

CHAPTER I

INTRODUCTION

1.1 Background of the problem

By the end of 2019, the COVID-19 pandemic had hit almost all countries in the world and Indonesia was included. To reduce the spread of the Corona Virus, the Government took the decision to implement the PSBB (Large-Scale Social Restrictions) policy. With this policy, it indirectly affects people's activities in daily life. The COVID-19 pandemic does not only have an impact on health aspects, but also affects other aspects such as economic aspects. For this reason, the role of banks is needed to overcome fiscal problems. Fiscal stimulus is urgently needed to address health problems, prevent rising unemployment and support the business sector and MSMEs. (Source: https://www.bi.go.id/id/publikasi/laporan/Pages/Pekki-IV_2020.aspx accessed 20 January 2022) (Ekarina & Fedrichson, 2020)

The role of national banking in the economic development of a country is one sector that is expected to play an active role in supporting national or regional development activities. In addition to assisting the State in overcoming fiscal problems, the Bank also facilitates people's needs in managing their savings. The presence of the Bank itself exists because not everyone saves their savings only for daily needs, but many are also due to the business activities they undertake to require more capital from the business owner. Bank is a business entity that collects funds from the community in the form of savings and also distributes

them to the public in the form of credit or other forms in order to improve the standard of living of the people at large. (UU No. 10 of 1998).

Currently, many people choose to save their funds in banks because the safety of the funds they save is guaranteed and the convenience offered by the bank in saving and borrowing funds for them to use for their respective needs. Savings are funds that are set aside by customers to be saved in a savings account and are not funds used for basic needs. For this reason, banks must maintain the trust of customers in carrying out their operational activities. This is necessary because it will affect the financial performance of the bank. Banking performance is very important because banking is one of the factors that greatly affects the progress of economic development in a country (Noviyanti et al., 2021)

Performance in a bank can be influenced by many factors. One that affects the performance of a bank is Financial Performance. Financial performance is an advantage that has been obtained by a bank or company within a certain period of time which explains the financial condition of a bank or company. Financial performance can be assessed by looking at the financial statements that have been issued by a bank. Financial performance is very important to build public trust so that it can assist all activities carried out by the bank. If the financial performance of a bank is in good condition, then customer trust in the bank will increase and will have a positive impact on the activities carried out by the bank. However, if the financial performance of a bank is in bad condition, it will reduce customer trust in banking. This will have a negative impact on the activities to be carried out by a bank. (Stephani et al., 2017)

Banks that have good financial performance will increase the trust of their customers. Customer trust is the main basis of banking activities. If the bank has management that is always improving, the trust of customers will also increase. Increased customer trust in a bank will have a positive impact in the investment sector. Banks that have good management will attract many investors to invest their funds in the bank by investing. Investors will be interested in investing if they have good performance. The better the performance of a company, the more it attracts the attention of investors to invest so that investors will buy shares of a company which will indirectly increase the company's share price. (Munira & Nurulrahmatia, 2021)

Stocks are one of the products from the capital market that are often purchased by investors to invest their capital. The benefits of investing in stocks are greater and require less funds than investing in bonds. This makes stocks one of the most preferred investment alternatives in the capital market by investors. Investments in the form of stocks actually have a high risk, such as the principle of investment, namely low risk low return, high risk high return. An investor must really understand stock prices and analyze stock prices first so that they are not wrong in investing because stock prices cannot always be estimated with certainty. For this reason, stock prices are one of the most important indicators to be considered by investors when making investments. (Hidayat, 2020)

An investor can identify and distinguish banks that have good or bad financial performance by conducting ratio analysis from financial statements. From the results of the ratio analysis, investors can make decisions in investing

their capital. However, after analyzing financial ratios, an investor often delays investing because of the stock price owned by a bank. The price of a stock usually changes over time and changes in stock prices create uncertainty. The stock price is one indicator of the success of management. If the stock price rises, investors or potential investors assume that the company is successful in managing its business and this will increase their confidence which in turn will attract more investors to invest in the company. Stock price analysis is thus a basic step that investors should take before they actually invest their money, otherwise they can be in a disadvantageous condition. So that stock prices can be used to predict the company's prospects (Karamoy & Tulung, 2020).

