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CHAPTER I

INTRODUCTION

1.1. Background

One purposes of any company is to maximize the stock value of the company, a company maximize its performance to achieve the desired objectives targeted. Firm value is very important for a company, because if the value of a company is high will be followed also by the high profits of shareholders, and if the stock priceis higher it means the value of that company also high. Firm value also can reflects the value of the company assets, for example marketable securities. One of the securities issued by the company is stock, high and low of stock prices are influenced by the condition of the issuer.

According to Martono and Harjito (2007), one of the factors that affect the price of the stock is the company's ability to pay dividends. Firm value can also be seen from the company's ability to pay dividends, the magnitude of dividends it can affect the stock prices. If the dividends are paid is high, then the stock prices tend to be high so the firm value also high. Conversely, if dividends are paid less, then the company's stock price is also low. The ability to pay dividends is closely related to the ability of the company makes a profit. If the company makes a profit which is large, then the ability to pay dividends also large. Therefore, with a large amount of dividends will increase the firm value. In addition, firm value also able to reflect the performance of companies which is could affect the investors

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perception of the company. With the increase in the firm value then the company will look good to investors, and vice versa.

According to Bangun and Wati (2007) in Jusriani (2013), in investing, the investor will consider which one the profits of the company will provide high returns. Profitability provides an objective value about the value of an investment in a company. Therefore, profits of a company is expectation for investors, but the investor needs to be careful in determining investment decisions because if it's not right, the investor not only lose the return but all the initial capital invested will be lost. For that reason, investors also need to collect complete and accurate information about the companies first, which company will be selected as a place of their investment.

According to Kusumajaya (2011), there are three types of assessment related to the shares, the book value, the market value and intrinsic value. The book value is a shares value according to the books of the issuer's. While, the market values is recording of shares values on the stock market and intrinsic value is the actual value of shares. An investor should understand these values as information in making investment decisions stocks. One of the ways to determine the value of the shares is using *price book value* (PBV). Price book value is a ratio that shows the relationship between the market price of the company shares with the book values the company.

There are several factors which can affect the firm value, such as *growth opportunity*, *financial leverage* and *capital expenditure*. Growth opportunity is an

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opportunity growth of a company in the future (May, 2006 in Pangulu 2014). According to Indrajaya, Herlina and Setiadi (2011) in Pangulu (2014), companies with high growth rates require more funds in the future, especially the external funds to fulfill investment requirements or to satisfy the need to finance growth. Therefore, the company which have a low growth opportunities will be more use of the long term debt.

According to Chen (2004) in Hermuningsih (2013), each company has a different growth opportunity, with the difference growth opportunities in each of the company caused differences in spending decisions taken by the financial manager. Companies with high growth opportunity tend to spend investment expenditures with their own capital to avoid underinvestment problem that is not implemented all the positive value of investment projects by the company manager. Whereas, for companies with low growth opportunity tend to use investment expenditures with debt to reduce the problem of free cash flow. It occurs, because shareholders do not want to abuse the unused cash flow (Jensen, 1986 in Hermawan 2010).

The second variable may effect to firm value is *financial leverage.* Financial Leverage is the use of funds with fixed load and the company expects with use these funds can increase revenues or profits. Financial Leverage is measured by the magnitude of assets a company that spend/financed by debt. Financial leverage arises as interest expense caused additional variability in net income and exceed the variability in operating income caused by operating leverage. According to Brigham and Houston (2001), increased variability in net income

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reflects the financial risk. Value of the company may also be influenced by the size of leverage is generated by the company. According to Suranta and Pranata (2003) in Analisa (2011), leverage has a positive and significant effect to value of the company. The size of the leverage is generated by a company can affect the firm value.

Financial leverage is used with the expectations to increase returns to the usual shareholders. Leverage favorable or positive occurs if companies can generate higher revenues by using funds obtained in the form of a fixed fee (funds that can publish tribes fixed rate debt or preferred stock with dividend rate constant) compared to the cost of funding remained to be paid. Any income remaining after the fulfillment of remained financing costs, will be the owner of shareholders common stock. Leverage unfavorable or negative, it occurs when a company does not have the results of the cost of funding and equipment.

The last variable included in this research which affect the values the company is *capital expenditure.* According to McConnell and Muscarelle (1985) in Hermawan (2010), capital expenditure and performance of the company has a positive relationship. So, the increasing of capital expenditure it's make better the performance of the company and if performance of the company is good, firm value it will be higher also. It can be concluded that the capital expenditure may affect the firm value.

Based on the explanations that have been mentioned above, the authors conducted research with the title " **The Effect of Growth Opportunity,**

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Financial Leverage And Capital Expenditure to Firm Value on Case Study of Agricultural Sector Companies In Indonesia Stock Exchange ".

1.2. Problem Formulation

Based on the background research that has been presented above, then that becomes a problem in this study are as follows:

1. Does *Growth Opportunity* has a significant influence on firm value in Agricultural Sector Companies Listed in Indonesia Stock Exchange?
2. Does *Financial Leverage* has a significant influence on firm value in Agricultural Sector Companies Listed in Indonesia Stock Exchange?
3. Does *Capital Expenditure* has a significant influence on firm value in Agricultural Sector Companies Listed in Indonesia Stock Exchange?

1.3. Scope of Problem

In accordance identification of the problem above, discovered vast dimensions of this research study. In order for this research is not deviate of the existing problems, the authors give a clear problem definition and focused. The problems discussed in this research regarding the Growth Opportunity, Financial Leverage and Capital Expenditure to Firm Value in Agricultural Sector Companies Listed in Indonesia Stock Exchange during the period 2011-2014.

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1.4. Research Objectives

In accordance with existing problems, then the objectives of this research is:

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1. Determine whether there is any significant influence of *Growth Opportunity* to Firm Value.
2. Determine whether there is any significant influence of *Financial Leverage* to Firm Value.
3. Determine whether there is any significant influence of *Capital Expenditure* to Firm Value.

1.5. Use of Research

As for result of this study are expected to provide benefits to a few parties are as follow :

1. For prospective investors.

   Can provides a description of the company that will be used as a place to invest, and is expected to provide information in assessing the activities of the company

2. For company.

   As a consideration for the company in applying the variables that exist in this research in order to help increase the value of the company and as consideration to evaluate, repair, and improve management performance in the future.

3. For academic.

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This study may provide benefits in the development the theory of growth opportunity, capital expenditure, financial leverage that applied to a company and its influence on the value of the company.

4. For future research.

   This research is expected to become a useful reference for further research on the value of the company in the future.

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