

# THE INFLUENCE OF PROFITABILITY AND STOCK PRICE INDEX MOVEMENTS IN THE AGRICULTURAL SECTOR ON THE INDONESIAN STOCK EXCHANGE (BEI)

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## ABSTRACT

The movement of the price index for the agricultural sector over the last five years has been very volatile, and has had an impact on the performance of the agricultural sector, which ranks lowest compared to other sectors. This study aims to analyze the influence of profitability and stock price index movements in the agricultural sector on the Indonesian Stock Exchange (IDX). This study uses companies in the mining sector and the agricultural sector which are listed on the Indonesia Stock Exchange (IDX). The results of the study show that the variable profitability and price index are influential in the agricultural sector, because companies in the agricultural sector, especially in the sector, often export the products they issue, causing the value of the rupiah to increase continuously over time.

**Keyword :** *Profitability, stock price index, agricultural sector*

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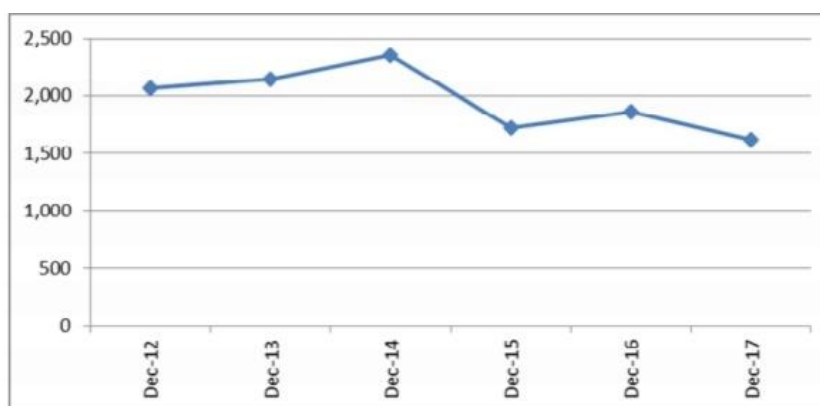
## INTRODUCTION

The capital market is a bridge for distributing wealth to the public, especially to holders of corporate securities such as shares, for example securities will receive dividends and capital gains or returns. The amount of return depends on changes in stock prices in stock trading. Stock prices are influenced by many things such as technical information and fundamental information. Technical information is obtained from outside the company, such as political economy, economics and other factors, while fundamental information is obtained from the company's internal conditions such as financial reports. This information can be used as a basis for investors to predict returns, risks, amounts, timing, and other factors related to investment activities in the capital market. Based on data from the Indonesia Stock Exchange (IDX), the overall stock market capitalization value reached IDR 7,052.38 trillion as of December 2017. This stock market capitalization value also recorded an increase of 70.88 percent from the market capitalization value in the same month in 2017. 2012 which amounted to IDR 4,126.99 trillion. When viewed further, the agricultural sector has the smallest market capitalization value compared to other sectors. The market capitalization value of the agricultural sector as of December 2017 was only IDR 102.42 trillion or equivalent to 1.45 percent of the total stock market capitalization value on the IDX.

The main product of the stock exchange is stock. The stock price index is one of the main indicators of stock price movements that provide information on stock market developments. The Composite Stock Price Index (IHSG) uses all listed issuers as a component of the index calculation. While the sectoral stock price index in its calculation uses all issuers included in each sector so that the progress of each sector can be known. The Jakarta Composite Index consists of nine sectoral indices, namely: (1) agriculture, (2) mining, (3) basic and chemical industries, (4) various industries, (5) consumer goods industries, (6) property and real estate, (7) transportation and infrastructure, (8) finance, and (9) trade, services and investment (IDX, 2010). In terms of the movement of the stock price index, the agricultural

sector has a very volatile stock price index. At the closing of the agricultural sector index at the end of 2012 it was at the level of 2,062, then had reached the level of 2,351 at the end of 2014, but decreased at the end of 2017 to 1,616. This is shown in Figure 1. At the beginning of 2012 there were 18 issuers belonging to the agricultural sector with details of 2 issuers in the food crops sub-sector, 10 issuers in the plantation sub-sector, 2 issuers in the livestock sub-sector, 3 issuers in the plantation sub-sector fisheries, and 1 issuer in other sub-sectors.