Stock prices on the stock exchange are influenced by market forces because the forces of supply and demand can determine stock prices. The demand and supply of unstable shares will affect the fluctuating share price. The stock price will increase when the demand for shares is greater, while when the stock price decreases, the current condition is that the demand for shares tends to be less. Stock prices that always fluctuate are always an interesting topic of conversation in the capital market. Stock price fluctuations also occur in companies in the banking sector. (Hasibun, Thezar et al, 2021).

The large influence of banking companies on the Indonesian economy has attracted many investors to invest their shares in these banking companies. In a banking company, periodic financial-related evaluations must be carried out. Financial statements can be used as a tool to predict whether a company is able to survive or not to face the next era. Theoretically, financial performance is

reflected in stock prices. The better the financial performance of a company, the higher the price of the company's shares. This will affect the decision of investors to buy shares in the banking company or not. For this reason, financial performance is one of the internal factors that affect the company's stock price. (Rechiwati et al,2021)

In 2020, the corona virus outbreak began to shake Indonesia. This has led to restrictions on activities throughout Indonesia through the Large-Scale Social Restriction (PSBB) policy. With the social restrictions, banking companies feel the impact. Banking companies cannot freely channel their credit due to the higher risk of default from creditors. In addition to increasing credit risk, the impact of the pandemic also slightly affected the performance of banking fundamentals which directly affected the stock price of banking companies.

Table 1.1
Stock Price of Banking Company in 2017-2021

PERIOD	BBCA	BBNI	BBRI	BBTN	BMRI
2017	21900	9900	3640	3570	8000
2018	26.000	8800	3660	2540	7375
2019	33.425	7850	4400	2120	7675
2020	33.850	6175	4170	1725	6325
2021	7300	6750	4110	1730	7025

Source: Processed Secondary Data (2022)

Based on the table above, BBCA's highest share price occurred in 2021 with a price of Rp. 33.850 and the lowest share price was in 2017 which was Rp. 4.380. Then the highest share price of BBNI was obtained in 2017 which was Rp.

7.300 while the lowest share price was in 2020 which was Rp 6.175. Then the highest share price of BBRI occurred in 2019 at a price of Rp 4.400 and the lowest share price occurred in 2017 at a price of Rp. 2.640. While the highest share price of BBTN was obtained in 2017 which was Rp 3.570 and the lowest share price occurred in 2020 with the amount of Rp. 1.725. And the highest share price of BMRI occurred in 2017 which was Rp. 8.000 and the lowest share price of BMRI was obtained in 2020 at a price of Rp. 6.325.

Apart from fluctuations in stock prices, several banking companies have also conducted stock splits on their shares. BCA conducted a stock split in October 2021 with a ratio of 1:5 with a nominal value of IDR 62.5 per share to IDR 12.5 per share. Bank Mandiri has also conducted a stock split on its shares of 1:2 which was carried out in August 2017.

Based on the data above, it can be seen that the occurrence of stock price fluctuations in banking companies. One of the factors that influence stock prices is financial performance. The financial performance of a company is very important because it can be used as a tool to find out whether the company is experiencing growth or vice versa. For this reason, we analyze the effect of financial performance on stock prices. The financial performance of a company can be seen from the financial statements issued by the banking company. One technique that is often used to analyze financial statements is the fundamental technique. In this study, we use several analyzes of financial performance, namely non-performing loans (NPL), loan to deposit ratio (LDR), capital adequacy ratio (CAR) and return on assets (ROA) to examine the effect on stock prices.

This study refers to the research of Reyhan et al (2020) who conducted a study entitled *“The Effect of Capital Adequacy Ratio and Non-Performing Loan on Banking Stock Price with Profitability as Intervening Variable*. The results of this study indicate that CAR has a positive effect on stock prices in banking companies. Meanwhile, the comparison results from research conducted by Ratih et al (2021) entitled *“ The Effect Of Roa, Capital, Growth Assets, Ldr and Der On Share Prices In Registered Banking Sectors In Indonesia Stock Exchange Period 2010-2018* shows that CAR has a negative effect and significant to stock prices in banking companies.

