

The Impact of Current Ratio, Return on Assets and Company Size Toward Share Prices of Coal Companies Listed on the Indonesia Stock Exchange in 2016 - 2020

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Abstract

This research was conducted to examine the impact of the relationship between the current ratio, return on assets, and firm size for the stock price of coal companies on the Indonesia Stock Exchange. The information presented in the company's financial statements is secondary data used for the analysis of this data. The population in this study were 26 coal companies that listed their shares on the Indonesia Stock Exchange (IDX). The sample selection method uses a purposive sampling method with qualifications of coal companies that publish their financial statements for the 2016 to 2020 period which consists of 75 data from 15 companies. The findings and conclusions of this study prove that the current ratio has no effect on share prices, while return on assets and firm size have a significant effect on the stock price of coal companies on the Indonesia Stock Exchange with a significance level of less than 0.05.

Key Words: Current Ratio, Return on Assets, Company Size, Stock Prices.

Atf İçin / For Citation: OKTAVIA, V., KADARNINGSIH, A. & SAFITRI, M. (2022). The impact of current ratio, return on assets and company size toward share prices of coal companies listed on the Indonesia stock exchange in 2016 - 2020. *Uluslararası Sosyal Bilimler ve Eğitim Dergisi – USBED*, Cilt/Volume 4, Sayı/Issue 6, 333-348. <https://dergipark.org.tr/tr/pub/usbed>

Makale Türü / Article Type: Araştırma Makalesi / Research Article

Gönderilme Tarihi / Submission Date: 15.02.2022

Kabul Tarihi / Accepted Date: 15.03.2022

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1. INTRODUCTION

Indonesia is known as one of the largest coal producers and has shipped the world's largest overseas coal. In 2005, when thermal coal production exceeded Australia's, Indonesia had become a major exporter of thermal coal. Most of the thermal coal shipped overseas is of medium quality (between 5,100 and 6,100 kcal/g) and low quality (below 5,100 kcal/g), with strong demand from China and India (Ministry of Energy and Mineral Resources of Indonesia, 2017).

In 2016-2020 coal prices experienced sharp fluctuations. The average movement of stock prices in the company as seen in the image below:

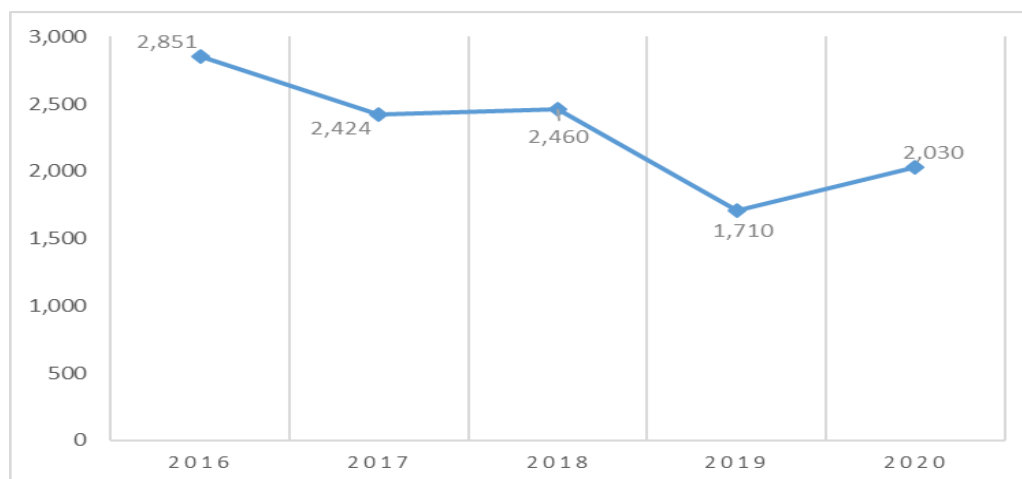


Figure 1. Average Stock Price of Coal Companies in Indonesia in 2016 - 2020

Source: www.idx.co.id (processed, 2020).

