



Investigation into the Fundamental Analysis of Stock Investment Instruments on the Indonesian Stock Exchange

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ABSTRACT

Investors engage in thorough study and examination of various aspects that impact a company's performance and intrinsic value in order to make investment decisions. Fundamental analysis is scrutinizing a company's financial accounts, such as the balance sheet, income statement, and cash flow statement, in order to comprehend the company's financial well-being. Key elements examined in the fundamental analysis encompass revenue, net income, assets, debt, and operational cash flow. Financial ratio analysis, including metrics such as price-to-earnings (P/E), price-to-sales (P/S), price-to-book (P/B), and price-to-growth (PEG), is employed to evaluate if a company's stocks are reasonably priced or underestimated. Evaluating a stock's investment potential requires a thorough examination of a company's growth, future growth possibilities, and competition in the relevant sector and market. Assessing a company's success also requires considering its corporate governance and share ownership policies. Fundamental analysis enables investors to make well-informed investment decisions by thoroughly comprehending the firm, its financial performance, and the external factors that impact the organization. Fundamental analysis is a crucial tool for investors to evaluate the risk and potential return of an investment. It plays a significant role in establishing a successful stock investment plan.

1. Introduction

The stock market is one of the most exciting and challenging investment venues for many individuals and institutions. In an effort to achieve success in stock investment, a deep understanding of various factors is required to influence the value of a share. One of the most well-known and effective approaches to stock analysis is fundamental analysis. Fundamental analysis is a method used by investors to evaluate the intrinsic value of a company and its shares. This approach involves a deep understanding of the economic, financial, and operational factors that influence a company's performance and its future growth potential.^{1,2}

In this study, various aspects related to the fundamental analysis of stock investment in the stock

market were explored. This includes research of the company's financial statements, analysis of financial ratios, company growth, management, economic factors, and comparison with competitors in the relevant industry. This study aims to provide a comprehensive understanding of how investors can use fundamental analysis as a tool to make more informed investment decisions. Through this study, we explore ways to assess whether a stock is trading at a fair price, whether the company has promising growth potential, and how external factors can influence investment decisions. Thus, it can be understood how fundamental analysis can be an important foundation in a successful investment strategy in a dynamic and challenging stock market.^{3,4}

Financial statements

Analysis of a company's financial statements is a key step in the fundamental analysis of stock investments in the stock market. Financial reports provide an in-depth look at a company's financial health and performance. Some key factors to consider in financial statement analysis include

- 1) Revenue: Company revenue is the amount of money received from the sale of products or services. Steady or increasing revenue growth from year to year is a positive indication that the company may have a good market share.
- 2) Net income: Net income is the profit remaining after all costs and expenses, including taxes, are deducted from income. Stable or increasing net income is a sign that a company may be efficient in managing its operations.
- 3) Assets: A company's balance sheet reveals its assets, including current assets such as cash, receivables, and inventory, as well as fixed assets such as property and equipment. Asset analysis helps understand the extent to which a company has resources that can be used to support its growth and operations.
- 4) Debt (Liabilities): Debt includes all the company's financial obligations, including short and long-term debt and other obligations. Debt analysis helps assess the extent to which a company is burdened by its debt and whether the company has the ability to pay that debt.
- 5) Operating cash flow: The cash flow report reveals how the company generates and uses its cash flow. Operational cash flow is cash flow generated from the company's core operations. Positive operating cash flow indicates a company's ability to make money from its core business.

Apart from the factors above, investors will also pay attention to financial ratios such as profitability, liquidity, and leverage ratios to gain a deeper understanding of the company's financial performance. All of this information helps investors assess a company's financial health, growth potential, and risks associated with investing in shares in that company.⁵⁻⁷

Profit and loss analysis

Analysis of a company's revenue and net profit growth from year to year is an important component

in the fundamental analysis of stock investments. This helps investors understand a company's long-term performance and its business growth potential. In addition, analysis of profitability ratios, such as gross profit, operating profit, and net profit, provides deeper insight into the company's operational efficiency. Here's how investors do this analysis:

- 1) Revenue growth: Investors check the history of a company's earnings growth over the past few years. Steady or increasing revenue growth from year to year can indicate that a company may have a product or service that is in demand and a good market share.
- 2) Net profit growth: Along with revenue growth, investors also pay attention to net profit growth. Net profit growth that is in line with revenue growth is a positive indication that the company can manage costs well and earn greater profits from its operations.
- 3) Profitability ratio analysis:
 - A) Gross profit: Gross profit is the difference between revenue and direct costs of production. It reflects a company's efficiency in producing basic products or services. High gross profit can indicate efficiency in production cost management.
 - B) Operating profit: Operating profit is profit before non-operating costs such as interest and taxes. This reflects the company's operational performance. High operating profit shows efficiency in running the main business.
 - C) Net profit: Net profit is profit after all costs and expenses, including taxes, are deducted from income. This is the profit remaining for shareholders. High net profit shows the company's efficiency and profitability.