The results of research from Noviyanti et al (2021) with the title *“Financial Performance and Stock Price: Another Review on Banks Listed in Indonesia Stock Exchange* show that LDR does not have a significant effect on banking company stock price. Meanwhile the results of the comparison of research by Sri Rahayu et al (2018) with the title *“The Effect of Loan to Deposit Ratio(LDR), Capital Adequacy Ratio (CAR), and Return on Assets (ROA) against Stock Price at Sharia Commercial Bank in Indonesia”* show that LDR has significant effect on stock prices of Islamic Commercial Bank in Indonesia.

The results of research from Desy et al (2020) with the title *“Effect of Financial Performance on Stock Price with Return on Assets as an Intervening Variable in State-Owned Bank in Indonesia”* show that ROA has a positive effect on stock prices. Meanwhile research results from Mulyanto et al (2020) with the title *“Effect of CAMELS Ratio on Indonesia Banking Share Prices”* show that ROA does not have a significant effect on stock prices.

1.2 Scope

In this study, the limitation of the problem was carried out so that the existing problems did not expand. The limitations of the problem used in this study are as follows:

1. This study uses three independent variables, namely *non-performing loans* (NPL), *loan to deposit ratio* (LDR), and *capital adequacy ratio* (CAR) and one intervening variable, namely *return on assets* (ROA). As for the dependent variable, namely the stock price.
2. The object of research is a banking company listed on the Indonesia Stock Exchange for the period 2017-2021 from quarter 1- 4.

1.3 Formulation of the problem

Based on previous research journals that were used by the author as a reference source, there were several differences in the research results. The results of the study reveal that non-performing loans, loan to deposit ratio, and capital adequacy ratio affect stock prices with profitability as an intervening variable, besides that the results of other journals prove that non-performing loans, loan to deposit ratio, and capital adequacy ratio has no effect on stock prices with profitability as an intervening variable. In this study there is also a phenomenon of fluctuations that occur in the value of stock prices in banking companies listed on the Indonesian Stock Exchange for the 2017-2021 period from quarters 1-4 which are the object of research. In addition, in the research process there are banking companies that experience stock splits in certain periods.

Based on the background of the problem above, the formulation of the problem to be studied is as follows:

1. Does *non-performing loans* (NPL) affect the stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
2. Does *loan to deposit ratio* (LDR) affect the stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
3. Does *capital adequacy ratio* (CAR) affect the stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
4. Does *return on assets* (ROA) affect the stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
5. Does *non-performing loans* (NPL) affect the return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
6. Does *loan to deposit ratio* (LDR) affect the return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?
7. Does *capital adequacy ratio* (CAR) affect the return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4?

1.4 Research purpose

Based on the formulation of the problem above, the objectives to be achieved from this research are as follows:

1. Analyzing the effect of *non-performing loans* (NPL) on stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.
2. Analyzing the effect of *loan to deposit ratio* (LDR) on stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.
3. Analyzing the effect of *capital adequacy ratio* (CAR) on stock prices in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.
4. Analyzing the effect of *return on assets* (ROA) on stock price in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.
5. Analyzing the effect of *non-performing loan* (NPL) on return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.
6. Analyzing the effect of *loan to deposit ratio* (LDR) on return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.

7. Analyzing the effect of *capital adequacy ratio* (CAR) on return on assets (ROA) in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period from quarters 1-4.

1.5 Benefit of the research

a For Investor

The results of this study can provide information about the effect of financial performance on banking companies on stock prices listed on the Indonesia Stock Exchange so that it is expected to be used as consideration in making investment decisions in banking companies in Indonesia.

b For Company

The results of this study are expected to be used as a basis for consideration for companies in paying attention to the company's financial condition which can affect the company's stock price, especially during the pandemic.