Then at the beginning of 2017 the number of issuers included in the agricultural sector increased to 21, of which 16 were issuers in the plantation sub-sector. This indicates that the rise and fall of the stock price index for the agricultural sector is largely determined by the movement of the stock prices of plantation issuers, all of whom are engaged in the oil palm plantation business.



Source: BEI, 2018

Figure 1. Movement of the Agricultural Sector Index December 2012 - December 2017

Financial reports provide valuable information that can be used by managers, investors, creditors, consumers, suppliers and regulators. Careful analysis of a company's reports will be able to highlight its strengths and weaknesses. In addition, financial analysis can also be used to predict how strategic decisions such as selling a division, changing credit or inventory policies, or expanding a factory can also have an impact on company performance. In terms of the movement of the stock price index, the agricultural sector has a very volatile stock price index. At the closing of the agricultural sector index at the end of 2012 it was at the level of 2,062, then had reached the level of 2,351 at the end of 2014, but decreased at the end of 2017 to 1,616. This is shown in Figure 1. At the beginning of 2012 there were 18 issuers belonging to the agricultural sector with details of 2 issuers in the food crops sub-sector, 10 issuers in the plantation sub-sector, 2 issuers in the livestock sub-sector, 3 issuers in the plantation sub-sector fisheries, and 1 issuer in other sub-sectors. Then at the beginning of 2017 the number of issuers included in the agricultural sector increased to 21, of which 16 were issuers in the plantation sub-sector.

### Formulation of the problem

1. How does profitability affect the agricultural sector on the IDX?
2. How does the stock price index affect the agricultural sector on the IDX?
3. How does the influence of profitability and the movement of the stock price index on the agricultural sector on the Indonesia Stock Exchange (IDX)?

### Research purposes

The purpose of this study is to determine the effect of:

1. Return On Assets has an effect on stock returns in the plantation sub-sector on the IDX in 2013-2017.
2. The Debt to Equity Ratio has an effect on stock returns in the plantation sub-sector on the IDX in 2013-2017.
3. Debt to Equity Ratio and Return On Assets affect stock returns in the plantation sub-sector on the IDX in 2013-2017.

### Benefit of research

The benefits of the profitability ratios that you need to know Be able to know with certainty the profit/profit of the company in a certain period. As a benchmark in the assessment made by the bank/investor to the company. Understand the efficiency of a business. know the overall stock price movement picture through the Composite Stock Price Index (IHSG). This can be a reference for the performance of the stock portfolio and can be used to measure future profits.

## LITERATURE REVIEW

Profitability is the company's ability to earn profits in relation to the sale of total assets and own capital. From this definition it is clear that the target to be sought is company profits. The better the profitability ratio of a company, the better the profits the company gets. (Sugiyarso and Winarni, 2005:118). Return On Assets (ROA) is a ratio that shows the results (return) on the total assets used in the company. Return On Assets (ROA) is a measure of management's effectiveness in managing its investments. In addition, the return on investment shows the productivity of all company funds, both loan capital and own capital. The lower (smaller) this ratio the less good, and vice versa. This means that this ratio is used to measure the effectiveness of the company's overall operations. The BI rate has a negative effect on the movement of the stock price index. An increase in the BI rate will cause investors to divert their funds to interest-based securities such as deposits. Investors will change their portfolio by selling shares, resulting in a decrease in stock prices. In addition, companies that will expand their business need capital. The capital is usually in the form of a loan or debt at the bank. If the company obtains financing from debt at the bank, the company will bear the interest expense. The increase in interest rates causes the cost of capital to increase so that the company's profitability decreases and then reduces the stock price. Research conducted by Adam and Tweneboah (2008), Witjaksono (2010), Hussain et al (2013), Astuti et al (2013), Mulyani (2014), Artha et al (2014), Nordin et al (2014), Ullah et al (2014), Wardani and Andarini (2016), and Wijayaningsih et al (2016) found that the BI rate has a negative effect on the stock price index. Meanwhile, Majid and Yusof (2009) found that the BI rate has a positive effect on the movement of the stock price index.