Investors will compare these ratios with similar companies in the same industry to get an idea of how efficient the company is at generating profits compared to its competitors. Analysis of revenue growth and profitability ratios provides a better picture of a company's business performance in the long term. This helps investors assess whether the company is capable of generating sustainable profits, which is an important factor in making investment decisions.⁸⁻¹⁰

Balance sheet analysis

Balance sheet analysis is an important step in the fundamental analysis of stock investments. The balance sheet provides a picture of a company's

resources and liabilities, which is highly relevant in assessing a company's financial health. Investors carry out a balance sheet analysis to understand the level of liquidity and financial structure of the company. Some of the key ratios to look for in balance sheet analysis include 1) Debt-to-equity ratio: This ratio measures the extent to which a company relies on debt to fund its operations. This ratio is calculated by dividing the company's total debt by its total equity. A high debt ratio can signal a higher level of risk, while a lower ratio indicates healthier finances. 2) Current ratio: The current ratio measures a company's ability to pay its short-term obligations with current assets. It is calculated by dividing total current assets by total current liabilities. A higher current ratio indicates a higher level of liquidity, which is usually considered a positive. 3) Quick ratio: The quick ratio is a more conservative measure of liquidity because it only includes the most liquid assets (usually cash, receivables, and short-term investments) in the calculation. It measures a company's ability to meet short-term obligations without having to sell other assets. A higher quick ratio indicates a higher level of liquidity.

Investors use these ratios to assess a company's financial risk. The debt-to-equity ratio helps measure a company's debt level, while the current ratio and quick ratio help assess a company's level of liquidity and ability to meet its short-term obligations. Additionally, investors can also compare these ratios with similar companies in the same industry to get a better understanding of the company's financial position.¹¹⁻¹³

Cash flow statement

The cash flow statement is an important component in analyzing a company's financial statements in the context of fundamental analysis. This report provides insight into how a company generates and uses its cash flow over a certain period, which can help investors understand the extent of the company's operational sustainability and financial policies. Some important points that investors pay attention to in cash flow statement analysis include: 1) Operating cash flow: This is the cash flow generated

by the company's core operational activities. Investors look for positive cash flow from operations because this shows that the company is able to make money from its core business. Stable or increasing cash flow from operations is a positive indicator. 2) Investing cash flow: The cash flow statement also includes cash flows related to investment activities, such as the purchase or sale of fixed assets, investments in projects, or the acquisition of other companies. Investors check whether the company makes sound investments and generates positive cash flows in the long term. 3) Financing cash flow: This includes cash flows related to the company's financing, such as the issuance or payment of debt, purchase or sale of shares, or payment of dividends. Investors check whether the company has a sound financing policy and whether the financing cash flow reflects operational sustainability. 4) Change in cash and cash equivalents: This is the net change in a company's cash and cash equivalent position during a certain period. Investors look for positive growth in the cash position because it signals a company's ability to meet short-term obligations and invest in growth.

Cash flow statement analysis helps investors understand how a company manages its financial resources and whether the company has sound policies related to investment and financing. Positive cash flow from operations and a balanced financing policy can indicate business sustainability and the company's ability to meet financial obligations. However, keep in mind that cash flow statement analysis must be carried out in conjunction with analysis of other financial reports to get a more comprehensive picture of the company's performance and finances.^{14,15}

Financial ratio analysis

Financial ratio analysis is an important component in the fundamental analysis of stock investments because it helps investors assess whether a company's shares are trading at a fair price. The following are some financial ratios that are commonly used in stock analysis: 1) Price-to-earnings (P/E) ratio: The P/E ratio is a comparison between a company's share price (market price) and net income per share (earnings per

share, EPS). This ratio is used to assess the extent to which investors are willing to pay for each dollar of profit a company generates. A low P/E usually indicates that the stock may be undervalued, while a high P/E can indicate that the stock may be overvalued. 2) Price-to-sales (P/S) ratio: The P/S ratio is the comparison between share price and earnings per share (revenue per share). This ratio is useful for evaluating how expensive a stock is compared to the company's earnings. The lower the P/S ratio, the lower the market assessment of the stock. 3) Price-to-book (P/B) ratio: The P/B ratio is the comparison between the share price and the book value of equity per share (book value per share). It measures the extent to which the market values a company based on the assets recorded on its balance sheet. A low P/B ratio can signal that a stock may be undervalued. 4) PEG ratio (price/earnings to growth): The PEG ratio combines the P/E ratio with the company's profit growth. This gives an idea of the extent to which the share price is proportional to the earnings growth rate. A PEG ratio of less than 1 can indicate that a stock may be undervalued.

