



PROFITABILITY AND CAPITAL STRUCTURE'S IMPACT ON STOCK PRICE (STUDY OF THE MANUFACTURING SECTOR IN INDONESIA STOCK EXCHANGE)

^{1} Mr. Trinatyh Sahoo, ²Mr.Bichitrananda Barik*

¹Asst. Professor, Dept. of MBA, NIT BBSR,

Asst. Professor, Dept. of MBA, IMIS, BBSR

*1*trinityhsahoo@thenalanda.com, bichitrananda@yahoo.com*

ABSTRACT

The future growth of a specific company depends on funding decisions that are made now. When choosing a finance option, there are two key options. One of these involves raising money on their own terms by issuing stock. Also, it is crucial for the business to increase its financial stability because adjustments to the capital structure may affect the company's value. The objectives of this study are to ascertain (1) the relationship between capital structure and stock price profitability, (2) the relationship between capital structure and stock prices, (3) the relationship between profitability and stock prices, and (4) the relationship between capital structure and profitability. (Analysis of Companies in the Manufacturing Sector Listed on the Indonesia Stock Exchange for the Period 2010–2013.) This study employs a quantitative analysis of causality. The manufacturing sector's audited financial statements from the company from 2010 to 2013 comprise the study's sample, which totaled 68. Purposive sampling is a sampling method. Path analysis is a technique for analysis that is used to quantify how much an independent variable has an impact on the dependent variable, either directly or indirectly through relationships with other independent variables. The secondary data used was gathered from the www.idx.com website. The findings revealed that (1) capital structure and profitability have a 4.4% impact on share price, (2) capital structure has a 12.4% positive impact on share price, (3) profitability has a 16.5% positive impact on share price, and (4) the capital structure and profitability have a 4.4% impact on the share price.

Keywords: capitalization, profitability, and share price



1.Introduction

The future growth of a specific company depends on funding decisions that are made now. In addition to using their own money or taking on debt to finance their operations, there are two significant alternatives. If a company wants to raise money from its own capital, it can issue shares. If it wants to raise money through debt, it can offer bonds, rights issues, or bank debt. These two funding options differ from one another in certain ways. Costs, whether apparent or not, will undoubtedly increase as a result of businesses' efforts to meet their financial needs.

The future growth of a specific company depends on funding decisions that are made now. In addition to using their own money or taking on debt to finance their operations, there are two significant alternatives. If a company wants to raise money from its own capital, it can issue shares. If it wants to raise money through debt, it can offer bonds, rights issues, or bank debt. These two funding options differ from one another in certain ways. Costs, whether apparent or not, will undoubtedly increase as a result of businesses' efforts to meet their financial needs.

In addition to stocks, one way to determine a company's risk is by looking at its capital structure (capital structure). The risk of the corporation increased with the amount of debt (financial leverage) it possessed, while the risk decreased with a lower rate of return on its debt. A permanent source of funding for the company is integrated into the capital structure in an effort to increase the company's worth. A company's value may alter as a result of changes in the capital structure for one that is so important to the company's capacity to maintain its financial stability. The capital structure's state will have an immediate influence on the financial situation of Hence, the company's performance is affected (Fahmy et al, 2009: 38).

Profitability is one of the major criteria that is assumed to influence stock price. The



profitability metric gauges a business's capacity for making money. It would be difficult for the business to operate without a gain or profit. High-profitability businesses would have the chance to grow or develop their operations to achieve larger profits once more (Putrawan et al, 2015). The ability of the business to make a profit or earn an income for the year is measured by the ratio of operational profit to sales of specific income statement data at the end of the year. The profitability ratios, on the other hand, gauge management effectiveness based on the returns from sales and investments (Nurcahyani, 2014).

Creation of the issue

With the background information given above, the following phrasing of the issue is possible:

1. How do profitability and capital structure affect stock price?
2. How does the capital structure affect the price of a stock?
3. How does the stock price's profitability change?
4. In what ways can capital structure affect profitability?

II. Analysis of literature and hypotheses formulation

Pecking Order Theory

This theory explains that the company has the sequence of preference in choosing a source of corporate funding (Nurcahyani, 2014: 9). Pecking order theories is a policy adopted by the company to seek additional funds by selling its assets. In the pecking order theories policy means that companies conduct policy by reducing its asset ownership as do the sales policy (Fahmy et al, 2009: 39).

Signaling Theory

Signal theory to explain the reasons the company to provide information on external financial reports related to the asymmetry of information between the company's management by outsiders and company management to have more information and to find out the company's prospects in the future. Signal theory explains the reason for the



company to present information to the public (Wolk et al, 2001: 308).

