Valuation of Stocks with Price Earning Ratio and Factors Affecting them on the Indonesia Stock Exchange (Basic Materials Sector Company Indexed LQ 45)

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ABSTRACT: This research is about the valuation of stocks with a Price Earning Ratio in basic materials sector companies indexed by LQ 45 listed on the Indonesia Stock Exchange. In addition, this research is also an effort to identify the determining factors of the Price Earning Ratio, because the Price Earning Ratio Assessment has always been the center of attention of investors and market analysts. The samples used in this study were 9 companies using the non probability sampling method, namely Purposive Sampling with an observation period from 2017-2021. Data processing is carried out with the Eviews 12 program with stages of processing (1) descriptive statistics that describe the data used, (2) Panel regression models and the selection of the best models through the Chow, Hausman and Test tests, Lagrange Multiplier test models to produce the best model, (3) Selected models are carried out Classical Assumption Tests with the aim of Based on the selected model, the Radom effect model shows that: return on assets, debt to equity ratio, current ratio simultaneously has a positive and significant effect on the Price Earning Ratio. In partial Return on Asset, the Price Earning Ratio has a positive and significant effect. Meanwhile, the debt equity ratio and Current Ratio to the Price Earning Ratio have a negative and significant effect.

KEYWORDS: Price Earning Ratio, Return On Assets, Debt To Equity Ratio, Current Ratio, in basic materials sector companies indexed by LQ 45

I. INTRODUCTION

Price Earning Ratio is one of the indicators of market confidence in the company's growth prospects so that many capital market players pay attention to the performance of the Price Earning Ratio. Price Earning Ratio for analysts and investors helps in stock valuation and improves judgement because the current stock price is a mirror of the company's future prospects. And according to Halil Arslan *et al.*, (2017) investors use the Price earning Ratio as an indicator of a company's stock valuation because the calculation is practical and easy to understand.

By knowing the market price and net profit per share, investors can calculate what the Price Earning Ratio of a company's shares is. A high Price Earning Ratio can indicate investors' interest and interest in the stock and the company is considered to have a bright prospect in the future. In addition, the reason why the price earning ratio is used in stock price analysis is because the Price Earning Ratio will facilitate and help analysts and investors in stock valuation, and the Price Earning Ratio can also help analysts to improve judgement because the current stock price is a mirror of the company's prospects in the future.

The amount of the Price Earning Ratio follows price changes in the market and the company's projected net profit. If the price rises, the projected profit remains, practically the Price Earning Ratio will rise. Conversely, if the projected profit rises, the price in the market remains then the Price Earning Ratio will fall.

The following Price Eearning Ratio of nine Companies The basic materials sector incorporated in LQ45 is presented in table form as follows:

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Table 1. Price Earning Ratio 2017 – 2021
9 Basic materials sector companies incorporated in LQ45

No	Company	Year			Average
		2019	**2020**	**2021**	
1	Aneka Tambang Tbk.	103.96	40.41	25.99	56,79
2	Barito Pacific Tbk.	219.16	200.73	41.23	153,71
3	Vale Indonesia Tbk.	45.16	43.22	32.64	40,34
4	Beautiful Tips Pulp & Paper Tbk.	1.10	13.82	5.70	6,87
5	Indocement Tunggal Prakarsa Tbk.	38.35	29.65	23.77	30,59
6	Medco Energy International Tbk.	28.78	5.56	13.72	16,02
7	Semen Indonesia (Persero) Tbk.	29.60	26.25	19.56	25,14
8	Tin Tbk.	9.99	32.26	10.05	17,43
9	Tjiwi Kimia Paper Mill Tbk.	13.76	14.59	5.92	11,423
	Average	55.54	45.17	19.84	40.18