Investors use these ratios to compare the valuation of a company's shares with those of competitors in the same industry or with the company's historical ratios. This way, they can assess whether the stock is trading at a fair price, too expensive, or too cheap.^{16,17}

Company growth

A company's history of growth and future growth prospects are key aspects in the fundamental analysis of stock investments. Investors want to understand how a company has developed over time and whether the company has promising growth potential in the future. Here are some factors that investors pay attention to in this analysis: 1) Company growth history: Investors check the company's growth history over the past few years. This includes growth in revenue, net income, and earnings per share. Stable or increasing growth in a company's financial performance can be considered a positive indicator. 2) Future growth prospects: Investors consider factors that may influence a company's future growth, including business plans, product development

strategies, expansion into new markets, and industry prospects. This analysis includes questions such as: Does the company have solid growth projections? Are there significant growth opportunities in the future? 3) Competitor and industry analysis: Investors also examine how the company competes in the relevant industry and market. They consider the company's position in the industry, its market share, and its competitive advantages. This analysis helps determine the extent to which a company can maintain or increase market share, as well as how strong the competition is in the industry. 4) Innovation and R&D (research and development): Investors assess a company's level of innovation and investment in research and development (R&D). Companies that are active in innovation tend to have greater growth opportunities, especially if their innovative products or services gain market attention. 5) Company management: The quality of company management is also important in assessing company growth. Investors examine management's record, strategic decisions, and track record of business plan execution. 6) External factors: Investors also consider external factors that can influence the company's growth, such as government regulations, changes in consumer trends, economic conditions, and relevant global factors.

Analysis of future growth and prospects helps investors determine whether a company's stock has attractive growth potential. By understanding a company's historical growth and the factors influencing future growth, investors can make more informed and potentially profitable investment decisions.^{18,19}

Company management

The quality of company management plays a key role in stock investment assessment. Investors want to ensure that the company is well-managed, has the right business strategy, and is led by individuals with integrity. Here are some factors that are important to investors when evaluating company management: 1) Management track record: Investors examine the track record of a company's management, including their experience in the relevant industry and previous track

record. Management's experience and knowledge in facing challenges and opportunities in the industry can be a strong indicator of their ability to manage the company well. 2) Business strategy: Investors examine the company's business strategy. It includes the company's long-term vision, execution plan, and ability to adapt to changing market conditions and technology. A good business strategy must be in line with the company's growth prospects. 3) Quality of management decisions: Management decision-making in terms of resource allocation, expansion, investment, and restructuring is very important. Investors want to see evidence that management decisions have supported the company's growth and profitability. 4) Management integrity: Management integrity and ethics are important factors. Investors want to ensure that management operates with integrity and does not engage in questionable business practices or unethical behavior. 5) Share ownership policy: Share ownership policy by management can also be an important indicator. When management owns company shares, they have an incentive to run the company well because their interests align with the interests of other shareholders. 6) Communication with shareholders: Transparency and good communication with shareholders is an important factor. Investors want to see that management provides clear reports about the company's performance, projections, and challenges faced. 7) Awards and recognition: Awards or recognition received by management can be an indicator of their quality. For example, industry awards or recognition of business achievements can indicate competence and a good reputation.

Investors use this information to measure the extent to which they believe in management's ability to manage the company well and achieve its business goals. Strong management and high integrity tend to be positive factors in making investment decisions. On the other hand, management that is less competent or has ethical problems can be a source of concern for investors.²⁰

2. Conclusion

Investors conduct in-depth research and evaluation of factors that influence a company's

performance and intrinsic value to make investment decisions. Fundamental analysis involves examining a company's financial statements, including the balance sheet, income statement, and cash flow statement, to understand the company's financial health. The main factors considered in the fundamental analysis include revenue, net income, assets, debt, and operational cash flow. Financial ratio analysis such as P/E, P/S, P/B, and PEG is used to assess whether a company's shares are fairly valued or undervalued. Analysis of a company's growth, future growth prospects, and competition in the relevant industry and market is essential in assessing a stock's investment potential. Company management and share ownership policies are also key factors in assessing a company's success. Fundamental analysis helps investors make more informed investment decisions based on a deep understanding of the company, its financial performance, and the external factors that influence the business. Overall, fundamental analysis helps investors assess the risk and return potential of an investment and is an important tool in developing a successful stock investment strategy.

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