Capital Structure

Capital structure refers to the source of corporate funding. Funding can be obtained from a relatively permanent equity capital to short-term funding sources while riskier. When obtaining financing, the company will invest in various asset. The capital structure is an equity and debt financing to a company that is often calculated based on the relative size of the various sources of funding (Subramanyam and Wild, 2011: 262). DER is a ratio that compares the total debt to total equity from shareholders. Meanwhile, according to Siegel and Shim (1999: 128) defines DER as a measure used in analyzing financial statements to show the amount of collateral available to creditors.

Profitability

Profit has an important role in determining the future of the company. Profitability ratio is the ratio of a group that is a combination of liquidity, asset management, and debt on operating results (Brigham and Houston, 2010: 146). The profitability measure the company's ability to generate profits. It would be difficult for the company to run usahaanya without profit. ROA is a profitability ratio that shows the company's ability to earn income from property or assets that were used.

Stock price

The share price is the stock prices stock market at the appropriate time determined by market participants (Jogiyanto, 2003: 88). The market value is determined by demand and supply of the relevant shares in the stock market. The share price is the price at the real market price of the most easily determined because it is the price of a share in the ongoing market or if the market is closed, then the market price is the closing price (Anoraga and Pakari, 2003: 59). The share price in this study is proxied by the share price at the time of the closing price.



Hypothesis Formulation

H1: capital structure and profitability affect prices.

H2: The capital structure affect stock prices.

H3 : Profitability effect on stock prices.

H4 : Capital structure effect on profitability.

I. Research Methods

Types and Data research

This type of research is quantitative research causal (causal relationship). In this study using secondary data in the form of annual financial statements of companies listed on the Indonesia Stock Exchange 2010-2013. The technique of collecting data obtained from the documentation and study of literature.

Research samples

The sampling technique used in this research is purposive sampling, so that samples obtained in this study amounted to 68.

Operational Definition of Variables

Variable	Variable Concept	Indicator	Scale
Capital Structure (X1)	The capital structure is an equity and debt financing to a company that is often calculated based on the relative size of the various sources of funding (Subramanyam dan Wild, 2011: 262)	Debt to Equity Ratio (Riyanto, 2011: 333)	Ratio
Profitability (X2)	Profitability ratio is the ratio of a group that is a combination of liquidity, asset management, and debt on operating results (Brigham dan Houston, 2010: 146)	Return On Aset (Horne and Wachowicz, 2013)	Ratio
Stock Price (Y)	Stock Price (Y) on the real market price, the price is most easily determined because it is the price of a share in the ongoing market (Anoraga, 2003:59)	Closing Price (Anoraga and Pakari, 2003:59)	Interval



II. Results

4.1. Result of the Research

Based on the statistical analysis of the results of test calculations lane (Path analysis) with the help of the program Statistical Package for Social Science (SPSS) 18.0 For Windows, the results are shown in Table 3 below:

No	Parameter	Coefficient	<i>p-value</i>	<i>Alpha (α)</i>	Conclusion	Decision
1	$R_{YX_1X_2}$	0,209	0,000	0,05	Rejecting H_0	There is relationship X_1 and X_2 to Y
2	$R^2_{YX_1X_2}$	0,044	0,000	0,05	Rejecting H_0	The effect of X_1 and X_2 to Y is 4,4%
3	P_{YX_1}	0,151	0,019	0,05	Rejecting H_0	There is relationship X_1 to Y
4	$P^2_{YX_1}$	0,124	0,019	0,05	Rejecting H_0	The effect of X_1 to Y is 12,4%
5	P_{YX_2}	0,128	0,027	0,05	Rejecting H_0	There is relationship X_2 to Y
6	$P^2_{YX_2}$	0,165	0,018	0,05	Rejecting H_0	The effect of X_2 to Y is 16,5%
7	$P_{X_2X_1}$	0,145	0,017	0,05	Rejecting H_0	The effect of X_1 to X_2
8	$P^2_{X_2X_1}$	0,110	0,037	0,05	Rejecting H_0	The effect of X_1 to X_2 is 11%
9	ϵ_2	0,89	-	-	-	Another factor effect of X_2 is 89%
10	ϵ_1	0,956	-	-	-	Another factor effect to Y is 95,6%

III. Discussion

Effect of Capital Structure and Profitability of the Company's stock price in the manufacturing sector in the Indonesia Stock Exchange.

