EXPLORING FINANCIAL PERFORMANCE BASED ON PROFITABILITY AND ITS RELATIONSHIP TOWARDS STOCK PRICE OF MEDIA NUSANTARA CITRA FOR YEAR 2009-2013

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Abstract:

The purpose of this study is to know the relationship between profitability, liquidity and solvency ratios towards stock price of PT. Media Nusantara Citra (MNC). The method of the study is descriptive and the data used for this study is from annual reports of the company from year 2009 until 2014. Based on the research results and the description above it can be concluded that there was no significant relationship indicated by ROA, ROE, DTA AND DTE towards the stock price of PT. Media Nusantara Citra (MNC). However, the results on Return on Asset and Return on Equity, indicated that there is a significant relationship between Return on Asset and Return on Equity towards the stock price of the company which can be shown through the t-count of 6.85603 for ROA and 4.22566 ROE, respectively, which is greater than the t-table of 3.182. Thus, Ha is accepted, and indicate that there is a significant relationship between Current Ratio and stock price of PT. PT. Media Nusantara Citra (MNC) Tbk.

Keywords: Return on Asset, Return on Equity, Profitability, Indonesian Stock Exchange

INTRODUCTION

PT Media Nusantara Citra Tbk is a business located in Indonesia that has core businesses in content and the ownership and operations of 3 out of the 10 national Free-To-Air televisions in Indonesia. MNC have 3 Free-To-Air (FTA) TVs - RCTI, MNCTV and GlobalTV - as well as 18 channels created and produced by MNC that is broadcasted on Pay-TV. Currently, MNC also have other media based business that supports the core businesses of MNC. Those businesses consist of radio, print media, talent management, and a production house.

MNC was established on June 17, 1997 and listed on the Indonesia Stock Exchange (IDX) since June 22, 2007 under the ticker symbol MNCN.

Based on the Company's Articles of Association, the purposes and objectives of the Company is to engage in the industries of general trading, development, industry, agriculture, transportation, printing, multimedia through satellite and other telecommunication equipment, service and investment.

Capital markets investment is a tool to bring together those who have surplus funds and those in need of funds. In supporting the growth and economic stability, capital market also has a very important role in the country's financial sector. One of the investments in the capital market which is very popular in this era of globalization is stock. Stocks provide an attractive rate of profit. In fact, investing in stocks has a very high risk. This is because the stock price changes or fluctuates. Fluctuations in the stock price may be affected by internal and external conditions that are considered by investors to invest. One example of the company's internal factors that affect stock price fluctuations is the company's financial performance as seen from the state of the company's financial ratios such as earnings per share, return on equity, return on assets, dividend per share, the net profit margin and others.

The services industry in Indonesia is somewhat interesting. As Indonesia survives the 2008 world financial crisis, Indonesia has grown interest of other countries. The banking industry surely is one pillar to support the growth of one nation. Investors are surely keen to see opportunity in investing in this sector especially the state-owned bank that dominate the banking industry in Indonesia. However, banks have different operating structures than regular industrial companies. Therefore, investors have different factors to consider when evaluating banks and contemplating for an investment in a bank. To further understand the performance of the MNC, the following data of MNC from 2009-2013.

Each investor surely will seek return on their investment. Before they make their decision,

investors need to analyze their investment. Stock price depict the value of the firm, therefore, stock price surely is influenced by company's performance and its future prospects. Company's financial performance is an important aspect in valuing company's financial condition. Financial ratios are therefore can be used to measure the financial performance of a company. Based on the description above, the purpose of the study is thus to determine factors that influence stock price at state owned bank listed in the Indonesian Stock Exchange in 2009-2013.

Capital Market

Many investors used the stock market as a means of funding for their companies and personal investment. Therefore, the proceeds from the capital market further can be used for the company's business development, expansion, and also investment. Furthermore, the capital market can also be a liaison between investors and organizations as well as government institutions through stocks, bonds, mutual funds and others means of investment.

Capital market has some definition. According to Hartono (2009: 28), "Capital market are companies effort to raise long-term funding needs by selling stock or issuing bonds." Moreover, Martalena and Malinda (2011:2) sees capital markets as a market for a variety of long-term financial instruments, both debt securities, equities, mutual funds, derivative instruments and other instruments. Meanwhile, according to Brigham and Houston (2010:190), "the capital market is a market for medium-term debt and long-term as well as the company's shares." On the other hand, Latumaerissa (2011:353) said that capital markets is a market that provides a source of spending with a relatively long period of time, which is invested in capital goods to create and multiply the means of production and ultimately boost economic activity. Nonetheless, the capital market has a role and function in society. An efficient capital market is one to look for. Capital market can be said to be efficient if the information obtained is relevant, reliable and reflected in stock prices.

