CHAPTER II

LITERATURE REVIEW

2.1 Theory

2.1.1 Value Of The Company

According to Hamidy (2014) , Value of the company is the investor's perception of the company, which is often associated by the stock price. In other words, the high stock price will show a high of company's value.

According to Brigham and Houston (2011), There are several ratio analysis approaches to assess the market value, such as Price Book Value Ratio (PBV), Market Book Value Ratio (MBV), Dividend Yield Ratio, Dividend Payout Ratio (DPR) and Price Earnings Ratio (PER).

1. Price Book Value

   Price Book Value is a ratio to compare the market value by dividing the stock price per share and shareholders equity per share.

2. Market Book Value

   Market Book Value is a ratio to find the value of the company by dividing the market capitalization and total book value.

3. Dividend Yield Ratio

   Dividend Yield is a ratio by dividing the anual dividend and share price. In other words, dividend yield will show the benefits level provided by company.

4. Dividend Payout Ratio

   According to Gitman (2006), Dividend Payout Ratio indicated the percentage of each dollar earned is distributed to the owner in the form of cash. Dividend Payout can be calculated by dividing the dividend per share by its earning per share.

5. Price Earning Ratio

Price Earning Ratio shows how much the investor assess the stock prices against the multiple of earnings (Jogiyanto, 2009). This research uses PER to measure the company's value, and it can be formulated by :

$$\text{PER} = \frac{\textit{Stock Price}}{\textit{Earning Per Share}}$$

2.1.2 Current Ratio

Current Ratio is the ratio to measure the company's ability to pay off its short term liabilities with its current assets. In other words, the current ratio can be used to measure the margin of safety of a company (Kasmir , 2014). The reason why we have to choose current ratio as an independent variable is because if the company can not pay off their short term liability, then they will can not pay their liabilities in the future.

The formula to calculate a company's current ratio is as follows :

$$\text{Current Ratio (CR)} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

2.1.3 Debt Ratio

According to Darsono and Ashari (2010) , Debt Ratio shows the ability of the company to pay off the obligations when the company is liquidated. This ratio measure a company's financial leverage. The reason why we have to choose debt ratio as an independent variable is because the investor would not give their investment if the company have high liquidity risk, and the ratio of liquidity risk will show in the debt ratio.

The formula that can be used for calculate Debt Ratio is :

$$\text{Debt Ratio (DR)} = \frac{Total\ Debt}{Total\ Assets}$$

2.1.4 Return on Assets

Return on assets is a profitability ratio that provides how much profit a company is able to generate from its assets. The reason why we have to choose return on asset as an independent variable is because return on assets is one of the comprehensive technique, which is used to measure the effectiveness of the overall operation of the company.

The formula to calculate the return on assets is as follows :

$$\text{Return On Assets (ROA)} = \frac{Net\ Income\ After\ Taxes}{Total\ Sales}$$

2.2 Hypothesis

According to Sugiyono (2011), Hypothesis is the theoretical answer towards the problem statement in the research which does not rely on empirical data. There are 2 types of hypothesis; they are null hypothesis and alternative hypothesis. The null hypothesis (H_0) is accepted if there is no significant effect in a set of given observations. Meanwhile, the alternative hypothesis ($Ha_)$ is accepted if there is a significant effect in a set of given observations.

Based on the description above, hypothesis on this research are :

1. H_{01} = There is no significant effect of Current Ratio (CR) on Company's value in food industry companies listed in Indonesia Stock Market and Taiwan Stock Market.

   Ha1 = There is a significant effect of Current Ratio (CR) on Company's value of food industry companies listed in Indonesia Stock Market and Taiwan Stock Market

2. H_{02} = There is no significant effect of Debt Ratio (DR) on Company's value of food industry companies listed in Indonesia Stock Market and Taiwan Stock Market

   Ha2 = There is a significant effect of Debt Ratio (DR) on Company's value of food industry companies listed in Indonesia Stock Market and Taiwan Stock Market

3. H_{03} = There is no significant effect of Return on Assets (ROA) on Company's value of food industry companies listed in Indonesia Stock Market and Taiwan Stock Market

   Ha3 = There is a significant effect of Return on Assets (ROA) on Company's value of food industry companies listed in Indonesia Stock Market and Taiwan Stock Market