Source: Indonesia stock exchange

Table 1 above shows the average Price Earning Ratio of each company over a period of 5 years (2017-2021). The highest average Price Earning Ratio is Barito Pacific Tbk (BRTP), while the lowest is Indah Kiat Pulp & Paper Tbk (INKP). This shows that Barito Pacific Tbk (BRTP) company has bright prospects compared to 8 other companies. In addition, the Price Earning Ratio value which is below the average of the 9 companies that are the object of research are Indah Kiat Pulp & Paper Tbk (INKP), Medco Energi Internasional Tbk (MEDC), Semen Indonesia (Persero) Tbk (SMGR), Timah Tbk (TINS) and Tjiwi Kimia Paper Mill Tbk (TKIM). According to Sherman (2015), the Price Earning Ratio can be used for investors to see if a company's stock can be said to be expensive/ cheap, because the value of the Price Earning Ratio can determine the value of a company's shares overprice or underprice. Several researchers have conducted research on the factors that influence the Price Earning Ratio including: Afza and Tahir (2012) for Karachi stock exchange, Ahmad A. Fesokh, Fayez S. Haddad (2019) for Manufacturing Industry in Jordan, Dr Ochuko Benedict Emudainohwo (2017) for 47 non-financial companies listed on the Nigerian Stock Exchange, Halil Arslan et al (2017) for the Turkish Stock Market, Kumar Debasis Dutta et al (2018) for DSE Listed Manufacturing Company, Aang Aribawa et al (2018), for companies Listed in Indonesian Stock Exchange, Natalia Popa Antalovschi and Raymond A. K. Cox (2021) in Canada.

Seeing the importance of Price Earning Ratio in a company that has been registered in the capital market, it is necessary to know the factors that affect the amount of Price Earning Ratio. The amount of value of a company's Price Earning Ratio can be influenced by the Return On Equity Ratio.

Return on equity is a ratio to measure how much profit the owner of his own capital is entitled to. The higher the return on equity, the better the condition of the company and furthermore, the greater the company's stock price. To see the picture of Return On Equity from the 9 companies that are the object of research are as follows:

Table 2. Return on Equity 2017 – 2021
9 Basic Materials Sector Companies incorporated in LQ45

NO	CODE	ROE OF the Year			Average
		2019	**2020**	**2021**	
1	Aneka Tambang Tbk.	1.74	6.04	10.98	6.25
2	Barito Pacific Tbk.	1.60	1.23	3.13	1.99
3	Vale Indonesia Tbk.	2.96	4.10	7.70	4.92
4	Beautiful Tips Pulp & Paper Tbk.	6.85	6.92	11.05	8.27
5	Indocement Tunggal Prakarsa Tbk	7.95	8.15	7.37	7.82
6	Medco Energy International Tbk.	- 2.88	-15.55	5.99	-4.15
7	Semen Indonesia (Persero) Tbk.	7.06	7.83	5.08	6.66
8	Tin Tbk.	-11.62	- 6.89	20.65	0.71
9	Tjiwi Kimia Paper Mill Tbk.	12.02	9.81	13.57	11.8
	Average	2.85	2.40	9.50	4.92

Source: Indonesia stock exchange

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Based on Table 2 above, it can be seen that the average of the last 5 years Return On Equity from 9 companies, the highest is Tjiwi Kimia Tbk Paper Mill (TKIM) and the lowest is Medco Energi Internasional Tbk (MEDC). Meanwhile, the average Return On Equty of 9 companies for the last 3 years is 6.25. From the table above, it can be seen that there are 4 companies whose Return On Equity value is below the average. This shows that the profits that belong to investors are still low, which means the company's low ability to manage equity to get maximum profit. Several researchers discussed the effect of Return On Equity on Price Earning Ratio including H.Wenjing (2017) stated that Return On Equty is negatively related to Price Earning Ratio, which means that an increase in Return On Equty decreases the value of the Price Earning Ratio.

In addition to Return On Equity, another factor that affects the Price Earning Ratio is the Debt to Equity Ratio in Gendro Wiyono's research, Nurul Indah Safitri (2021). Debt to Equity Ratio is the ratio used to assess debt to equity (Kasmir, 2014). While Brigham & Houston (2007) stated that the value of the Debt To Equity Ratio can describe the capital structure of the company through loans provided to companies.   To see the Debt Equity Ratio overview of the 9 companies used as the object of study is as follows:

Table 3. Debt to Equity Ratio 2017 – 2021
9 Basic materials sector companies incorporated in LQ45