Financial Statements

The financial statements are prepared with the aim of providing a company's financial information to interested parties and the need for consideration in making decisions. Interested parties, among other are: creditors, investors, management, owners and government. The financial statements are prepared based on applicable accounting standards that are not concerned with any of the parties and do not mislead users of information.

The company's financial statements are prepared as a management tool to consider the viability of their enterprises. In addition, the financial statements also be a major source for investors to invest in investment activity that they do for the benefit they want. Many experts sees the importance of understanding the financial statement, as follows:

1. According Kartikahadi et al (2012:145), Financial statements are a structured representation of the financial position and financial performance of an entity that aims to provide information about the financial position, financial performance, and cash flows of the entity that will benefit the majority of users of financial statements in the making economic, and show the results of management accountability for the use of the resources entrusted to them.
2. According Sumarsan (2013:35), the financial statements are the end result of the accounting cycle that gives the financial picture of a company that periodically arranged by the management company.
3. Juan and Wahyu (2012: 120) noted that the objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful for a variety of report users in making economic decisions.

Financial Ratios

Financial ratios is an integral part of financial performance. Financial ratios have an important role in analyzing the financial condition of a company. Financial ratios can also be a measure for investors to take a decision to invest. According to Harahap (2013: 297), financial ratio is a number obtained from the comparison of the financial statement items with more posts that have a relevant and significant relationship. Furthermore, Keown et al (2011:74) added that financial ratio is a rewrite of accounting data in the form of comparison in order to identify the strengths and weaknesses of the company.

To understand the difference used of financial ratios, Hanafi (2012:36-37), explained that there are five types of financial ratios that are often used:

1. The liquidity ratio is the ratio that measures a company's ability meet short-term obligations
2. The ratio is a ratio that measures the activity of the company's ability to use its assets efficiently
3. The leverage ratio is a ratio that measures the ability of the company meet the total obligation
4. Profitability ratio is the ratio that measures a company's ability generate profitability
5. The market ratio is the ratio that measures the market performance relative to book value, income, or dividends.

Stock Price

Stock price is the price of a stock is determined at the time the stock market is underway which is based on the demand and supply. According to Salim (2010: 223), stock price is a form of equity shares in a company. Tandelilin (2010: 31) said that securities traded on equity markets Indonesia are common stock, preferred stock, warrants and the evidence right. From these four equity securities, common stocks are securities which the most important and well known by the people of Indonesia. Therefore, the term is often understood as the equity market and the stock market stock designations are intended as a ring called ordinary shares. While according to Hartono (2009:111), if the company only issued one share class only, this stock is called the common stock. To attract other potential investors, a company may also issue other classes of shares, namely the so-called preferred stock.

According Gumanti (2011:46), common stock is evidence of participation in the ownership of a public company, in which the holder or shareholder has the right to approve the policy to be taken by the company and the right to receive dividends, either in cash dividends as well as stock dividends. Meanwhile, according to Tandelilin (2010:32), common stock claimed ownership of a company.

On the other hand, according to Tandelilin (2010: 36), preferred stock is a type of equity securities that differ in some respects with common stock. Dividends on preferred stock are usually paid in the amount of fixed and never changes from time to time. As it is referred to as preferred, the distribution of dividends to holders of preferred stock would take precedence before given to the holders of ordinary shares. Gumanti (2011:46) sees preferred stock as a type of stock that pay to the holder the amount of dividends that have been defined. So the preferred stock is a form of incorporation of common stock and bonds, so it is known as a hybrid security.

Stock can be divided into five categories, according to Hidayat (2011:103), they are: nominal price, initial price, opening price, market price, and closing price. And closing price is the final price of the transaction done in the stock exchange.

Factors Affecting the Price of Stock

To understand the different factors that can affect the price of a stock, the following are given and supported by some researches. According to Zubir (2011:318), stock prices in the stock market will continue to fluctuate and influenced by many factors, so the opportunity to earn profits and losses are always open.

Based on the above description, there are several factors that can affect the price of a stock. To look on some of those factors, this research see the importance of financial performance and economy such as inflation as factors that can affect stock price of a company.