The money supply has a positive effect on the movement of the stock price index. People's motivations for holding money include transaction motives, precautionary motives, and speculative motives. The demand for money with a speculative motivation is the use of cash to finance the purchase of securities such as stocks or bonds. When the public's needs for consumption and precaution are met, the excess liquidity can be used to invest, such as in stocks. The number of requests for shares will increase the price of shares. Research conducted by Majid and Yusof (2009), Naik and Padhi (2012), Hussain et al (2013), and Kalyanaraman and Tuwajri (2014) found that the money supply has a positive effect on the stock price index. The consumer price index has a negative effect on the movement of the stock price index. The Consumer Price Index (CPI) is a proxy that represents an indicator measuring the inflation rate. When the CPI rises, it indicates that the prices of goods/services have increased (inflation). According to Sunariyah in Apriyani et al (2016), inflation has a negative effect on stock prices. Inflation causes prices to increase, the increase in the price of goods equals the decrease in the value of the currency. Inflation will reduce people's

real income and reduce people's purchasing power resulting in a decrease in sales of domestic products which causes company profitability to decline. Profitability decreases then the stock price will decrease. Research conducted by Kalyanaraman and Tuwajri (2014), and Barakat et al (2016) found that the consumer price index (CPI) has a negative effect on the stock price index. Meanwhile, Adam and Tweneboah (2008), Issahaku et al (2013), and Islam et al (2017) found that the CPI has a positive effect on the stock price index.

Commodity prices, in this case the price of palm oil, has a positive effect on the movement of the stock price index. The fluctuations in the stock price index for the agricultural sector are largely determined by the movement of the stock prices of plantation issuers, all of which are engaged in the oil palm plantation business. Profits for companies engaged in the oil palm plantation business are also determined by the price of palm oil (CPO) on the world market where the higher the CPO price, the higher the company's profits so that more investors want to buy the company's shares which results in an increase in share prices. Research conducted by Nordin et al (2014) found that the price of palm oil has a positive effect on the stock price index.

## RESEARCH METHOD

### Descriptive qualitative

Descriptive qualitative method is a type of method that enters data or obtains data qualitatively, then is explained descriptively. According to (Serupa.id, 2022), a qualitative descriptive research method is a type, design, or research design that is commonly used to examine natural research objects or in real conditions and not set up like in an experiment. Descriptive itself means that the results of the research will be described as clearly as possible based on the research that has been done without drawing any conclusions based on the results of the research.

### Review literature

Literature review is a critical analysis of existing research on a particular topic. This method is a summary and evaluation of current knowledge on a specific topic (Academia, 2022). With a literature review, someone will know whether the written work can be used as a reference for research (scientific work) or not. Literature review is also useful for creators of their writing because they know the things that need to be done to improve the quality of their writing (P, 2021).

## RESEARCH RESULTS AND DISCUSSION

The agricultural sector is a sector that plays an important role in the national economy and the survival of the community as well as the prosperity and welfare of the community. The agricultural sector is a sector that has the potential to be developed in Indonesia, the emergence of large agribusiness-based industries should be one of the factors driving the progress and development of the agricultural sector. The obstacle that arises at this time is the lack of optimal utilization of the agricultural sector in a professional and macro-scale manner with the aim of at least agribusiness companies listed on the capital market. In another case, when the crisis hit Indonesia, the companies that survived were plantation and forestry-based companies that positioned themselves as exporters. In addition, the agricultural sector is an essential part of everyday life where humans definitely need the fulfillment of clothing, food and housing that must be met. The agricultural sector is able to meet the main needs in fulfilling food (kompasiana). The plantation sub-sector is one of the sub-sectors of the agricultural sector that can increase the country's foreign exchange and absorb labor.