No	Company	Year			Average
		2019	**2020**	**2021**	
1	Aneka Tambang Tbk.	0.67	0.67	0.62	0.65
2	Barito Pacific Tbk.	1.61	1.60	1.08	1.43
3	Vale Indonesia Tbk.	0.14	0.15	0.15	0.15
4	Beautiful Tips Pulp & Paper Tbk.	1.12	1.00	0.85	0.99
5	Indocement Tunggal Prakarsa Tbk.	0.20	0.23	0.22	0.22
6	Medco Energy International Tbk.	3.46	3.86	3.24	3.52
7	Semen Indonesia (Persero) Tbk.	1.35	1.19	0.92	1.15
8	Tin Tbk.	2.87	1.94	1.33	2.06
9	Tjiwi Kimia Paper Mill Tbk.	1.21	1.03	0.84	1.03
	Average	1.40	1.30	1.03	1.24

Source: Indonesia stock exchange

Table 3 illustrates the company's ability to meet all of its debts/liabilities using all of its assets. The highest average Debt Equity Ratio in the last 3 years of the 9 companies that are the object of research is Medco Energi International Tbk. This illustrates that the company's debts/liabilities are greater than all the assets it owns, so that in undesirable conditions (for example bankruptcy), the company will find it difficult to pay off all its debts/liabilities. Meanwhile, the lowest debt equity ratio is Indocement Tunggal Prakarsa Tbk. The results of research from several researchers on Debt Equity Ratio can affect the Price Earning Ratio including Dedeh Sri Sudaryantia and Nana Sahron (2016), Cecep Ridwan et al (2019) which stated that there was no significant relationship. While Frengky David Sijabat and Anak Agung Gede Suarjaya (2018), Rita Purnama Sari et al (2021), Gendro Wiyono and Nurul Indah Safitri (2021) stated different things.

Another factor that can affect the Price Earning Ratio is the Current Ratio. Current Ratio is a ratio that measures a company's ability to meet short-term obligations that are about to mature (Brigham and Haouston, 2014). The company's ability to meet its high-term obligations shows that the company's Current Ratio is high. To see the current ratio of 9 companies studied, you can see from the following table:

Table 4. Current Ratio 2017 – 2021
9 Basic materials sector companies incorporated in LQ45

No	Company	Year			Average
		2019	**2020**	**2021**	
1	Aneka Tambang Tbk.	1.67	1.67	1.60	1.65
2	Barito Pacific Tbk.	2.61	2.61	2.08	2.43
3	Vale Indonesia Tbk.	1.14	1.14	1.15	1.14

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4	Beautiful Tips Pulp & Paper Tbk.	2.12	2.00	1.83	1.98
5	Indocement Tunggal Prakarsa Tbk.	1.20	1.23	1.20	1.21
6	Medco Energy International Tbk.	4.46	4.87	4.22	4.52
7	Semen Indonesia (Persero) Tbk.	2.35	2.18	1.92	2.15
8	Tin Tbk.	3.85	2.96	2.33	3.05
9	Tjiwi Kimia Paper Mill Tbk.	2.21	2.03	1.82	2.02
	Average	2.40	2.30	2.02	2.24

Source: Indonesia stock exchange

The picture of table 4 above, the Current Ratio of 9 companies above shows that the last 3 years the average curent ratio of companies that are below 2.0 is 4 companies. This shows that the company's current asset ability to meet short-term obligations when billed is low. While the other 5 companies are above 2.0. The company whose current asset capability is high is Medco Energi Internasional Tbk. The higher the current ratio means that the company's debt is guaranteed to creditors and the increasing current ratio of the company is likely to increase the company's share price which will affect PER. This is due to the increasing public trust in companies that have a high Current Ratio. Some research researchers who discuss the effect of Current Ratio on Price Eraning Ratio include Siti Aisyah and Ahmad Rodoni (2016) and Djiwangga Adie Prakoso and Jusmi Amid (2018),

II. LITERATURE REVIEW

Price Earning Ratio, one of the indicators that investors most often use to analyze whether the investments made are profitable or not. In addition, the Price Earning Ratio is also useful for knowing when is the right time to buy and sell shares owned in order to get the maximum profit from the difference in price (capital gains). According to Sumarni et al (2022) Price Earning Ratio is useful in knowing how the market assesses the performance of stocks described in earnings per share and . Afza and Tahir (2012) state that the Price Earning Ratio can help invertors see a picture of the company's future. According to Harahap (2011), the Price Earning Ratio is a comparison between the price of a stock in the market and the original price given in relation to the income earned. A high PER indicates that investors' aspirations about the company's potential success are very high. The same thing is also according to Mohd. Nawi Purba *et al*., (2022) that a high Price Earning Ratio means high investor confidence to invest in the company.