The information obtained from the graph shows that the weakening of coal prices in 2017 pushed a number of coal company stock prices to weaken. This coal company's stock price fluctuations occurred until 2019, where the share price of coal companies was at its lowest level since 2016. The weakening of coal prices finally suppressed the performance of domestic coal issuers. In the midst of the risk of price volatility and declining demand due to the sluggish global economy stung by the corona virus, sluggish demand from China and India, volatility in coal prices, and Covid-19 sentiment, coal mining issuers must find ways to spur their performance in 2020. In 2020, amid the decline in coal prices at the beginning of the year due to the Covid-19 pandemic, coal prices at the end of the year began to rise again. One of the triggers for

the increase in coal prices is that Indonesia has accepted a commitment to export coal to China for three years starting in 2021. The commitment value has reached US\$ 1.46 billion or around Rp. 20.6 trillion. With the increase in coal prices and the improvement in the work of firms in the coal sector, pushing the stock prices of coal companies to increase (Pransuamitra, 2020). Investors often see stock prices as a guide for investing in public companies, because the stock value is able to give an overview of the firm's prospects for some time to come. Stock prices are able to provide information whether the company has implemented good corporate governance or not (Hing, et al, 2020). The high stock price of a company provides an opportunity for the company to get additional investment, besides that with an increase in stock prices, investors can judge that the company has good financial performance (Nafisah & Daryanto, 2020). Theoretically it is known that the firm's financial performance will be seen in its share price. If the financial condition provides promising prospects, then it is certain that the shares will be in great demand by investors which will eventually push the share price up (Puspitaningtyas, 2017). Financial ratios commonly used to measure company performance are divided into five categories, namely liquid ratios, leverage ratios, profit ratios, management activity ratios, and market ratios. (Fahmi,2012; Puspitaningtyas,2017). The liquid ratio is used to measure the company's ability to pay off its short-term obligations. The more liquid the company is considered capable of meeting obligations that are due immediately. The ability of this company will certainly affect the stock price (Amanah & Azizah, 2012). Saifi (2018) also found similar results in his research where stock prices are significantly affected by the company's liquid financial performance. However, Adipalguna & Suarjaya (2016) research found the opposite result. Financial ratios as a measure of a firm's ability to generate earnings from sales, assets and share capital are called Profit Ratios. (Antoni, 2011). Several research results state that profitability affects stock prices (Nichol & Dowling, 2014; Qaisi, Tahtamouni, & Qudah, 2016), but there are also produce research that state profitability does not affect stock prices on the coal firms (Idawati & Wahyudi, 2015). Apart from being based on financial ratios, company size can also have an influence on stock prices. Gunarso (2014) explains that the policies of large-scale companies with

many stakeholders will have a greater impact on the public interest than small-scale companies. Investors will be able to judge that the company's policies will provide estimates of cash flows in the future. This study fits with the results of Sharif, et al (2015) who concluded that company size is one of the active determinants in shaping stock market prices. But there are also results from Wehantouw, et al. (2017) which proves that stock prices are not influenced by firm size. By looking at several research gaps and the phenomenon of the ups and downs of coal prices in Indonesia during 2016-2020, the authors are interested in conducting more in-depth research on financial performance and the impact on its share price. One of the differences between this research and previous research lies in the observation period that was carried out between 2016-2020 where there was a COVID-19 pandemic phenomenon that suppressed the market and coal prices; thus, this condition definitely affected the stock prices of coal companies listed on the Jakarta Stock Exchange according to the current state of affairs.

The aims of this research are:

1. Testing the Effect of Current Ratio on Share Prices of Coal Companies Listed on the Indonesia Stock Exchange 2016 – 2020.
2. Testing the Effect of Return on Assets on Share Prices of Coal Companies Listed on the Indonesia Stock Exchange in 2016 – 2020.
3. Testing the influence of company size on the share price of coal companies listed on the Indonesia Stock Exchange in 2016 – 2020.

2. LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

Agency theory was first coined by Jensen and Meckling (1976) which stated that agency theory is a theory of inequality of interest between principals and agents. Agency theory is based on the contractual relationship between shareholders or owners and management or managers. According to this theory, the relationship between owner and manager is essentially difficult to create because of conflicting interests. Between the principal and the agent, investors prefer a report from the agent because

the agent who manages the management of the company knows more about the actual condition of the company, while the principal is only the owner of the company who receives reports from the management. The imbalance of information held by the principal and agent regarding the condition of the company is called information asymmetry. One of the most efficient ways in order to reduce the occurrence of conflicts of interest and ensure the achievement of company goals, requires the existence of regulations and control mechanisms that effectively direct the company's operational activities as well as the ability to identify parties with different interests. There are at least two goals and benefits of the agency theory mechanism, including:

1. Evaluate the results of the employment contract between the principal and the agent. Whether the cooperation contract has been running according to what has been agreed or not.
2. Improve the ability of both the principal and the agent in evaluating the conditions under which a decision must be made.