The government is prioritizing the plantation sub-sector, because it has high attractiveness for export to developed countries. Commodities included in the plantation sub-sector include oil palm, coconut,

rubber, coffee and tea. The plantation sub-sector is also one of the sub-sectors that has experienced the most consistent growth compared to other sub-sectors, both in terms of area and production. The phenomenon regarding the development of the agricultural sector, which should experience the best growth among other sectors, is not reflected in the value of companies in that sector. The fact is that the average share price of agricultural sector companies in the plantation sub-sector has actually decreased compared to other sub-sectors.

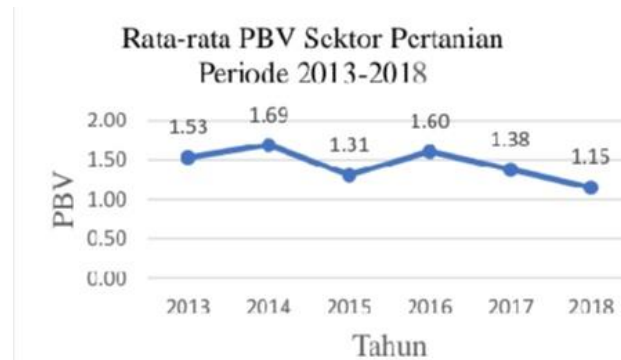


Figure 2 Average Price to Book Value in the Agricultural Sector Listed on the Indonesia Stock Exchange for the 2013-2018 period

Source: IDX processed data, 2020

Based on Figure 1.1, the average PBV of the agricultural sector listed on the Indonesia Stock Exchange in 2015 decreased from 1.69 times to 1.31 times, and increased again in 2016 by 1.60 times, then decreased again until 2018 by 1.15 times. The slowdown in economic growth hit the agricultural sector. The manufacturing industry sector as a whole in the first quarter of 2019 was only able to grow by 3.86% YoY, slowing compared to the previous year which reached 4.6% YoY. Even though the food and beverage industry grew quite rapidly, namely 6.77% YoY, it was actually much slower than the previous year. Because in the first quarter of 2018, the food and beverage industry could grow by 12.77% YoY. GDP growth in the agricultural sector was only able to grow by 1.81% YoY, very far from the overall economic growth. Even though the agricultural sector in the first quarter of 2018 was still able to grow by 3.34% YoY. This figure is also the lowest agricultural sector GDP growth since at least the first quarter of 2017. This means that there are indeed other factors causing GDP growth in the agricultural sector to slow down considerably compared to the previous year. (Source: cnbcindonesia.com).

In the long term, the variable profitability and the movement of the stock price index have an influence on the agricultural sector. It can be assumed that the higher the level of company profitability, the higher the stock price, and vice versa, whereas when the company's profitability tends to be low, the stock price will also fall. For companies in the agricultural sector, especially in plantation sub-sector companies, there were a lot of exports, an increase in the value of the rupiah against the United States dollar, or it could be said that the depreciation of the value of the rupiah has caused prices per product in Indonesia to tend to be cheaper, especially consumers who live in rural areas. abroad . thus, this can increase the number of requests and improve export competitiveness. Quoted from (Butar, Sicily, & Purba, There have been 24 companies that have listed their shares on the Indonesia Stock Exchange (IDX) throughout 2020. Finally, there are PT Aesler Group Internasional Tbk (RONY), PT Cahaya Bintang Medan Tbk (CBMF), and PT Cipta Selera Murni Tbk (CSMI) listed. on the IDX. On its first trade, RONY shares shot up to 35% to a level of IDR 135 per share, from an initial position of IDR 100 per share. CBMF's share rate also jumped by 35% to a level of Rp 216 per share, from an initial position of Rp 160 per share. Even though a number of these new shares experienced price increases, there were also a number of stocks that provided negative returns from the initial listing of the shares. First, there are PT

