Analysis of Profit Growth of Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for 2013-2017 Period

Holly Abas¹, Freddy S Kawatu², Cecilia Lelly Kewo³
Faculty Economics, Universitas Negeri Manado¹,²,³
Jl. Tondano Tataaran Campus
Correspondence Email: abashollybrigita@gmail.com

ABSTRACT

This study aims to determine the effect of Liquidity, Leverage, Activity, and Profitability Levels on profit growth in manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017. This research applied causal associative research (causal research). The data used are manufacturing company financial statements from the Indonesia Stock Exchange publications on www.idx.co.id. The data are analysed by conducting quantitative analysis figured with numbers. The results showed that the level of Liquidity measured by a quick ratio (QR) of 0.151, with an error probability of 0.015 implied a positive and significant effect on profit growth. The level of Leverage as measured by Debt to Equity Ratio (DER) of -1.029, with an error probability of 0.005, indicated a negative and significant effect on profit growth. The level of Activity measured by Inventory Turnover (ITO) of 0.288, with error probability of 0.113, suggested a positive and insignificant effect on profit growth. The level of Profitability as measured by Return on Equity (ROE) of 0.569, with error probability of 0.033, implied a positive and significant effect on profit growth, levels of liquidity, leverage, activity, profitability. In addition, as measured by a simultan test (F) of 0.451, with error probability of 0.002, the level of Liquidity, Leverage, Activity, Profitability simultaneously show a significant effect on profit growth.

Keywords: Indonesia Stock Exchange (IDX), Manufacturing Companies, Profit Growth

INTRODUCTION

As the biggest contributor to Indonesia's Gross Domestic Product (GDP) and based on data released by the United Nations Statistics Division in 2016, Indonesia ranked fourth out of 15 countries whose manufacturing industries contributed to the Gross Domestic Product (GDP) more than 10 percent. Indonesia is able to contribute up to 22 percent of Indonesia's total GDP after South Korea (29 percent), China (27 percent) and Germany (23 percent).

Gross Domestic Product (GDP) is one of the important indicators to determine the economic condition of a country in a certain period, either at current or at constant prices (Gautama & Hapsari, 2016). Gross Domestic Product (GDP) is the amount of added value of all business units in a particular country, or the total value of goods or final services produced by all economic units. Consequently, it is significant to analyze what factors influence the profit growth of manufacturing companies.
The main purpose of a company is to maximize profits. Profit growth is one indicator to assess its financial performance. It describes the company's results of operations in one period that are influenced by each financial decision made. Income statements and other earning statements are reports measuring the success of financial performance during certain periods (Martini, et al., 2016).

Financial Accounting Standards Board - FASB (1978), Statement of Financial Accounting Concepts No.1, states that the primary focus of financial reporting is information about earnings. Therefore, financial statement information should have the ability to predict future earnings. Profit, as a measure of company's performance, reflects the increase or decrease in capital from various sources of transactions (Takarini, N. & Ekawati, E., 2003).

The Indonesia Stock Exchange (IDX) facilitates trading of shares, fixed income, derivative instruments, mutual funds, stocks to sharia-based bonds. The IDX provides more further information for public about the development of exchange and disseminates data on stock price movements by printed and electronic media, as they were used by the author in this study. IDX comprises three main sectors including raw material production industry (natural resource management industry), manufacturing industry, and service industry sectors.

Manufacturing companies are the largest issuers of all companies listed on IDX. Thus, they have considerable opportunities in opening up other opportunities for market participants or investors to invest. In addition, manufacturing companies are growing rapidly, denoting that they have a very great scope for their inventory.

Figure 1: Manufacturing Growth Profit Sample for 2013-2017

Source: www.idx.com, 2018

To investigate the profit growth phenomenon occurred in manufacturing companies listed on the Indonesia Stock Exchange in the period 2013 - 2017. Based on Figure 1.1, the growth rate of PT. Japfa Comfeed Indonesia, Tbk (JAPFA), PT. Akasha Wira International, Tbk (ADES), PT. Gudang Garam, Tbk (GGRM), PT. Siantar Top, Tbk (STTP) and PT. Ultra Jaya Milk Industry, Tbk (ULTJ) from 2013-2017 fluctuate.
Figure 1.1 shows that PT. Japfa Comfeed Indonesia Tbk (JAPFA) suffered a decline in profits in 2013 and 2014, while in 2015 and 2016 its profit grew, in 2017 suffered another decline. PT. Akasha Wira International Tbk (ADES) in 2013, 2014 and 2017 suffered a decline in profits, while in 2015 and 2016 its profit grew. Profit PT. Gudang Garam Tbk (GGRM) from 2013 to 2017 increasingly grew. In 2013, 2014, 2015 and 2017, profit PT. Siantar Top Tbk (STTP) grew, while in 2016 it suffered a decline. PT. Jaya Milk Industry Tbk (ULTJ) in 2013, 2014 and 2017 suffered profit decline, while in 2015 and 2016 it achieved growth.