How can financial performance of a company can influence the condition of the company's stock? According to Fahmi and Hadi (2009:72), the financial performance is one of the conditions and circumstances that determine fluctuation of a stock. Financial performance of a company can be seen through their financial ratios. Financial ratios are one of the indicators that provide information for investors to invest. According to Fahmi (2011:189), the profitability ratios are useful to support the company's success in generating profits. Potential investors will analyze carefully the smoothness of a company and its ability to benefit (profitability), because they expect the dividend and the market price of the shares. Profitability ratios can also result in the effect on stock prices. This is supported by several studies. Previous studies conducted by Seftiana and Indarti (2012) indicate that partially EPS variables significantly influence stock prices, and partially CAR, NPL, ROA, LDR no significant effect on stock prices as well as simultaneously CAR, NPL, ROA, LDR, EPS significantly influence stock prices the banking companies listed in Indonesia Stock Exchange from year 2008-2010. On the other hand, based on research by Widjaja (2010) said that the effect of financial reports on stock market is a central issue of research in accounting and finance. This research examines the relationship between leverage and

profitability of listed companies in textile and garment sector in Indonesia Stock Exchange. The research uses combined data, which consist of time series with cross section or known as panel data. Final result indicates that leverage influences stock price positively but not significantly. Beside that profitability influences stock price positively and significantly", and the same resulted in Ratih et al (2013) and Hutami (2012) research on ROE and stock exchange. In terms of macroeconomic condition, according to the research done by Suryanto and Kesuma (2012:17), there is no significant effect of inflation towards stock price at F&B companies listed in Indonesian Stock Exchange in 2007-2011.

There are many factors that can affect the stock price. These factors according to Moyer (2009:12) include: economic and environment Factors, laws and government regulations, major policy decisions under management control, dividend policies, financial performance, shareholder wealth and conditions in Financial Markets that includes: Interest rate levels, Investor optimism; and, anticipated inflation.

Hypothesis

Based on the literature review above, thus, the working hypothesis as follows is that the higher the financial performance of the company, the return on share price is increased as well:

Ho: There is no significant correlation of Return on Asset, Current Ratio, Debt to Asset, on stock return

Ha: There is no significant correlation of Return on Asset, Current Ratio, Debt to Asset, on stock return

Method of Study

The research used descriptive method in the study. The operational variables used in the study includes independent variables and dependent variables. The independent variables of the study is financial performance consists of:

1. Return on Asset = earning after tax/total asset

2. Current Ratio = current asset/current liabilities

3. Debt to Asset = debt/total asset

The dependent variables used in the study is

1. Stock return = $Pt - P_{t-1}/P_{t-1}$

The data used in this study is from the stock closing price and financial ratios of PT MNC from the year 2009-2013. The data was analyzed using SPSS16 using statistical method such as Normality and collinearity test, to look on the data distribution, Pearson Correlation, T-Test, F-test and Coefficient Determination as well as regression analysis. Thus the proposed regression equation is:

$$Y = \alpha + \beta 1 X1 + \beta 2 X2 + \beta 3 X3$$

Results Analysis

Based on the data given in the financial report of PT. Media Nusantara Citra (MNC) the following analysis was given.

Table 1. *Financial Ratios*

Year	Return on Asset	Current Ratio	Debt to Asset	Stock Return
2009	8.9	3.54	0.36	0.266667
2010	8.91	2	0.34	0.776596
2011	12.16	4.9	0.22	0.282443
2012	18.49	4.24	0.19	0.476
2013	17.59	5.41	0.19	0.047619

Table 1 indicates that MNC basically has good profitability ratio as it increase year by year. And the performance is above the standard of 5% for good return on asset (Investopedia, 2017). MNC ability to pay its current liabilities is also good as it increases from 2010-2013. On the other hand their debt also declining year by ear from 36% in 2009 to 19% by 2013. This shows that the management has done a goo job in the allocation of funds and in increasing the performance of the company. However in terms of stock return, although they have positive return every year ut on 2013 the pace is slowed down as in 2012 they 47.6% return on stock but in 2013 they only have 4.76% or one-tenth of the previous year.