Agro Yasa Lestari Tbk (AYLS) shares which fell by 50% and are included in the gocap stock category. Second, the share price of PT Royalindo Investa Wijaya Tbk (INDO) was eroded by up to 47.27% to a price of IDR 58. then there were PT Putra Rajawali Kencana Tbk (PURA) shares which were corrected by up to 29.52% to a price of IDR 74 per share. After that, PT Lancartama Sejati Tbk (TAMA) also recorded a decline of up to 16.57% to a level of 146 from the price initial IDR 175 (Puspitasari, 2020). From the report on the records of 24 companies that listed their shares on the IDX throughout 2020, we can see that these 24 companies have quite positive prospects because since these companies' IPO shares on the IDX there have been companies whose shares have increased while others have experienced a decrease in price.

Based on this statement, it is necessary to examine the interest of investors to invest in this agricultural sector. Investors are certainly very interested in investing their funds in industries that provide high stock returns. To find out the relationship between information about a company's financial performance with changes in stock prices and returns generated, various studies have been conducted. In his research Sunarto 2001 which examines the influence of profitability and leverage ratios on stock returns in manufacturing companies on the JSE. From Sunarto's research, the results show that ROA, ROE and debt ratio (DTA) simultaneously affect stock returns. This research is consistent with the results of research conducted by Hapcin Suhairy (2006) entitled "The Effect of Profitability and Leverage Ratios on Stock Returns of Manufacturing Companies on the BEJ ", the results of this study show that the profitability ratio (represented by ROA and ROE) and leverage ratio (represented by DTA) simultaneously affect stock returns, but partially only the profitability ratio which has a significant effect on stock returns.

Index (JII) 2004-2006", showing that ROA has no significant effect on stock returns and while ROE and DTA partially have a significant effect on stock returns and ROA, ROE, and DTA simultaneously have a significant effect on stock returns. Meanwhile, in Tutus Alun Asoka Sakti's (2010) study entitled "The Influence of ROA and DER on Stock Returns of manufacturing companies listed on the Indonesia Stock Exchange (2003-2007)", states that ROA is not proven to have a positive and significant effect on stock returns and DER has a significant negative effect on stock returns. Here are

a problem or symptom for which the research is carried out:

Table 1. Research phenomena

| Nama Perusahaan | Tahun | ROA         | 100%  | DER         | 100%  | CR          | 100%  | Return saham | 100%   |
|-----------------|-------|-------------|-------|-------------|-------|-------------|-------|--------------|--------|
| SSMS            | 2016  | 0,082599643 |       | 1,07394052  |       | 1,366858692 |       | -0,2820513   |        |
|                 | 2017  | 0,082185129 | -0,50 | 1,374428811 |       | 4,209290772 |       | 0,07142857   | 125,32 |
|                 | 2018  | 0,00768149  |       | 1,776015265 |       | 5,276987004 |       | -0,1666667   |        |
|                 | 2019  | 0,001019987 |       | 1,911394568 |       | 2,510881809 |       | -0,324       |        |
| SMAR            | 2016  | 0,09944245  |       | 1,563025305 |       | 1,345799418 |       | 0,03571429   |        |
|                 | 2017  | 0,043406821 |       | 1,400367381 | -0,54 | 1,318741426 |       | -0,2137931   |        |
|                 | 2018  | 0,02036681  |       | 1,392833657 |       | 1,491014717 |       | 0,18421053   | 186,16 |
|                 | 2019  | 0,032341777 |       | 1,541606341 |       | 1,075110617 |       | 0,02222222   |        |
| DSNG            | 2016  | 0,030799243 |       | 2,025993394 |       | 0,893674507 |       | -0,0833333   |        |
|                 | 2017  | 0,070535438 |       | 1,565149078 |       | 1,008662556 |       | -0,2072727   |        |
|                 | 2018  | 0,036395684 |       | 2,208257424 |       | 1,033128424 | 20,80 | -0,059633    |        |
|                 | 2019  | 0,015331447 |       | 2,339912125 |       | 0,818269928 |       | 0,12195122   | 304,50 |