Profit's ups and down are influenced by changes in the financial statement components. Changes in profits are attributable to changes in those components, such as sales, cost of goods sold, interest charges, operating charges, corporate debt, and others.

Future profit growth is information providing an overview of the prospects and the company's financial condition in the future. Investors, prospective investors, and creditors expect that future profits will be better or increase in comparison with that in the previous years. It will affect the investment decisions and creditors.

Profit is an indicator of a company's performance. To generate profits, the company must carry out several operational activities implementable if the company has a number of resources. The relationship between resources making up these activities can be shown by financial ratios. Liquidity conditions, solvency/leverage, activity, profitability and company's valuation affect the profit growth. This due the fact that they indicate the state of the company's resources with potentials to generate profits.

Liquidity is the ability to convert assets into cash or the ability to obtain cash. Lack of liquidity prevents companies from gaining profit opportunities (Amalina & Subeni, 2014). This is by virtue of liquidity lackness will hamper the company's operational activities and thus will reduce the company's profits in turn. One of the liquidity ratios is Quick Ratio. The company's Quick Ratio shows that the more liquid the company, the better the company's profitability. This is as a result of the company's ability to bear debt on its current assets to avoid increasing interest expense and fines from creditors.

Financial solvency or leverage refers to the amount of debt funding in the company's capital structure. This describes the ability of companies to use debt and assets to increase profits (Amalina & Subeni, 2014). The solvency or leverage ratio comprises the Leverage Debt to Equity Ratio able to describe the capital structure of the company. If the obligation or debt is effectively utilized, the obtained profits are enough to periodically pay interest costs added with the basic obligations.

The activity ratio measures how effectively the company manages its assets. Included in this ratio is the Inventory Turnover which measures the average speed of inventory moving out of the company. It shows that the higher the ratio of companies, the better the level of company's profitability. This is the result of the company's ability to boost profits optimally.
Profitability ratios are to measure the overall effectiveness of a company’s operations. High profitability ratios indicate operational activities' excellence. The profitability ratio involves Return on Equity, the level of which to profit growth shows that the higher the ratio of the company, the better the level of company's profitability. This is due to the company's ability to maximize its resources to leverage its profit.

Thus, financial ratios' volatility, such as Quick Ratio, Debt to Equity Ratio, Inventory Turnover, and Return on Equity, are not in advance of the profit growth volatility. Despite the fluctuation, most manufacturing companies have continued to massively grow profit. Based on the data, the development of assets, debt, equity, and net sales are not in accordance with the development rate of profit growth. This has become an interesting phenomenon since it is against theories in general.

Several previous studies associate the effect of financial ratios on corporate earnings growth. Kurniawati (2017) found that Quick Ratio has a significant positive effect on earnings growth. Wibisono's research (2016) stated Quick Ratio insignificantly has negative effect on profit growth. Kurniawati (2017) argued Debt to Equity Ratio has not a significant positive effect on profit growth. While Mas'Ulah (2016) put forward that Debt to Equity Ratio has a significant positive effect on profit growth. Kurniawati (2017) indicated that Inventory Turnover shows an insignificant negative effect on profit growth. While in Wibisono, 2016, Inventory Turnover shows a significant negative effect on profit growth. Heikal et al., showed that Return on Equity has a significant positive effect on profit growth. However, Khaldun (2014) contended Return on Equity shows a significant positive effect on profit growth.

**Literature Review**

The company's main goal is to maximize profits. Its operational definition is the difference between the revenue arising from transactions in one period and costs associated with such income. Profit (Income - also called Earnings or Profit) is the results summarized from business operating activities stated in financial terms (Wild & Hasley, 2015). Profit reflects returns to equity holders for the concerned period, while items in the report show profits earned in detail.

It is the achievement of all employees in a company in the form of financial figures, namely the positive difference between income minus expenses (Darsono and Purwanti, 2014). It is the basis for performance measures against management's ability to operate company assets. It should be well planned with the intention that management is able to effectively achieve it.

In addition, profit is an important figure in tax calculations, guidelines in determining investment policies and decision-making, a basis in forecasting decisions, profits and other corporate economic events in the future, a basis in calculating and evaluating efficiency in running a company, and a basis in performance appraisal or company’s performance. Positive profit growth reflects the company's ability to manage and utilize its resources to generate profits and deliver good company’s performance and vice versa (Harahap, 2007).
The measure frequently used to determine the success of a company management is the profit earned. In general, it is indicated with the management's ability to envision the possibilities and opportunities, both long term and short term. Thus, the primary financial reporting objective is to inform company's achievements through measurement of earnings and its components.

