venture that is dealing in securities such as stocks, stock certificates and bonds. Capital markets provide services that bridge the relationship between the owners of this thing called capital also known as an investor, with

loan funds in this case is called by the name of the issuer which is the company that went public. The investor requested the capital market instruments for the purpose of investment and eventually portfolio to maximize their income. Capital market also can serve as intermediaries. This function shows the importance of capital market in boosting the nation economy since capital market act as intermediaries of those people who needs capital funds and those who have excess of funds (Tandelilin, 2010:26).

Stock Price

A corporation is a company that is a legal entity which is separate from its stockholders. Tandelilin (2010:32) describe having common stock as stating ownership in a corporation. According to the Pandji and Piji (2003:58) share price can be divided into three, namely nominal prices, IPO price, and market price. Having a stock means a person can receive a portion of corporation profit that is paid to the shareholders, which is called dividends. Moreover, when that person sells his stock for more than what he acquired for the stock he is said to have price appreciation.

As the company growing, the value of the stock will grow as well. There are several studies that linked factors that could affect capital market and stock prices. Ashshofia and Sulistiyani (2009) studied the 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.

Financial Ratios

Investor can use financial ratio analysis to predict the stock price fluctuation. There are many different financial ratios that can be used to analyze a company's performance. Nevertheless, though each ratio has their own interpretation, the focus of this study is on the following financial ratios, namely: current ratio, debt to asset ratio, debt to equity ratio, return on asset, return on equity and net profit margin. Weston and Brigham (1995) see financial performance of a company to have significant meaning in deciding whether to invest and look on the overall condition of the company and its management.

According to Garrison and Noreen (2003:778), "A company's current assets divided by its current liabilities is known as the current ratio." Current ratio shows the ability of the company to pay its due on its short time obligation. Current assets normally include cash, marketable securities, accounts receivable, and inventories. Current liabilities consist of accounts payable, short-term notes payable, current maturities of long-term debt, accrued taxes and other accrued expenses. The analysis on current ratio is in order to see the liquidity position of the company.

Net profit margin is a ratio used to demonstrate the company's ability to generate net profits. According to Ang (1997), net profit margin is the ratio between the net income and sales. This ratio is very important for the operations manager for sales reflect pricing strategies applied by the company and its ability to control operating expenses. According to Weston and Copeland (1995), the greater the Net Profit Margin means the more efficient the company is in removing the costs in connection with its operations. It measures how much out of every dollar of sales a company actually keeps in earnings.

Debt to equity is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. According to Garrison, Noreen and Brewster (2009:738), "Long-term creditors are also concerned with a company's ability to keep a reasonable balance between its debt and equity." This balance is measured by the debt-

to-equity ratio. Debt to equity ratio shows the solvency position of the company.

According to Van Horne and Wachowicz (2005:2009), debt to total assets ratio (DAR) is used to measure the amount of total assets financed by debt. This means that the higher the ratio the greater the amount of capital loans used for investment in assets in order to generate profits for the company. The ratio is calculated by adding short-term and long-term debt and then dividing by the company's total assets, and is displayed as percentage.

According to Harahap (2007) that profitability shows the ability of a company to gain profit through its resources. Profitability ratio that can used to describe it are return on equity and return on assets. According to Sartono (2001), ROE is return on equity that result or the amount declared as a parameter and obtained the investment in the ordinary shares of the company for a certain period of time. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It measures a firm's efficiency at generating profits from every unit of shareholders' equity. ROE shows how well a company uses investment funds to generate earnings growth.

On the other hand, as for return on asset, according to Sundjaja and Barlian (2003), return on assets determine profit sharing in the form of dividend which can be used to reinvest to the company or other means. Return on asset is an indicator of how profitable a company is relative to its total assets. Return on asset gives an idea as to how efficient management is at using its assets to generate earnings. Return on asset is calculated by dividing a company's annual earnings by its total assets, and is displayed as a percentage. Sometimes this is referred to as return on investment.

Method of the Study

The method of study in this research his descriptive. Samples were taken from the annual report of data from the 2007-2011 company incorporated in the Indonesian Stock Exchange in telecommunication sub sector industry. Data were analyzed using statistical formulas and processed with statistical software

called SPSS withan error rate of 5 percent using t-test analysis.

Results of the Study

The study conducted shows the following results on the relationship of various financial ratios on stock price of telecommunication companies. The following telecommunication companies are in the order of:

InovisiInfracomTbk.

PT. InovisiInfracomTbk is a telecommunication company that had entered Indonesia Stock Exchange in 2009. The company is engaged in the business of providing telecommunication infrastructure services move or as a link clients with IT companies and mobile providers are also now penetrated the world of energy mining in Kalimantan. PT. Inovisi managed to obtain a gross profit of 30 percent over several years indicates having competence in the field of competition.

Table 1
PT. InovisiInfracomTbk. Financial Ratio Coefficient Correlation

<i>Ratio</i>	<i>R</i>	<i>R²</i>	<i>t</i>	<i>Sig.</i>
<i>Current Ratio</i>	0.640	0.409	0.833	0.588
<i>Debt to Asset</i>	0.259	0.067	-	0.833
<i>Debt to Equity</i>	0.117	0.014	-	0.925
<i>Return on Asset</i>	0.707	0.500	1.000	0.500
<i>Return on Equity</i>	0.635	0.403	0.821	0.562
<i>Net Profit Margin</i>	0.960	0.922	3.445	0.180

From table1 above, the results shows that from the above financial ratios shown their relationship towards the stock price. The results indicated various correlation such as netprofitmargin ($r = 0.960$), Return on Assets($r = 0.707$), Current Ratio($r = 0.640$), Return on Equity($r = 0.635$), Debt toAsset($r = 0.259$), andDebt toEquity($r = 0.117$).However, despite their strong correlation and low correlation towards stock price, all of the the financial ratios has no significant relationship towards the stock price of PT. InovisiInfracomTbk. Thesignificant effectis seen fromcomparison to

t-table=3.182 whether their t-count is greater than t-table. Therefore, it can be concluded that financial ratios have no significant relationship on stock prices in the PT. Inovisi Infracom Tbk, thus the H1 hypothesis is rejected.