At PT Sawit Sumbermas Sarana Tbk, in 2016-2017 Return on Assets decreased by -0.50%, which in 2016 amounted to 0.082599643, decreased to 0.082185129 in 2017. This was not followed by a decrease in stock returns which experienced an increase of 125.32%. Where in 2016 the number was -0.2820513, increasing to 0.07142857 in 2017. This is because high or low profits at the company do not really have an impact on the return on capital invested by investors. But low profits can also be a problem for companies due to reduced returns to investors. At PT Sinar Mas Agro Resources and Technology Tbk, in 2017-2018 the Debt to Equity ratio decreased by -0.54%, where in 2017 it was 1.400367381, down to 1.392833657 in 2018. This was not followed by a decrease stock returns which increased by 186.16%. Where in 2017 the

number was -0.2137931, increasing to 0.18421053 in 2018. This is because the debt owned by the company is not excessive, so profits on shares invested by investors have a fairly good return.

At PT Dharma Satya Nusantara Tbk, in 2018-2019 the Current Ratio decreased by -20.80%, where in 2018 it was 1.033128424, decreasing to 0.818269928 in 2019. This was not followed by a decrease in stock returns which experienced an increase of 304.50%. Where in 2018 the number was -0.059633, increasing to 0.12195122 in 2019. This was due to too large short-term liabilities that had to be paid by the company. Even so, investors still receive profits from investment. A high Return on Assets can be interpreted that the company empowers its assets as well as the efficiency of the company's operations can be achieved, conversely a low level of Return on Assets indicates a company that is inefficient and has failed to empower its assets. There is no effect of Return on Assets on stock returns, indicating that companies with good Return on Assets conditions or increases in the company have no potential to attract companies by investo. Then if we relate to profitability in the agricultural sector, the company empowers its agricultural assets at once, making it easier for the company to achieve its goals, because all companies definitely want high profits, Quoted from (Andiantyo & et al, 2018), The rupiah exchange rate variable has a positive effect on the movement of the agricultural sector stock price index. An increase in the Rupiah exchange rate or a depreciation of the Rupiah will increase the stock price index for the agricultural sector. The results of this study are also supported by Majid and Yusof (2009), Thobarry (2009), Issahaku et al (2013), Kalyanaraman and Tuwajri (2014), Barakat et al (2016), and Apriyani et al (2016) who found the exchange rate has a positive effect on the stock index .

In several issuers that are included in the agricultural sub-sector such as plantations, it is recorded that they export CPO to various countries. Barakat et al (2016), and Apriyani et al (2016) who found the exchange rate had a positive effect on the stock index. In several issuers that are included in the agricultural sub-sector such as plantations, it is recorded that they export CPO to various countries. Barakat et al (2016), and Apriyani et al (2016) who found the exchange rate had a positive effect on the stock index. In several issuers that are included in the agricultural sub-sector such as plantations, it is recorded that a lot of CPO exports to various countries. From some of the quotations and statements above, it turns out that the variable profitability and price index have an effect on the agricultural sector, because companies in the agricultural sector, especially those in the sector, often export the products they issue, causing the value of the rupiah to increase continuously over time, and causing product prices in Indonesia. tend to be cheaper.

## CONCLUSION

Based on the results of the research that has been done, it can be concluded that from some of the quotations and statements above, it turns out that the variable profitability and price index have an effect on the agricultural sector, because companies in the agricultural sector, especially in the sector, often export the products they issue, causing the value of the rupiah to continue to increase. continuously as time goes by, and causes product prices in Indonesia to tend to be cheaper. stock prices and Return on assets have a positive and significant effect on price to book value in the agricultural sector listed on the Indonesia Stock Exchange in 2013-2018, while the Debt equity ratio and Sales Growth have no effect on price to book value in the agricultural sector listed on the Stock Exchange Indonesian Securities in 2013-2018.

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