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in



Table 4 shows that the capital structure and profitability jointly affect the price of shares in the company for the manufacturing sector in BEI R^2_{yx1x2} p-value = 0.000 < 0.05 alpha. This means rejecting H_0 or no effect on the capital structure and profitability of the company's stock price in the manufacturing sector in BEI.

This can be seen in Table 4 that large coefficient of determination R^2_{yx1x2} amounted to 0,044, these results indicate that the share price of 4.4% in manufacturing companies affected by capital structure and profitability together (simultaneously) while the rest of 0.956 or 95, 6% is influenced by other variables not examined in this study.

Effect of Capital Structure of the Company's stock price in the manufacturing sector in the Indonesia Stock Exchange.

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the capital structure of the Company's stock price Manufacturing Sector in the Indonesia Stock Exchange since P_{yx1} p-value = 0.019 < alpha of 0.05. This means rejecting H_0 or no effect on the capital structure of the stock price. The influence of the capital structure to the stock price P_{yx1} coefficient of 0.151 and a positive sign, indicating that the relations of capital structure to the stock price is directly proportional, meaning that every increase in capital structure has a role in improving the company's share price on the manufacturing sector. The contribution of the total influence of capital structure to the stock price that is equal to 0.124 or 12.4%, meaning that 12.4% stock price is influenced by capital structure. Through Debt to equity ratio can be seen in the use of funds from the company's capital structure is owned by the company are of long-term debt and equity capital sourced from. Then the investor will see how much capital financed by them to the company's net income. With the high DER indicates that the company's capital structure more use of external funds from the lender to make a profit.



Profitability influence on stock price of the Company's Manufacturing Sector in Indonesia Stock Exchange

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the profitability of the company's stock price since the manufacturing sector P_{yx2} p-value = 0.018 <alpha of 0.05. This means rejecting H_0 or no effect on the profitability of the stock price. The influence of profitability on stock prices with P_{yx2} coefficient of 0.128 and is positive, it means that the profitability of the relations to the stock price is directly proportional. This means that the increase in profitability role in efforts to improve the company's share price on the manufacturing sector. The amount of the contribution to the total effect on the profitability of the share price that is equal to 0.165 or 16.5%, which means a 16.5% stock price is influenced by the profitability. Based on these results that investors in the capital market very concerned about the company's ability to generate profit (profit). Profitability is the relationship between revenues and expenses generated using company assets, both current assets and fixed assets in production activities. Through profit (profit) obtained, then the company can attract capital sources external to invest in the company, so that the level of profitability of the company increased from year to year is a positive signal for investors and indicates the increase also to value the company, then the increase in profitability is expected to improve Similarly the company's stock price.

Effect of Capital Structure on Profitability in the Manufacturing Sector Companies in the Indonesia Stock Exchange. Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the capital structure of the company's profitability in the manufacturing sector because P_{x2x1} p-value = 0.017 <alpha of 0.05. This means rejecting H_0 or no effect on the capital structure on profitability. The relationship of capital structure to profitability with P_{x2x1} coefficient of 0.145, and a positive sign, indicating that the relations of capital structure on profitability is directly proportional, meaning that any increase in capital structure has a role in improving the



company's profitability in the manufacturing sector. The contribution of the effect of capital structure on profitability that is equal to 0.110 or 11%, meaning that 11% of profitability is influenced by capital structure. Through the use of high debt would improve the capital structure of companies that positively affects the value of the company. It can be said that the capital structure to improve profitability of the company showed good financial performance. It can provide the level of benefits for the company because it can attract and increase the confidence of investors to continue to invest into the company.

IV. Conclusion

Based on the results of research and discussion, it can be some conclusions as follows

1. Hypothesis 1 stated that the capital structure and profitability positive effect on the stock price on the company's manufacturing sector in the IDX is acceptable.
2. Hypothesis 2 stated that the capital structure of the positive effect on the price of shares in the manufacturing sector in the IDX is acceptable.
3. Hypothesis 3 which states that the positive effect on the profitability of the company's stock price the manufacturing sector in the IDX is acceptable.
4. Hypothesis 4 which states that the positive effect on the capital structure of the company's profitability in the manufacturing sector in the IDX is acceptable.

Suggestions

According to the findings of the study and discussion of the proposed recommendations, management of businesses, particularly those in the manufacturing industry, should pay attention to the DER and ROA ratios as well as analysis of other ratios for the ratio to be taken into consideration by investors when deciding to invest in shares (buy shares). Stocks are highly sought after by investors, which will undoubtedly improve shareholder value (share price) and serve as a source of cash for businesses, enabling them to have enough money to continue out their operations and boost profits.