PT. Indosat Tbk

PT. Indosat Tbk is the name of one of the telecommunication service providers and telecommunication network in Indonesia. The company offers communication channels to mobile phone users with a selection of pre-paid and post-paid by the brand selling Matrix, Mentari and IM3; Other services provided are channels for communication via voice telephony (fixed) including international direct dialing IDD (International Direct Dialing), as well as wireless service StarOne trademark. The company also provides Multimedia, Internet and Data Communication Services (MIDI = Multimedia, Internet & Data Communication Services) In 2011, the company holds 21 percent market share in 2013 and claims to have 58.5 million subscribers to mobile phones. World investment to Indonesia, said that the loss of a few percent of the market Indosat cellular phone subscribers in the last year. While other sites (Onbile.com) puts Indosat as the third largest telecommunications company in 2013 under Telkomsel and XL Axiata.

Tabel 2
PT. Indosat Tbk. Financial Ratio Coefficient Correlation

Ratio	R	R ²	t	Sig.
Current Ratio	0.170	0.029	0.298	0.785
Debt to Asset	0.159	0.025	-0.279	0.798
Debt to Equity	0.181	0.033	-0.320	0.770
Return on Asset	0.147	0.022	0.258	0.813
Return on Equity	0.009	0.000	-0.015	0.989
Net Profit Margin	0.593	0.351	1.274	0.292

Table 2 above shows the results of financial ratios relationship on the stock price of PT. Indosat Tbk.. The results indicated various correlation such as net profit margin ($r = 0.593$), Return on Assets ($r = 0.147$), Current Ratio ($r = 0.170$), Return on Equity ($r = 0.009$), Debt to Asset ($r = 0.159$), and Debt to Equity ($r = 0.181$). However, despite their

correlation towards stock price, all of the financial ratios shows that they have no significant relationship towards the stock price of PT. Inovisi Infracom Tbk. The significant effect is seen from comparison to t-table=3.182 whether their t-count is greater than t-table. Therefore, it can be concluded that financial ratios have no significant relationship on stock prices in the PT. Indosat Tbk. Thus, the H2 hypothesis is rejected.

PT. Telkom Indonesia Tbk.

PT. Telkom Indonesia Tbk is one of the giant telecommunications company in Indonesia. PT Telkom has 13 subsidiaries, including Telkomsel, Telin, and Telkomvision. The number of fixed telephone subscribers PT. Telkom as many as 15 million mobile phone subscribers and as many as 104 million. Telkom is one of the state-owned shares are currently owned by the Government of Indonesia (53.6%), and 46.4% owned by the public, the Bank of New York, and the Foreign Investor. PT Telkom is trying to hold telecom expansion abroad, such as Myanmar, Hong Kong, Saudi Arabia, and East Timor. Services provided by PT. Telkom Tbk including fixed wire line services, fixed wireless telephone services, mobile phone services, data/internet and other multimedia services.

Table 3
PT. Telkom Indonesia Tbk. Financial Ratio Coefficient Correlation

Ratio	R	R ²	T	Sig.
Current Ratio	0.073	0.005	-0.126	0.908
Debt to Asset	0.248	0.061	0.443	0.688
Debt to Equity	0.188	0.035	0.332	0.762
Return on Asset	0.961	0.924	6.050	0.009
Return on Equity	0.852	0.727	2.823	0.067
Net Profit Margin	0.987	0.974	10.688	0.002

From table 3 above, the results shows that from the above financial ratios that are studies to have significant relationship on stock price it is shown that have the strongest influence toward the stock price are the net profit margin and return on asset. Net Profit Margin correlation resulted in $r = 0.987$ which means there is very strong correlation between

net profit margin and stock price and is significant at Sig. = 0.002 with net profit margin contribution of 97.4% toward the change on stock price of PT. Telkom. Return on Assets correlation resulted in $r=0.961$ which means there is very strong correlation between net profit margin and stock price and is significant at Sig. = 0.009 with net profit margin contribution of 92.4% toward the change on stock price of PT. Telkom. However, despite their strong correlation and low correlation towards stock price, the rest of the financial ratios has no significant relationship towards the stock price of PT. Telkom Indonesia Tbk., such as: Return on Equity ($r=0.852$), Debt to Asset ($r=0.248$), Debt to Equity ($r=0.188$), and the Current Ratio ($r=0.073$). The significant effect seen from comparison to t -table = 3.182 is the Return on Assets and Net Profit Margin for their t -count is greater than t -table ($t_{ROA}=6.050$; $t_{NPM}=10.688$). So it can be concluded that the net profit margin and return on assets have a significant relationship on stock prices in the PT. Telkom Indonesia Tbk. Thus, the H3 hypothesis is accepted.

Conclusion

There is no significant relationship of financial ratios and stock prices in PT. Inovisi Infracom Tbk. Thus, this indicates that financial ratios of the company are not able to predict the changes of stock price in PT. Inovisi Infracom Tbk.

There is no significant relationship of financial ratios and stock prices in PT. Indosat Tbk. Thus, this shows that financial ratios of the company are not able to predict the changes of stock price in PT. Inovisi Infracom Tbk.

There is significant relationship of financial ratios namely net profit margin ($r = 0.987$) and return on asset ($r = 0.961$) on stock prices in PT. Telkom Indonesia Tbk. The results are significant at $\alpha = 0.05$.

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