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Effect of Debt to Equity Ratio, Current Ratio and Inflation on Share Price on Real Estate Companies Listed in Indonesia Stock Exchange

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Abstract:
This study is aimed at determining the effect of debt to equity ratio, current ratio and inflation on the real estate company stock price. The study was conducted on the stock of real estate and property industry in Indonesia Stock Exchange and the sampling technique used purposive sampling method, involving 22 companies. Analysis of data using regression analysis. Based on the data found that the debt to equity ratio and current ratio affect stock prices. Inflation variable has no effect on stock prices.

Keywords: *Debt to Equity Ratio (DER), Current Ratio (CR), inflation, stock prices*

1. Introduction

Capital has a function as a productive means of allocation of funds to transfer funds from the lender to the borrower. Productive allocation of funds occurs when individuals who have excess funds can be loaned to other more productive individuals who need funds (Jogiyanto, 2016: 30).

Investment is the postponement of consumption today in order to get the return that would be acceptable in the future. Investing in stocks is considered to have a greater level of risk compared with other investment alternatives, such as bonds, deposits, and savings.

The main objective of the investment activity in the stock market is to make a profit (return).The investors use various ways to obtain the expected return, either through its own analysis of the behavior of stock trading or with utilizing the advice given by market analysts capital ie brokers, dealers, managers investment and others.

The development of real estate and property industry is currently showing strong growth this reassuring. Things marked with rising housing construction, apartments, office, and hospitality. In addition, the development of real estate and property sector can also be seen from the proliferation of real estate in major cities. From the macroeconomic perspective, the real estate industry and property have a very wide scope of business so that stimulation of the real estate business and property, in turn, will influence economic growth and work opportunities.

There are two factors that affect the returns of an investment: first, internal factors such as quality and reputation management, capital structure, debt structure of the company, and so on, the second is related to external factors, such as the effect of monetary and fiscal policy, the development of the industry sector, economic factors eg inflation, and so on '.

Financial ratios can be grouped into five kinds: the liquidity ratio is the ratio that measures the ability of the company's short-term liquidity by viewing current assets relative to current liabilities. Both the solvency ratio, ie the ratio that measures a company's ability to meet long-term all obligations.Third, the profitability ratio is the ratio that measures the ability of the company makes a profit in correlation with sales, total assets, and own capital. Fourth, activity ratio that measures the effectiveness company inside working on the source of funds. And the fifth is the ratio of the market is the ratio which measures the price of the stock market relative to its book value '.

Fundamental analysis is basically micro do historical analysis on the financial strength of a company, where the process it his often also referred to as the analysis of the company.

The solvency ratio is often associated with stock returns that Debt to Equity Ratio (DER). Debt to Equity Ratio (DER) reflects the company's ability to meet all obligations indicated by how much a part of its own capital used to payroll debt. Debt to Equity Ratio (DER) also provides a guarantee on how much debt the company's own capital guaranteed. Debt to Equity Ratio (DER) will affect the company's performance and cause appreciation and depreciation of share prices.

The greater the Debt to Equity Ratio (DER) indicates a capital structure more businesses take advantage of debt relative to large equity. Getting more Debt to Equity Ratio (DER) reflects the company's relatively high risk as a result of investors tend to avoid stocks that have a value of Debt to Equity Ratio (DER) is high.

The company's liquidity is the financial ability of a company to meet financial obligations when billed. A Company which is able to meet its financial obligations when billed means the company is in a liquid state, otherwise if the company is unable to meet its financial obligations on when billed the company was in a state of illiquid. For companies, the liquid is a very important issue because it represents interest company in dealing with other parties, both internal party or external parties. The liquidity ratio used in this study is the Current Ratio (CR). Current Ratio (CR) is the ratio between current assets and current liabilities. The greater the current ratio shows the magnitude-owned company's ability to meet its operational needs, especially working capital that is essential to maintain the performance of corporate performance that ultimately affects the performance of the stock price. This can give confidence to investors to own shares in the company so as to increase stock returns.

