

ABSTRACT

Mining stock and commodity price have been weakening since 2012 to 2016. The weakening of stock prices in the mining sector can be influenced by its financial ratios performance, that can be measured by analyzing its financial ratios. Financial ratios can be used to assess the performance of the company's financial statements, by comparing a company's financial ratios to the industry average of similar companies simultaneously.

This research is aimed to know whether all of the mining companies converge to the average of its industry's financial ratios. In the other hand, this research aims to determine the direction and the adjustment speed of financial ratios of all mining companies to the industry average. Then, the sample of mining companies that is investigated in this research are 30 companies.

The method used is a combination of simple linear regression with Partial Adjustment Model to prove whether the companies adjust to the average of its target industry's financial ratios. The financial ratios used in this research are current ratio, quick ratio, total debt to equity ratio, inventory turnover ratio, and total assets turnover ratio. Hypothesis tested by using t test.

The result shows that the five financial ratios of mining companies converge to the average of its industry's financial ratios. Based on the result of a analysis, the convergence of quick ratio, total debt to equity ratio, inventory turnover ratio, and total asset turnover ratio are above the industry average. Meanwhile, the convergence of current ratio occurs below the industry average. The result of β analysis shows that the adjustment speed of those five ratios are faster towards the industry average. The largest value of β is owned by current ratio ($\beta=1.000001$). Meanwhile, the lowest value of β is owned by total asset turnover ratio ($\beta=0.999998$).

Since all of the mining companies converged, for the investors that tend to concern their stocks on the capital gain are recommended to sell their stocks when the average of market price tends to weaken. Then, for the upcoming researchers, hoped to develop the objects to multi industry that classified into index and to use the other measurement of financial ratios.

Keywords: mining; financial ratios; partial adjustment model