Signal theory

Signal theory was first proposed by Spence (1973) which explains that the sending party (the owner of the information) gives a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). Broadly speaking, signaling theory is closely related to the availability of information. Financial statements can be used to make decisions for investors, financial statements are the most important part of a company's fundamental analysis. The ranking of companies that have gone public is usually based on this financial ratio analysis. This analysis is conducted to facilitate the interpretation of the financial statements that have been presented by management. The use of signaling theory, information in the form of ROA or the rate of return on assets or also how much profit is obtained from the assets used. Thus, if the ROA is high, it will be a good signal for investors. Because a high ROA indicates that the company's financial performance is good, investors will be interested in investing their funds in the form of securities or shares. The demand for a lot of shares will make the stock price increase. High profitability indicates the company's prospects are good, so investors will respond positively to the signal and the

value of the company will increase. Because signaling theory has a close relationship with financial statement information, it is better since the beginning of the business, a company has good and easy bookkeeping, so that it can be used as financial information both internally and externally to the company.

Financial Performance and Stock Prices

This research describes the impact of financial performance that affects the rise and fall of stock prices which refers to agency theory and signal theory. Agency theory explains that investors need company management (as agents) who are trying to achieve an increase in company welfare as evidenced by financial ratios. If the increase in financial targets is realized, it is certain that the share price will move up and be followed by an increase in demand for shares from the market. That is why, the management of the company is obliged to pay attention to the management of the company by presenting the company's financial statements on a regular basis, so that investors get relevant and accountable information about the situation of the firm before deciding to invest. In relation to signal theory, the financial information displayed by the management is intended to provide a signal of success for shareholders, either in the form of growing dividends or increasing share prices (Puspitaningtyas, 2017). There are four financial performance variables used in this research, namely: 1) fluency in using the current ratio indicator; 2) profit, with return on assets indicator; 3) and its development, company assets and indicators used are company size.

Liquidity and Stock Prices

The definition of liquidity from Van Horne and Wachowicz (2016) is a financial measure used to calculate a company's ability to pay its short-term obligations. This financial measure compares short-term liabilities with available short-term resources (current assets). A high liquidity ratio means the company has recorded adequate financial performance, and vice versa. However, a level of liquidity that is too high is not always beneficial for the company, because it's a sign of existing current assets that are not managed effectively, indicating the company's high idle funds (Small, 2012). This research uses the Current Ratio to measure the company's ability to pay its current

liabilities with available current assets. If the current ratio is higher, it indicates the company is not in liquidity problem. Usually, information related to a high current ratio will be responded to by increasing demand for shares which will increase the firm's share price. This is evidenced from research by Amanah et.al, (2012) Saifi et.al, (2018), Kundiman et.al, (2017), and Ariesa et.al, (2020). While contradictory research results are proven by Puspitaningtyas (2017), Gunawan et al (2020), Lestari and Suryantini (2019).

Hypothesis 1: Current ratio affects stock prices

Profitability and Stock Prices

Hanafi and Halim (2014) define profitability as a comparison that takes into account the company's strength in generating earnings on a certain scale of sales, assets and share capital. This research calculate the firm's ability to make an earning by the return on assets indicator. Return On Assets is a ratio that measures the company's ability to utilize its assets to make an earning. Return on assets is formulated by comparing net earnings after tax with the company's total assets (Sartono, 2011). The reason for using Return On Assets is because of this ratio can describe the company's profit potential so that can provide information about the firm's performance. If the firm's conditions are favorable, it will encourage a rising in share prices followed by an increase in company stock demand. This research estimates that stock prices are positively influenced by asset returns. This prediction refers to research results Amanah & Azizah (2012), Kundiman & Hakim (2017), Nordiana & Budiyanto (2017), Amrah & Elwisam (2019), Winata et al (2021), Sambelay et.al, (2017) and Qaisi et.al, (2016) which indicate that return on assets impacts stock prices. Meanwhile, research results Rahma et.al (2021) and Lestari & Suryantini (2019) prove that return on assets does not affect stock prices.