Variable stock prices are influenced by the company's fundamentals such as the ratio of Debt to Equity Ratio (DER) and the Current Ratio (CR). Research previously stated that the Debt to Equity Ratio influential on stock prices. The higher the Debt to Equity Ratio greater the share price. This means that these effects are positive (Nurdin, 1999) This study was conducted on a number of shares in the Indonesian Stock Exchange by taking stock of the property industry.

In the study (Gudono, 1999), the current ratio also affects the stock price. The higher the current ratio of shares then the stock price will also be higher the current ratio means that the effect on stock prices is also positive. In a subsequent study of Inflation also affects the stock price. The higher inflation rate then the stock price will also be higher means that the effect of inflation on stock prices is also positive (Gudono, 1999).

The stock price above shows symptoms that fluctuate from year to year. The Company observed the 22 companies in the property industry groups listed on the Indonesia Stock Exchange. Factors that affect the stock price is indicated Debt Equity Ratio (DER). Debt Equity Ratio is obtained by dividing the debt with its own capital. Data compiled from 2010 through 2014 that includes 22 companies studied.

2. Literature Review

2.1. Stock Price

The stock price reflects a company's performance. The company's performance can be seen from the level of profits, the company will be addressed by investors well by buying shares in the company because they may provide benefit as expected. But in this case, the company's stock price has not reflected the expected profit rate.

The share price can be classified into three past price, closing price, and the opening price. Past price of the shares is the stock price before the current period while the closing price is the price at the close of the stock market at the stock exchange. The opening price is the stock price at the time the stock market closed down its activities.

Stock price is the present value of cash flows to be received by shareholders in the future. According to Anoraga (2001: 100), the stock price is the money spent to obtain proof of ownership or ownership of a company. Stock prices can also be interpreted as a price that is formed from the interaction of buyers and sellers of shares against the background by their expectations for corporate profits, for that investor need information relating to the formation of these shares in the decision to sell or buy shares.

The share price is the price formed on the stock exchange. In general, the share price is obtained to calculate the value of its shares. The further these differences, it reflects too little information flowing to the stock exchange. The share price tends to be influenced by psychological pressure buyers or sellers. To prevent this, the company should at any time provide sufficient information to the stock exchange, as long as the information is an effect on the market price of its shares. Efforts to incorporate how to calculate the actual stock price has done any analysis with the aim to obtain a satisfactory profit level. However, it is difficult for investors to continue to outperform the market and gain when the rate of profit above the normal.

According to Arifin (2004) factors that affect stock prices are as follows:

2.1.1. The Fundamental Condition of Issuers

Fundamental factors are factors directly related to the performance of the issuer itself. The better the performance of the issuer, the greater the impact on stock prices and vice versa. To ascertain whether the condition of the issuer in a good position or bad we could perform ratio analysis approach.

2.1.2. The Law of Supply and Demand

The law of supply and demand factors came second after a fundamental factor because so investors know the company's fundamentals surely they would do better sale or purchase transaction. These transactions will affect the stock price fluctuation.

2.1.3. The Interest Rate

With the changes in interest rates, the return on the results of various investment vehicles will be amended. High interest will have an impact on the allocation of investment funds to investors. Investor products such as deposits or savings bank clearly smaller, when compared to the investment risks in shares, as investors will sell stocks and funds, will be placed in the bank. Simultaneous sale of shares will impact on the stock price significantly.

2.1.4. Foreign Exchange

The US currency (dollar) is the strongest currency among other currencies. If the dollar rises, foreign investors will sell their shares and placed in banks in the form of dollars, causing the stock price will go down.

2.1.5. Foreign Funds on the Exchange

Viewing the number of foreign investment funds is important because as the number of funds invested, it indicates that the investment conditions in Indonesia have been conducive to significant economic growth is no longer negative, which of course will stimulate the issuer's ability to generate profit. Conversely, if the foreign investment is reduced, there is the consideration that they are skeptical of the country, both on socio-political as well as security. So the size of the investment of foreign funds in the stock will have an effect on the increase or decrease in the stock price.

2.1.6. Share Price Index

The increase in the stock price index all the time, of course, bring in investment conditions and the country's economy is in good condition. Conversely, if the down means being a poor investment climate. Such conditions will affect the rise or fall of stock prices in the stock market.