Return on Equity, is a ratio used to measure a company's ability to obtain profits available to company shareholders (Sartono, 2015). And Kasmir (2014), stated to measure the ability of bank management in managing existing capital to get net income. The higher the Return On Equity value of a company indicates the higher the management of the company's capital in getting a return on its capital. This is strengthened by the results of research Emudainohwo (2016) namely good company performance will attract investors.

Debt to Equity Ratio, according to Tjiptono & Hendi (2016) is used to measure the extent to which the amount of debt can be covered by own capital. Meanwhile, Ashari (2018) said to find out the company's ability to pay obligations if the company is liquidated and Ang (2010) stated that the higher Debt to equity ratio reflects the company's risk is also relatively high, so with these conditions investors tend to avoid stocks that have a high Debt to equity ratio (DER). This is in line with the opinion of Ahmad A. Fesokh and Fayez S. Haddad (2019), where excessive leverage from the investor's point of view increases financial risk. Meanwhile, Dedeh Sri Sudaryantia and Nana Sahroni (2016) stated that the use of debt will increase the rate of return for shareholders. Inaddition, research by Hirdinis M (2019) states that DER will increase in company value as long as DER has not reached the optimum point in accordance with the tradeoff theory.

Current Ratio, used to evaluate the company's liquidity and the ability to repay short-term debt. Yemima (2012) states that the Current Ratio can reflect a company's ability to pay all its financial obligations. The higher current ratio of a company gives a good indication of guarantees for short-term creditors which means the company has the ability to pay off its short-term financial obligations. And according to Jumingan (2011), a high current ratio indicates excessive cash compared to the level of need. Thus, it can be concluded that a current ratio that is too high is also not good in a company due to the large amount of funds that are idle / used.

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III. RESEARCH METHODOLOGY

The data in this study is the financial ratio of basic materials subsector companies included in the LQ45 index on the Indonesia Stock Exchange in 2017 – 2021. Companies that are used as the object of research for companies in the basic materials subsector are based on the following criteria:

1. Company shares that are included in the LQ-45 calculation throughout the research period, namely the period 2017 - 2021.
2. The company has complete financial data on the financial statements ended December 31 during the observation period, namely the period 2017 – 2021.

From these criteria, 9 companies were obtained into research projects as shown in the following table:

Table 5. Research Sample List

No	Stock Code	Company Name
1	ANTM	Aneka Tambang Tbk.
2	BRPT	Barito Pacific Tbk.
3	INCO	Vale Indonesia Tbk.
4	INKP	Beautiful Tips Pulp & Paper Tbk.
5	INTP	Indocement Tunggal Prakarsa Tbk.
6	MEDC	Medco Energy International Tbk.
7	SMGR	Semen Indonesia (Persero) Tbk.
8	TINS	Tin Tbk.
9	TKIM	Tjiwi Kimia Paper Mill Tbk.

Source: www.idx.co.id (data processed)

The data used is panel data which is a combination of time series and cross section data to measure the effect of Return On Equity, Debt to Equity Ratio, and Current Ratio on the Price Earning Ratio of basic materials subsector companies in the LQ45 index listed on the Indonesia Stock Exchange both simultaneously and partially. In order to achieve the research objectives, data analysis in this study will be carried out through an econometric model with the help of the Eviews program with its stages: descriptive statistics (mean), standard deviation, maximum value, and minimum value), Classical Assumption Test (Normality test, Multicolonierity, Heteroskedasity and Autocorrelation) and regression.