Table 2. *Statistical Results*

	Minimum	Maximum	Mean	Standard Deviation	Skewness	Kurtosis
ROA	.09	.18	.1321	.04616	.299	-2.952
CR	2.00	5.41	4.0180	1.32907	-.875	.412
DTA	.19	.36	.2600	.08337	.548	-3.043
RETURN	.05	.78	.3699	.27333	.678	.611
Valid N (listwise)	5					

Table 2 shows the statistical results for the variables studied. The performance of MNC in the past five years has seen good performance as return on asset in average have a 13.21% return with 0.04616 standard deviation. Current ratio in average has 4.018 times ability to pay its current liabilities, and debt to asset in average only amounted to 26%. The Skewness value of the .299, -.875, .548, .678 for ROA, CR, DTA, Stock Return, respectively (see Table 2). The Skewness is positive; showing the top of the data distribution Skewness overhung the positive values (curve tails right longer). The Skewness is negative shows that the end of data distribution Skewness overhung the negative value (curve tails left longer). Kurtosis < 3 is platikurtic, = 3 is mesokurtic, and > 3 is leptokurtic. Kurtosis value are -2.952, .412, -3.043, 0.611 for ROA, CR, DTA, Stock Return.

Table 3. *Correlations*

	RETURN	ROA	CR	DTA
Return	1			
ROA	-.409	1		
CR	-.876	.696	1	
DTA	.448	-.915*	-.807	1

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 illustrates that the return on asset and current ratio of the company is associated negatively with stock return. This means the higher the ratio, the lower the stock return. On the other hand, debt to asset has positive association with stock return. In other areas, correlation between variables shows that roa us associated positively with current ratio,, on the other hand return on asset and current ratio is associated negatively with debt to asset.

Table 4. Normality and Collinearity Test

Coefficients^a

Model		Kolmogorov Smirnov		Collinearity Statistics	
		Z	Asymp. Sig.	Tolerance	VIF
1	RETURN	.504	.961		
	ROA	.511	.956	.157	6.380
	CR	.372	.999	.338	2.957
	DTA	.636	.814	.106	9.416

a. Dependent Variable: RETURN

Table 4 shows that the variables test are normal as their significant level > 0.05. With respect to test given, the collinearity test shows that no multicollinearity exist as the VIF < 10, and Tolerance > 0.10.

Table 5. The Results of the Regression Model

Model Summary

Variables	Expected Sign	Coefficient	t-ratio	p-value
(Constant)	+	2.901	4.415	.142
ROA		-2.311	-1.217	.438
CR		-0.313	-6.972	.091***
DTA		-3.726	-2.918	.210
R2	0.984			
Adj. R^2	0.936			
Model F-stat.	20.357			
p-value	0.161			
No. of Observaion	5			

*Significant at 1% level (2-tailed) and ** Significant at 5% level (2-tailed), ***Significant at 10% level (2-tailed)*

Table 5 provides the results of the hypothesis testing. It shows that the coefficient of determination (R2) for Stock Return are equal to 98.4 percent. The adjusted R2 is 93.6%. Table 5 also shows that the model are not significant with F-test 20.357 with a p-value .161 > 0.05. The table also shows the largest t-statistics for Stock Return is -6.972 (p-value < 0.1) which is for the variable Current Ratio (CR). This indicates that CR is importance for the model in term of explaining the variation in company

stock return. Based on the table above, the following are regression equation of the study:

$$\text{STOCK RETURN} = 2.901 - 2.311\text{ROA} - 0.313\text{CR} - 3.726\text{DTA}$$

CONCLUSION

Based on the result of the study, the findings shows that PT MNC has liquidity ratio during the period of 2009-2013 in terms of Current Ratio (CR) is not liquid. In 2009, 2010-2012 the company did not meet the standard for CR which resulted in below standard CR conditions. In the case of the Solvency Ratio for PT MNC during the period of 2008-2012 ratios used are Debt to Equity Ratio and Debt to Asset Ratio. The results show that the company's DTE is not solvable whilst DTA is solvable. The conditions of the Profitability Ratio from 2009-2013 using Return on Asset and Return on Equity ratio shows profitability. Both ROA and ROE of PT. MNC is above the standard. The majority of the company's financial ratios are above standard conditions. Prior to buying shares, interested investors should consider the result of this study in their decision making process. Investors must also consider other factors that affects the Stock Price before purchasing shares.

SUGGESTION

The point of this study suggests that prior to buying shares, investors should be aware of all the factors that can affect the price of a stock including the condition of the economy. A careful analysis of selected companies to invest must be made to ensure selected stocks can withstand unexpected economic turmoil, such as a recession. For PT MNC to survive through a recession it must continue to be a leading innovator in its industry. It must continue to expand its product line to meet its consumer's ever-changing wants and needs. With product development, PT MNC can expect an increase in sales and profits. Which will be beneficial to the welfare of current shareholders and entice investors interested in investing in PT Media Nusantara Citra Tbk.

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