2.1.7. News and Rumors

The definition of news and rumors are all the news circulating in the community concerning some good things in the economic, social, political, security, to news about a cabinet reshuffle. With the news, investors can predict how conducive the country's security so that investment activity can be carried out. It will have an impact on stock price movement in the stock.

Based on the statements above it can be concluded that the factors that determine changes in stock prices are very diverse. But the main thing is the strength of the market itself, namely supply and demand for shares itself. In accordance with the laws of economics, the higher the demand for these shares then the stock price will rise.

2.2. Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) reflecting the company's ability to meet its obligations shown by some part of its own capital or equity to reduce debt. Debt to Equity Ratio (DER) is the ratio between total debt held company with total equity. The greater the debt, the greater the risk is borne by the company. Therefore, companies are still taking on debt is highly dependent on the relative costs. Debt costs less than equity funds. By adding debt to its balance sheet, the company generally improve profitability, which in turn raises the price of its shares, thus increasing the welfare of shareholders and build a larger growth potential. Conversely, fee greater debt than equity funds. 'By adding debt to its balance sheet, it will decrease the profitability of the company (Walsh, 2004). The ability of a company to pay all its debts shows the "solvency" of a company. A company that is "solvable" means the company has an asset or assets sufficient to pay all debts (Riyanto, 2001

In line with the above description, Debt to Equity Ratio (DER) shows the capital structure of a company which is the ratio between total debt to equity is used as a source of corporate funding. 'Debt to Equity Ratio (DER) is a measure of the leverage ratio of the company, according to Gitman and Joehnk (1996) the leverage ratio is: "Financial ratios that measure the amount of debt being used to support operations and the ability of the firm to service its debt".

Mondigliani and Miller (1958) state that a company's value will increase with increasing Debt to Equity Ratio (DER) due to the effect of corporate tax shield. This is because, in a state of perfect markets and no taxes, interest paid is generally due to the use of debt can be used to reduce taxable income. Thus, if there are two companies with the same operating profit, but the company that the use of debt and pay interest while other companies do not, then the company which pays interest will pay less income tax, thus saving income.

2.3. Current Ratio (CR)

The liquidity of the company describes the company's ability to meet its short-term obligations (Utomo, 2004). To measure the liquidity of the company in this study uses the ratio of the current ratio (CR). The current ratio is a liquidity measure seeks to measure a company's ability to repay short-term liabilities with its current assets. This ratio is calculated by dividing current assets by current liabilities. This ratio is often called the working capital ratio showing the number of available liquid assets held by the company to respond to the needs of business and continue their daily business activities. According to Sartono (1997)Current assets include cash, marketable securities, accounts receivable, and stock. Debt smoothly includes tax debt, debt interest, money order, payroll debt, and short-term debt sharing. Current Ratio (CR) of the higher net income that the company produced less and less because the current ratio which is high indicates the excess of current assets are not good for the company's profitability for the current assets resulted in lower return compared to fixed assets (Mamduh and Halim, 2003). A high current ratio value is not necessarily better in terms of profitability.

2.4. Inflation

Inflation affects the economy through income and wealth, and through changes in the level and efficiency of production. Inflation unpredictable typically favors the debtor, fundraising, risk takers and speculators. Inflation would be detrimental to the creditors, fixed income groups, and investors who do not dare risk (Samuelson, 1994).

Inflation is an economic measure that gives an idea of the average increase in prices of goods and services produced in an economic system (Suseno, 1990).

According to Herman (2003), inflation is a condition characterized by an increase in prices in general or the falling value of the currency in circulation. Inflation indicators are as follows

- Consumer Price Index (CPI) is an indicator that is commonly used to describe the movement of prices. CPI changes over time show the price movement of a package of goods and services for consumption. The inflation rate in Indonesia is usually measured by the CPI.
- Wholesale Price Index is an indicator which describes the movement of prices of commodities that are traded in an area.

High inflation rates usually associated with economic conditions that are too hot (overheated). That is, the economy experienced a demand for a product that exceeds the capacity of its product offerings, so prices tend to rise. Inflation is too high will cause a decrease in the purchasing power of money. In addition, higher inflation could also reduce the level of real income obtained by investors from their investments. 'Conversely, if a country's rate of inflation has decreased, then this would be a positive signal for investors in line with the decline in purchasing power of the currency risk and the risk of decline in real income (Tandelilin, 2003). Thus high inflation leads to decreased profitability of the company, resulting in less competitive equity securities (Ang, 1997).