Panel data regression provides a choice of models in the form of common effect, fixed effect and random effect. The common effect and fixed effect models use the Ordinary Least Squared (OLS) approach while the random effect uses Generalized Least Squares (GLS). To get the best model is done with the Chow test, the hausman test and the Lagrange Multiplier Test.

The panel model can be formulated as follows:

$Y = \beta_0 + \beta_{1it}X1_{it} + \beta_{2it}X2_{it} + \beta_{3it}X3_{it} + e_{it}$

Where:
Y = Price Earning Ratio
X1 = Return On Equity
X2 = Debt On Equity Ratio
X3 = Current Ratio
$\beta_0, \beta_{1it}, \beta_{2it}, \beta_{3it}$ = Regression Coefficient
e_{tit} = error/epsilon

The hypotheses in this study are:

1. Return On Equity, Debt to Equity Ratio, and Current Ratio have a positive and significant effect on the Price Earning Ratio of basic materials subsector companies in the LQ45 index listed on the Indonesia Stock Exchange
2. Return On Equity has a positive and significant effect on the Price Earning Ratio of basic materials subsector companies in the LQ45 index listed on the Indonesia Stock Exchange.

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3. Debt to Equity has a positive and significant effect on the Price Earning Ratio of basic materials subsector companies in the LQ45 index listed on the Indonesia Stock Exchange.

4. Current Ratio has a positive and significant effect on the Price Earning Ratio of basic materials subsector companies in the LQ45 index listed on the Indonesia Stock Exchange.

IV. RESEARCH RESULTS AND DISCUSSION

1. Descriptive Analysis

Descriptive analysis only describes the sample data and the sample picture is the maximum, minimum value, mean value, and standard deviation which shows how much the sample value differs from the average.

Table 5. Descriptive Analysis Results

	LOGROE	LOGDER	LOGCR	LOGPER
Date: 06/11/22 Time: 14:12				
Sample: 2017 2021				
Mean	1.747556	-0.199111	0.695111	3.188444
Median	1.930000	0.000000	0.690000	3.260000
Maximum	3.030000	1.350000	1.580000	5.390000
Minimum	-0.300000	-1.970000	0.130000	1.670000
Std. Dev.	0.791550	0.942250	0.397444	0.918949
Skewness	-0.780377	-0.491998	0.362078	0.429740
Kurtosis	3.132793	2.288681	2.499721	2.886302
Jarque-Bera	4.600475	2.764165	1.452524	1.409315
Probability	0.100235	0.251055	0.483714	0.494278
Sum	78.64000	-8.960000	31.28000	143.4800
Sum Sq. Dev.	27.56823	39.06476	6.950324	37.15659
Observations	45	45	45	45

Source: processed reviews version 12

The table above can explain that the Return On Equity (ROE), Curent Ratio (CR) and Price Eraning Ratio (PER) have a Mean value greater than the standard deviation and this shows that the average variable is fully capable of explaining the entire data or data is not diverse. While the Variable Debt Equity Ratio (DER) has a mean of -0.20% and a standard deviation of 0.94% which means that the mean is smaller than the standard deviation which indicates that the average DER variable is less able to explain the entire data due to the diverse data.

The results of panel regression in this study can be shown in the following table:

Table 6. Panel Regression

Variable	Common Effect Model			Fixed Effect Model			Random Effect Model		
	Coeff	t-Statistics	Prob.	Coeff	t-Statistics	Prob.	Coeff	t-Statistics	Prob.
Log ROE	4.6641	23.7950	23.7950	4.5463	27.6706	0.0000	0.3156	2.6355	0.0118
Log DER	-0.9443	-10.6307	-10.6307	-0.8536	-9.8887	0.0000	-0.2422	-2.0019	0.04 19
Log CR	-0.33033	-3.9602	-3.9602	0.2060	0.86918	0.3911	-0.9071	-11.3944	0.0000
C	0.2579	1.9471	1.9471	0.2928	2.2949	0.0282	4.5756	23.4326	0.0000
R-squared	0.7871			0.9040			0.7536		
Adjusted R-squared	0.7715			0.8720			0.73545		
F-statistics	50.5152			28.2521			41.7710		
Prob(F-statistic)	0.0000			0.0000			0.0000		

Source: Processed

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Based on the Chow Test, Hausman Test and Lagrange Multiplier Test, the best (selected) model is the Random Effect Model. The selected regression model (Random Effect Model) has passed the classical assumption testing of normality, heteroskedasity and autocorrelation.

