

CHAPTER I

INTRODUCTION

1.1 Background of Study

This research analyses how pharmaceutical companies listed on the Indonesian Stock Exchange performed from 2017 to 2022. It commences with giving context for the study, discussing the issue at hand, and detailing the goals of the research. This part covers the research background, problem statement, objectives, research questions, significance, scope, limitations, and ends by defining key terms used in the research.

The objective of this research was to examine how profitability ratios affected pharmaceutical companies that are on the Indonesia Stock Exchange between 2017 and 2022. Next, the analysis proceeds with describing the data and examining its characteristics, including conducting standard assumption tests such as assessing normality and multicollinearity. Brief explanation of the multiple linear regression analysis method, covering steps for running the analysis and utilizing the coefficient of determination (R Square) for measuring regression model accuracy. Discussion involves statistical analysis results, findings interpretation, and implications for the pharmaceutical sector in Indonesia. The chapter ends by summarizing the key findings of the research.

A company's main goal is to increase its profits as much as possible. Additionally, the company also strives to increase its overall worth, which is typically demonstrated in the stock price of publicly traded companies. According to Saputra (2022), company profits are a key indicator of performance and are frequently used as a basis for making decisions. Additionally, although financial statements are usually kept private as internal documents, publicly traded companies must release their financial reports to the public. The pharmaceutical sector plays a vital role in Indonesia's economy and stock market, as it makes a substantial impact on healthcare and has promising prospects for expansion.

Understanding the financial success of pharmaceutical companies is vital because it demonstrates their capacity to make profits, handle assets efficiently, and provide returns to investors. Important measurements like Return on Assets (ROA) and Return on Equity (ROE) are essential in evaluating profitability and efficiency, showing how well a company uses its assets and equity to make profits. Additionally, the Price-to-Earnings Ratio (PER) is a crucial tool for investors to evaluate a company's market worth and future potential. Together, these metrics are crucial tools that aid investors in making well-informed stock investment decisions.

The period from 2017 to 2022 is notable for the significant challenges brought about by the COVID-19 pandemic, causing negative impacts on global economic industries. Various policies, such as travel restrictions, lockdowns, and social distancing measures, led to disruptions in production and service processes across many companies. Moreover, the global stock market experienced a decrease in wealth of approximately US\$6 trillion during the week of February 24-28, 2020 due to the COVID-19 pandemic. The Indonesian economy experienced a contraction of 2.07%, and the country's export performance throughout 2020 decreased by 2.68%, accompanied by a 17.34% drop in import performance. However, the pharmaceutical, chemical, and traditional medicine industries showed growth of 9.39% in 2020 compared to the previous year (Asri and Kadir, 2022).

The pharmaceutical sector has been pivotal in combating the pandemic, leading to fluctuations in stock prices. This study seeks to analyze the impact of Return on Assets (ROA), Return on Equity (ROE), and Price-to-Earnings Ratio (PER) on stock prices in the pharmaceutical industry, taking into account the unique challenges faced during this time. The research will examine whether robust ROA and ROE positively influence stock prices and if a lower PER ratio is more appealing to investors.

Additionally, this study will take into account the regulatory and economic conditions in Indonesia during this period, including shifts in government policies, the demand for healthcare services, and global economic trends that could impact the pharmaceutical sector and stock prices. The results of this research will offer

important information for investors, policymakers, and pharmaceutical businesses, assisting them in understanding the workings of Indonesia's stock market and enabling informed decision-making for investments and strategies.

1.2 Problem Statement

This research aims to examine the influence of financial performance indicators including Return on Assets (ROA), Return on Equity (ROE), and Price Earnings Ratio (PER) on the Stock Prices specifically within the context of Pharmaceutical listed in the Indonesian Stock Exchange (IDX). By examining these financial metrics, the research seeks to provide insights into the relationship between the profitability indicators and stock market performance within the context of Pharmaceutical sector in Indonesia.

Furthermore, from the previous study examine the effect of 3 indicators; Return on Assets (ROA), Return on Equity (ROE), and Price Earning Ratio (PER). The previous study findings indicate a significant ROA, no significant ROE, and no significant PER relationship on the Stock Prices of Pharmaceutical Companies listed on the Indonesian Stock Exchange (IDX) for the period 2017- 2022 period.

Based on that background, the problems in this study can be formulated as follows: Does the variable that consist of Return on Assets, Return on Equity, and Price Earnings Ratio affect the Stock Prices?

1.3 Research Objective and Questions

The general aim of this study is to examine the Effect of Return on Assets, Return on Equity, and Price Earnings Ratio on Stock Prices of Pharmaceutical Companies Listed in the Indonesia Stock Exchange (IDX), this research are :

1. To investigate the notable influence of ROA, ROE, and PER on the stock prices of pharmaceutical companies that are on the Indonesia Stock Exchange (IDX).
2. To examine how the relationship between Return on Assets (ROA), Return on Equity (ROE), and Price-Earnings Ratio (PER) affects the stock prices of

pharmaceutical companies on the Indonesia Stock Exchange (IDX).

1.4 Research Questions

The research questions are made to help reach the main goals and objectives of the study. The research conducted in this paper is to answer the following questions:

1. What is the impact of Return on Assets on the Stock Prices of Pharmaceutical Companies listed in the Indonesia Stock Exchange?
2. What is the impact of Return on Equity on the Stock Prices of Pharmaceutical Companies listed in the Indonesia Stock Exchange?
3. What is the impact of Price Earnings Ratio on the Stock Prices of Mining Companies listed in the Indonesia Stock Exchange?

1.5 Significance of the Study

The results of this research are anticipated to provide the following benefits:

1. Theoretical Benefits
 - a) Theoretically, this study aims to serve as a guide for future research and readers, aiming to complement and expand on existing research.
 - b) The aim of this study is to offer a thorough understanding of how ROA, ROE, and PER impact the performance of pharmaceutical firms on the Indonesia Stock Exchange (IDX).
2. Practical Benefits:
 - a) Its practical utility is that it can be used as a reference by governments and financial authorities and evaluating policies related to competition and stability in the pharmaceutical sector.
 - b) In academia, it is expected that the outcomes of this research will offer valuable perspectives for upcoming studies in similar areas.
 - c) For the general public, the outcomes of this study are expected to offer educational and informative advantages.

1.6 Scope of Study

This study aims to determine the effect of Return on Assets, Return on Equity, and Price Earnings Ratio on Stock Prices. The population of this study is Pharmaceutical Companies listed in the Indonesia Stock Exchange (IDX) period 2017 - 2022. The data analysis method used in this study is descriptive and causal method.

The initial section provides details on the research subject and its significance. The research background provides a summary of the research topic and presents the ideas used in the study. The content comprises the research query, research goals, study importance, research constraints, key term definitions, and research layout. This will help the reader have a clearer comprehension of the purpose of the study.