The sudden rise in inflation rate and large in a country would lead to increased imports by the country to the various goods and services from abroad, so that more and takes a lot of foreign exchange to pay for the import transaction.This result in increased demand for foreign currency in the foreign exchange market. Inflation that such a sudden increase, it also allows its reduced ability of national exports of the country concerned, so that will reduce the supply of the foreign currency in the country (Atmadja, 2002).

3. Research Methods

3.1. Research Design

This study uses an explanatory analysis approach. This means that each of the variables presented in the hypothesis will be observed by testing the causal relationship of independent variables on the dependent variable.

3.2. Population and Sample Research

The population is a generalization region consisting of the objects/subjects that have a certain quantity and characteristics defined by the researchers to learn and then drawn conclusions (Sugiyono, 2008). Samples were towing the majority of the population to represent the entire population, (Surakhmad, 2000). The sample used by the author in this study is a Real Estate company shares amounting to 22 companies. This sampling using purposive sampling. In this sampling, samples were taken based on certain characteristics possessed by the sample. In this case, the characteristics of the sample in question is a company engaged in real estate. The company is engaged in the procurement of real estate and property leasing.

4. Results and Discussion

4.1. Effect of Debt to Equity Ratio, Current Ratio, and Inflation on the Stock Market

Linear analysis model can be based on calculations using SPSS program as follows.

Model		Coefficients Unstandardized		Standardized Coefficients	t	Sig.
		B	Std. Error	beta		
1	(Constant)	-114.620	429.972		-, 267	, 790
	DER	438.445	212.301	, 208	2,065	, 042
	CR	, 024	.010	, 238	2.357	, 021
	Inflation	6794.601	6445.983	, 106	1,054	, 295

Table 1: Results of the Analysis of the First Equation
a. Dependent Variable: Price

Based on the tables above, the simultaneous structural equations can be described as follows
Y = -114.620 + 0,438,445X1 + 0,024X2 + 6.794,601X3. F count can be obtained from the following table

Model		Sum of Squares	df	mean Square	F	Sig.
1	Regression	15,494,871.998	3	5,164,957.333	3.824	, 013b
	Residual	118,849,908.470	88	1,350,567.142		
	Total	134,344,780.467	91			

Table 2: Calculate the F Value Equations Simultaneously
a. Dependent Variable: Price
b. Predictors: (Constant), INFLATION, DER, CR

Based on the above table it is known that the calculated F value of 3.824 and a significance of 0.013. This value is less than 0.05. This means that the variable debt to equity ratio, current ratio, and inflation affect stock prices simultaneously. The magnitude of the effect of the independent variable on the dependent variable can be seen from the following values of r squared.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	, 340A	, 115	, 085	1162.13904	1,755

Table 3: Values r Squared Regression Model First
a. Predictors: (Constant), INFLATION, DER, CR
b. Dependent Variable: Price

Based on the above table it is known that the value of r squared of 11.5%. It means debt to equity ratio, current ratio and inflation affect stock prices by 11.5% while the rest influenced by other variables that are not incorporated into the model equations.

4.2. Debt Equity Ratio Effect Analysis on the Stock Price Partial

The analysis results Debt Equity Ratio influence on stock prices can be partially seen in the following table.

Model		Coefficients Unstandardized		Standardized Coefficients	t	Sig.
		B	Std. Error	beta		
1	(Constant)	280.452	218.450		1,284	, 202
	DER	483.916	216.441	, 229	2.236	, 028

Table 4: Results of the Analysis of the Second Regression Equation
a. Dependent Variable: PRICE

The structural equation of the above data can be seen as follows

Y = 280.452 + 4839,916X1

Based on the above analysis results table is known that the t value of 2.236. The significant value of 0.028. The significance value less than 0.05. This means that the debt to equity ratio, variables affect stock prices partially. Debt to equity ratio, a variable amount of influence on stock prices can be seen in the following table.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	, 229A	, 053	, 042	1189.19060

Table 5: Values R Squared Second Equation
a. Predictors: (Constant), DER

Based on the above table it can be seen r squared value of 5.3%. This means debt to equity ratio, influence on stock prices by 5.3% and the rest influenced by other variables not included in the model equations.