Multiple linear regression analysis that aims to measure the strength of the relationship between two or more variables and show the direction of the relationship between bound variables and free variables. From table 6 above, the multiple linear regression equation is obtained as follows:

$$\text{Log } Y = \beta_0 + \beta_{1it} \text{ Log } X_{1it} + \beta_{2it} \text{ log } X_{2it} + \beta_{3it} \text{ Log } X_{3it} + e_{it}$$
$$\text{Log } Y = 4.575616 + 0.315612 \text{ Log ROE} - 0.242222 \text{ Log DER} - 0.907172 \text{ Log CR}$$

The regression equation above illustrates:

1. The value of the constant coefficient is 4.575616, meaning that if the variable Return On Equity (ROE), variable Debt Equity Ratio (DER), variable Curent Ratio (CR), variable is considered constant then the Price Eraning Ratio (PER) is 4.575616 and the influence that occurs is positive and significant which is characterized by a probability value (0.0118) smaller than α =0.05.
2. The value of the Return On Equity (ROE) coefficient is 0.315612, meaning that an increase in ROE(X1) of 1 unit will result in an increase in the Price Eraning Ratio (PER) of 0.315612 or 31.56% assuming other variables are fixed. The increase in Price Eraning Ratio (PER) by Return On Equity (ROE) is very small, because it is below 50%, while the form of influence that occurs is positive and significant (prob 0.0118 < α = 0.05).
3. The value of the Debt Equity Ratio (DER) coefficient is -0.242222, meaning that if the Debt Equity Ratio (DER) increases by one unit, the Price Eraning Ratio (PER) will decrease by 0.242222 (24%) assuming other variables are fixed. The effect of Debt Equity Ratio (DER) on Price Eraning Ratio (PER) is negative and significant (prob. 0.000 < α = 0.05).
4. The value of the Curent Ratio (CR) coefficient, - 0.907172, means that if the Curent Ratio (CR) increases by one unit then the Price Eraning Ratio (PER) will decrease by 0.907172 (91%), assuming other variables remain. The effect of Curent Ratio (CR), on Price Eraning Ratio (PER) is negative and significant (prob. 0.0419 < α = 0.05).

The results of the F test can be seen from the F-statistical probability value < the significance value of α =5% (0.0000 < 0.05). This shows that there is a significant influence of independent variables (ROE, DER, CR) on the dependent variable (PER) simultaneously. The coefficient of determination of the above model is 0.73545 or 74%. The value of this Coefficient of determination can explain that independent variables (ROE, DER, CR) affect the dependent variable (PER) by 74% and the remaining 26% are influenced by other variables that are not contained in this study.

V. CONCLUSSION

Fund managers, decision makers, market analysts and individual investors need to understand the factors influencing the Price Earning Ratio as it is crucial to making investment decisions. The panel's data findings show that the variation in Return On Equity, Debt Equity Ratio and Current Ratio to Price Earning Ratio is quite large. Another finding in the study is that the Return On Equity with a significant and positive Price Earning Ratio means that the profit and the effectiveness of the use of company assets affect the valuation of the price earning ratio and the company is worthy of being used as an investment place. The Debt to Equity Ratio and Price Earning Ratio are negative and significant. This shows that this relationship is consistent with the theory, where a high Debt Equity Ratio indicates that the company has high risk and causes investors to be afraid to invest in the company. The relationship between the variables Current Ratio and Price Earning Ratio is the largest, where the relationship is negative and significant. This negative relationship shows the large amount of funds in the company or shows that operational activities are not running well and ultimately have an impact on the Price Earning Ratio.

These findings can facilitate market analysts and researchers to investigate the most significant determinants of a company's Price Earning Ratio and also help investors make decisions about their investment portfolio and for companies to look for strategies to increase the value of PER.

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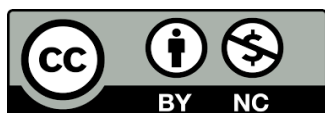
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