**RESEARCH METHOD**

This is a causal associative research (causal research). According to Sugiyono (2016), associative research is causal research (explaining the relationship between two or more variables) and is a causal relationship. It contains independent variables (affecting variables) and dependent variables (influenced variables). This study analyzed the relationship to examine the effect of investment decisions, debt policy, dividend policy, and profitability on company's value.

The study was conducted at the Indonesia Stock Exchange (IDX) through its website, www.idx.co.id, and particularly at manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2013-2017. This research was conducted in September 2019 until November 2019.

The population were 141 companies out of manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017. This study made use of purposive sampling technique. According to Sugiyono (2016: 122), purposive sampling is a sampling technique with certain considerations and criteria. The criteria used in this study are as follows:

1. Manufacturing companies that remained listed on the IDX during 2013-2017
2. Manufacturing companies used Indonesian Rupiah in their financial statements
3. Manufacturing companies that have published their complete financial statements and been audited during 2013-2017.

The data were quantitative secondary data taken from the Indonesia Stock Exchange publication on www.idx.co.id about the financial statements of manufacturing companies from 2013 to 2017, books, references, and other related scientific literatures.

The data were collected with documentation by gathering supporting data from literatures, journals, reference books, and the companies' financial statements from www.idx.co.id. The analytical method adopted was quantitative analysis shown in numbers, and calculated with statistical data processing program IBM SPSS 22's statistical methods.

**RESULTS AND DISCUSSION**

Appertaining to the data analysis, the followings are research results that should come up for discussion including: the effect of the level of liquidity on profit growth. The results of this study indicate the level of liquidity measured by Quick Ratio (QR) of 0.151, with a probability error of 0.015. This indicates a positive and significant effect on profit growth. The higher the Quick Ratio turnover, the higher the profit growth will be. This implies that the company is able to manage or utilize
its current assets properly to meet or pay for its short-term obligations, the company's ability to manage current assets will affect its competence in paying existing obligations. The results of this study correspond with Tri et al. (2017) showing that Quick Ratio has a positive and significant effect on the company’s profit growth.

The Effect of Leverage Level on Profit Growth
The results of this study indicate the leverage level as measured by the Debt to Equity Ratio (DER) of -1.029, with the error probability rate by 0.005, indicates a negative and significant effect on profit growth. The higher the turnover of Debt to Equity Ratio, the lower the profit growth will be. This signifies that the company’s capital structure is more dominated with debt than capital. The predominance of debt obviously creates an impact on the survival of the company, particularly in growing its profits. This indicates that the increase in corporate debt used for venture capital or the company's operational activities is powerless to bring in greater profit, and as a result, the Debt to Equity Ratio turnover has a negative influence on the company's profit growth. This raises a significant risk when the company is handcuffed to pay overdue obligations, which in turn leads to large interest charges. In addition, it is feared that corporate profits will decline. This is in accordance with Jakpar (2017) stating that Debt to Equity Ratio has a negative influence on profit growth signifying that any addition to this ratio will reduce the profits obtained.

1. Partial Effect of Activity Level on Profit Growth
The results show the level of activity measured by Inventory Turnover (ITO) is 0.288 or 28.8% and the error probability is 0.113 or 11.3%. This indicates that there is no significant positive effect on profit growth. Higher inventory turnover reveals increased profit growth. The company operates efficiently and the inventory liquidity gets better. The company demands its receivables in a certain period, which shows the level of collectible receivables are getting higher, reducing the existence of uncollectible receivables and improving the company's cash flow. The results of this study are consistent with a research by Tri et al (2017) in which inventory turnover has no significant positive effect on company's profit growth

2. Partial Profitability Effect on Profit Growth
The results showed an increase in the profitability level as measured by Return on Equity (ROE) by 0.569 or 56.9% with an error probability by 0.033 or 3.3%. This implies Return on Equity has a positive and significant effect on profit growth. The higher the Return on Equity turnover, the higher the profit growth will increase. The company’s efficiency in using its own capital is very excellent, where greater capital for the company's operations will result in massive sales which in turn boosts company's net profit. This corresponds a research by Heikal et al. (2014) contending that Return on Equity has a positive and significant effect on the company's profit growth.

3. The Overall Effect of The Level of Liquidity, Leverage, Activity And Profitability on Profit Growth
The results show that simultaneous levels of liquidity, leverage, activity, and profitability have positive effect on profit growth. The level of liquidity, leverage, activity, and profitability as measured by simoultan test (F) is equal to 0.451 or
45.1%. This suggests that the level of liquidity, leverage, activity, and profitability simultaneously show a significant effect on profit growth.

CONCLUSIONS

The outcome of various experimentation lead to the conclusion that:
1. There is no significant positive effect of the activity level on profit growth.
2. There is a significant positive effect of Return on Equity on profit growth.
3. There is a significant simultaneous positive effect of the level of liquidity, leverage, activity, and profitability on the profit growth.

REFERENCES