4.3. Current Ratio Effect Analysis on the Stock Market Partial

Current ratio analysis results in the stock price can be partially seen in the following table.

Model		Coefficients Unstandardized		Standardized Coefficients	t	Sig.
		B	Std. Error	beta		
1	(Constant)	646.791	124.414		5,199	, 000
	CR	, 024	.010	, 245	2.392	.019

Table 6: Results of the Analysis of the Third Regression Equation
a. Dependent Variable: PRICE

The structural equation of the above data can be seen as follows

Y = 646.791 + 0,024X2

Based on the above analysis results table is known that the t value of 2.392. The significance value of 0.019. The significance value smaller than 0.05. This means that the current ratio variable effect on stock prices partially. Current ratio amount of influence on stock prices can be seen in the following table.

Model	R	R Square	Adjusted R Square	Std. the Error of the Estimate
1	, 245a	, 060	, 049	1184.68008

Table 7:The second Equation R Squared
a. Predictors: (Constant), CR

Based on the above table it can be seen the value of r squared of 0.06. This means that the current ratio variable effect on stock prices and the remaining 0.6% is influenced by other variables that are not incorporated into the model equations.

4.4. Inflation Effect Analysis on the Stock Market Partial

Results of analysis of the effect of inflation on stock prices partially can be seen in the following table.

Model		Coefficients Unstandardized		Standardized Coefficients	t	Sig.
		B	Std. Error	beta		
1	(Constant)	350.739	413.307		, 849	, 398
	INFLATION	5665.165	6715.338	, 089	, 844	, 401

Table 8. Results of the Fourth Regression Equation Analysis

a. Dependent Variable: Price

The structural equation of the above data can be seen as follows

Y = 350.739 + 5.665X3

Based on the chart above analysis it is known that the t value of 0.844. The significant value of 0.844. The significance values greater than 0.05. This means that the inflation variable does not affect the stock price partially. The magnitude of the effect of price inflation on stock prices can be seen in the following table.

Model	R	R Square	Adjusted R Square	Std. the Error of the Estimate
1	, 089a	, 008	-, 003	1216.96693

Table 9:Values R Squared Fourth Equation

a. Predictors: (Constant), INFLATION

b.

Based on the above table it can be seen r squared value of 0.008. This means that the effect of inflation on stock prices by 0.08% and the rest influenced by other variables not included in the model equations.

5. Conclusions and Suggestions

5.1. Conclusion

Variable debt to equity ratio, current ratio, and inflation affect stock prices simultaneously. Calculated F value of 3.824 and a significance of 0.013. This value is less than 0.05. R squared value of 11.5%. It means debt to equity ratio, current ratio and inflation affect stock prices by 11.5% while the rest influenced by other variables that are not incorporated into the model equations.

Debt to equity ratio variables affects stock prices partially. T value of 2.236. The significant value of 0.028. The significance value smaller than 0.05. R squared value of 5.3%. This means debt to equity ratio influence on stock prices by 5.3% and the rest influenced by other variables not included in the model equations.

Current ratio variable effect on stock prices partially. T value of 2.392. The significance value of 0.019. The significance value smaller than 0.05. R squared value of 0.06. This means that the current ratio variable effect on stock prices and the remaining 0.6% is influenced by other variables that are not incorporated into the model equations.

Inflation variable does not affect the stock price partially. T value of 0.844. The significant value of 0.844. The significance values greater than 0.05. R squared value of 0.008. This means that the effect of variable inflation on stock prices by 0.08% and the rest influenced by other variables not included in the model equations.

5.2. Suggestion

Analyzed from a number of variables that can affect the stock price variables debt to equity ratio and current ratio affect stock prices. Therefore, investors should consider the variable debt to equity ratio and current ratio in investment funds in real estate and property shares on the Indonesia Stock Exchange.

In a subsequent study suggested that the use of financial variables and other economic variables to predict the stock price of the company. This research is important to be able to provide a reference for investors to invest their funds in the stock.

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