Hypothesis 2: Return on assets affects stock prices

Company Size and Stock Prices

Company size is defined as the size of the company seen from the amount of equity value, sales value, or asset value (Riyanto, 2013). This research uses Ln Total Assets to represent the value of company size. It is easier for large-scale companies to get loans because the value of the assets used as collateral and the level of banking trust

are getting higher. Assets that can be pledged as collateral include tangible fixed assets and other assets such as receivables and inventories. The larger the size of the company, the company's share price will be of high value, whereas if the size of the company is small, it usually has a low share price (Wiliandri, 2011). The results of this study are justified by research from Oca et al (2013), Pujo Gunarso (2014), Winata et.al (2021), Sigar (2019), Habsari (2018), Sharif et.al. (2015), Qaisi et.al. (2016) and Arisa et.al. (2020). However, some research results state that company size has no effect on stock prices, such as research from Wehantouw et al (2017), Arifin & Agustami (2017) and Rahma et al.(2021).

Hypothesis 3: Company Size affects stock prices

3. METHOD

In total there are 26 coal companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020. Sample selection using purposive sampling method, namely by taking coal companies that publish their financial statements for the 2016 to 2020 period, so that a research sample consisting of 75 data from 15 coal companies on the IDX was obtained. This analysis uses secondary data in the form of information presented in the firm's financial statements in 2016-2020. The independent variables in this research are the current ratio (CR), return on assets (ROA), and company size (SIZE), while the stock price (PRICE) is the dependent variable. The current ratio is formulated by the comparison between current assets and current liabilities. Return on assets is measured by the comparison from net earnings after tax to total assets. The size of the company uses Ln total assets and the share price used is the closing share price. Furthermore, multiple linear regression method was used to process this data with the help of the Warp PLS 5.0 software application.

4. RESULT AND DISCUSSION

Research Fit Model

From the results of the fit test of the research model, the level of AVIF is 1.207 and AFVIF is 1.551 which proves that the multicollinearity symptom between indicators and between exogenous variables is not found because the levels are less than 3.3. The GoF

value level is shown to be 0.932, because it exceeds the value of 0.36, it can be said that the prediction rate of the model in this study is very high.

Full Collinearity Test Results VIF, R Squared and Adjusted R squared

Table 1 shows the analyze results which prove that the construction in this research is adequate because it is based on the rule of thumb <3.3 which means that the model does not indicate vertical problems, lateral collinearity and general method bias. To see variations that affect stock prices, it is shown in R squared of 0.868, which means that the impact of variations in likuid ratio, asset return and company size on stock prices is 86.8% and the rest 13.2% described by other indicators not used in the research. This research has a strong structural model because the adjusted R squared value is more than 0.25.

Table 1.

Full Collinearity VIF, R Squared and Adjusted R squared tests

	CR	ROA	SIZE	PRICE
Full collinearity	1.055	1.016	2.079	2.053
R squared				0.868

Source: data processing warpPLS 5.0

Path Coefficient and P-Value Results

Table 2 provides information that the results of the first guess test illustrate that the current ratio has a unidirectional but not significant effect on stock prices in coal companies as evidenced by the liquidity coefficient value of 0.046 and p-value of 0.344 so that hypothesis 1 is ignored. The results of the second conjecture test, assets return have an unidirectional and significant impact on stock prices in coal companies, as evidenced by the coefficient of return on assets of 0.182 and p-value of 0.048, so that the second hypothesis is approved. Furthermore, in the third hypothesis the effect of firm size on stock prices is accepted and evidenced by the coefficient value -0.901 and p-value <0.001 .

Table 2.
The Track of Coefficient and P-Value Test

Track	Coefficient	P-value
CR → Price	0.046	0.344
ROA → Price	0.182	0.048***
Size → Price	-0.901	<0.001***

Source: data processing warpPLS 5.0

Full Research Model

Based on the description of the research results described above, then the research model representing the influence of the current ratio, assets return and company size on share prices in coal firms listed on the IDX can be described as shown below:

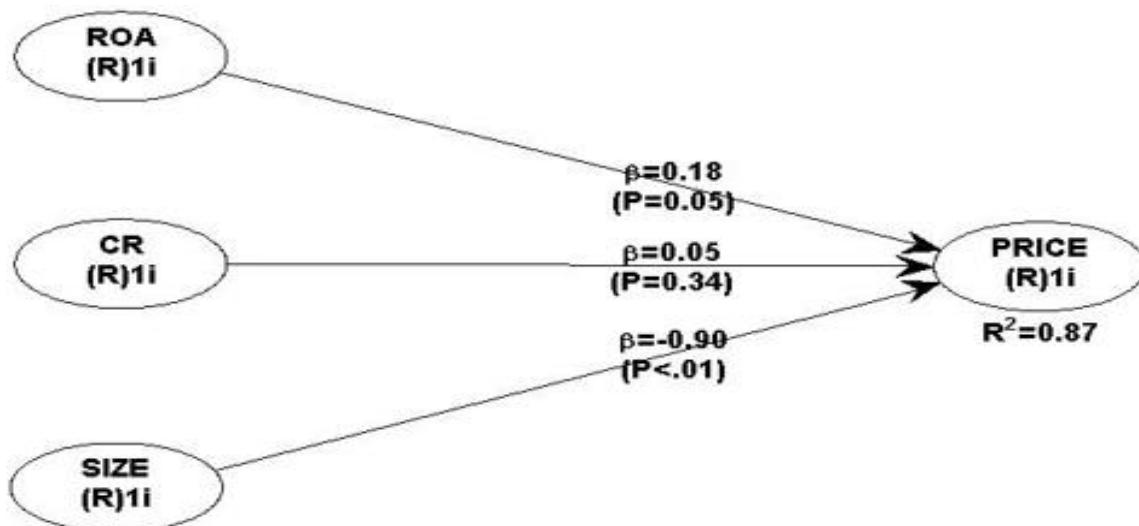


Figure 2. Full Research Model

Discussion

This research prove that stock prices are not influenced by liquidity as measured by the current ratio. This is because the current ratio has drawbacks because it is a static measure. This means that the assets currently available will not necessarily guarantee cash inflows in the future. Experienced investors tend to think that firm management usually uses the current ratio as a "window dressing", with the aim that the balance sheet looks appropriate, with the aim of a good liquidity rating as well. Usually, investors don't really see liquidity as a measuring tool in making investment decisions. Thus, liquidity not

affects stock prices. This study according to the results of Puspitaningtyas (2017), Gunawan et.al (2020), Lestari and Suryantini (2019) and Meythi et al (2011). Although based on theory, if the liquidity ratio ≥ 1 (one) indicates that the firm has a good power to pay its short-term obligation using current assets and can provide a positive signal for investors in making decisions, a high liquidity ratio will not necessarily attract investors, for investors to put their investment in the firm concerned, because a high liquidity ratio can also mean that a lot of fresh funds are unemployed and not optimal in managing current assets in increasing net income, which can increase the company's share price. Based on the results of hypothesis testing for ROA, this proves that assets return (ROA) has a unidirectional and significant impact on share prices. Return on Assets (ROA) is used to assessing whether the firm has been efficient in utilizing its assets in the firm's operational activities. The level of profit achieved by the firm will be reflected in the increasing ROA. This ratio shows the effectiveness of management in using assets to generate income which in turn will increase the firm's stock price so that it attracts many investors to invest in the company. The results of this study agree with the research from Amanah & Azizah (2012), Kundiman & Hakim (2017), Nordiana & Budiyanto (2017), Amrah & Elwisam (2019), Winata et al (2021), Sambelay et al (2017) and Qaisi et al (2016). In this study, the size of the company shows not in the same direction and significant effect on stock prices. This condition can be interpreted that the larger the size of the company, the stock price will decrease, and vice versa. The possibility that can occur from the results of this study is that mature companies are more likely to choose internal funding than from debt, so that companies do not depend on the use of external funding sources. Or it could be that investors are of the view that companies with large assets are considered unable to utilize their assets effectively, causing hoarding of assets and it is feared that the turnover of the company's assets will take longer. This condition, of course, will make investors cautious in investing in companies that have a large size. If this condition continues, the stock price of large companies will decline. This research is in line with research from Indriyani (2017), Oca et al (2013), Pujo Gunarso (2014), Winata et al. (2021), Sigar (2019), Habsari (2018), Sharif et al. (2015), Qaisi et al. (2016) and Ariesa et al. (2020).

5. CONCLUSION

In this research, the variables that impact stock prices in coal companies are return on assets and company size, while the current ratio variable does not impact stock prices in coal firms. The implication of this research is to understand the effect of return on assets, current ratio and company size on the stock price of coal companies listed on the Indonesia Stock Exchange in 2016 – 2020. In addition, this research is expected to provide input and guidance for investors to invest in the market. Recommendations for further research include many variables that can impact the firm's share price, both internal and external variables. This study only focuses on internal financial variables related to financial statements, without considering quality factors from other internal variables, such as coal product variables, market reach (domestic or export), as well as external factors such as coal prices, interest rates. foreign exchange etc. so the results may not reflect the actual state of the company. Second suggestion is companies that are sampled in the study are limited to coal mining companies sell the shares on the Indonesia Stock Exchange, so the test of this research is not necessarily the same if applied to different industrial sub-sectors.

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