The influence of price earnings ratio on stock prices at PT Bank Central Asia Tbk period 2016 - 2021

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ABSTRACT

This study investigates the impact of the Price-Earnings Ratio (P/E Ratio) on the stock prices of PT Bank Central Asia Tbk during the period from 2016 to 2021. Utilizing financial reports from PT Bank Central Asia Tbk, this research employs both descriptive and quantitative methods to explore the relationship. Descriptive statistics, alongside simple and multiple regression analyses, were conducted using SPSS version 25 to analyze the data. Contrary to common assumptions in financial analysis, the findings reveal that the P/E Ratio has an insignificant influence on the stock prices of PT Bank Central Asia Tbk within the timeframe studied.

Keywords: Price Earnings Ratio, Stock Price

1. INTRODUCTION

In this era of globalization, almost all countries pay great attention to the capital market because it has a strategic role in strengthening a country's economic resilience. The capital market has an essential role in a country's economy because the capital market carries out two functions, namely, as a means for business funding or for companies to obtain funds from investors. The capital market is a meeting between parties with excess funds and parties needing funds by buying and selling securities (Tandelilin, 2010:26).

The capital market has a significant role in a country's economy, allowing companies to obtain capital and investors to invest in various financial instruments, including shares (Fahlevi, Moeljadi, et al., 2023; Meiryani et al., 2023). In the capital market, stock prices are one of the main focuses for investors and company stakeholders. Stock prices reflect market perceptions of the company's performance and prospects. Price Earnings Ratio (P/E Ratio) is an indicator used by investors and financial analysts to assess the value of a company's shares. The P/E Ratio measures the relationship between a company's stock price and the resulting earnings per share. This indicator shows how expensive or cheap a company's stock price is concerning the income generated.

The P/E Ratio has long been a commonly used tool in investment analysis. However, the question that often arises is to what extent does the P/E Ratio affect a company's stock price? Can changes in the P/E Ratio provide a strong indication of stock price movements? The answers to these questions have significant implications for investors, financial analysts, and company management (Fahlevi, 2021; Yusuf et al., 2023). Apart from that, capital market phenomena do not always move following existing economic theories. There are moments when a high P/E Ratio is not followed by a significant increase in stock prices, or vice versa. This may be caused by various factors, including macroeconomic conditions, market sentiment, changes in the industry, or even the management characteristics of the company itself.

With a better understanding of these relationships, investors and other stakeholders can make smarter investment decisions and better anticipate changes in the value of a company's shares (Husnah & Fahlevi, 2023). In addition, company management can also use this information to plan more effective business strategies and maximize shareholder value. Therefore, this research has great significance in capital markets and the economy (Ahmad et al., 2023; Ahmed et al., 2023; Fahlevi, Ahmad, et al., 2023).

To determine whether the company is good, it needs to be measured using a profitability ratio, namely the Price Earning Ratio. To measure a company's ability to earn profits or profits...
using profitability ratios. In this profitability ratio, the author uses the Price Earning Ratio, also known as the earnings multiplier approach, a popular approach that uses earnings value to estimate intrinsic value.

In this research, researchers use a profitability ratio, namely the Price Earning Ratio, because the Price Earning Ratio ratio is an indicator of market confidence in the company's growth prospects. Many capital market players pay attention to the Price Earning Ratio approach. Besides that, the Price Earning Ratio provides a good standard in comparing stock prices for different earnings per share and ease in making estimates used in the Price Earning Ratio input.

Therefore, research on the influence of the Price Earning Ratio on stock prices is very relevant. In this context, this research will try to answer several key questions, such as to what extent the P/E Ratio influences stock prices, whether there are external factors that can obscure this relationship, and how dynamic capital market dynamics can influence the relationship between P/E Ratio and stock prices.

2. LITERATURE REVIEW

a. Price Earnings Ratio

The price Earnings Ratio (PER) is obtained from the market price of ordinary shares divided by company profits. So, the higher the ratio will indicate that the company's performance is improving. Conversely, if the Price Earnings Ratio (PER) is too high, it can also indicate that the stock price offered is high or irrational. Price Earning Ratio has a goal, and there are several PER goals as follows:

1) Evaluating Prospective Investments. By calculating the Price Earning Ratio value, investors can find out more clearly whether shares can be a more profitable investment for future investors.
2) Helping Investors make decisions, the Price Earning Ratio Method can be the basis for making investment decisions.
3) Helping Investors make decisions, the Price Earning Ratio Method can be the basis for making investment decisions.

Investors use the Earning Ratio to predict a company's ability to generate profits in the future. Whether the Price Earning Ratio is large or small does not necessarily reflect good performance because the company's average profit growth could cause a high Price Earning Ratio. The price Earning Ratio helps determine the expected future market value of shares and whether it will be profitable. Two components are involved in calculating the Price Earning Ratio: the stock price per share (closing price) and earnings per share (earnings per share).

b. Stock price

According to Sartono (2010:41), the stock price is the present or present value of the cash flow expected to be received. The stock price at any given time will depend on the cash flows investors expect to receive if they buy shares. Stock prices are significant for measuring company performance and as a basis for determining future returns and risks (Siamat, 2004). Stock prices can reflect the value of a company. Companies with good performance will have many investors interested in their shares (Fahlevi et al., 2022). The primary function of a stock index is as an indicator that describes market conditions in a certain period.

These statistical measurements are essential in knowing stock price movement trends. For example, if a stock price index moves up, most of the stock prices will usually also go up and vice versa.

3. RESEARCH METHODS

The type of research used in this research is descriptive research using a quantitative approach. This type of descriptive research is a form of research aimed at describing or illustrating existing phenomena, both natural phenomena and manufactured phenomena (Sukmadinata in Gandhi et al., 2015: 5). This data is secondary data which is in the form of time series for 2016–2021, secondary data is data obtained in ready-made form in the form of publications. This secondary data was obtained from research by studying library sources and documentation available for research purposes. This research was carried out at PT. Bank Central Asia Tbk, namely at Menara BCA, Jl Mh. Thamrin No 1, Central Jakarta, DKI Jakarta, Indonesia. The population in this research is all financial reports of PT Bank Central Asia Tbk. The sample in this research is the financial report of PT Bank Central Asia Tbk for 2016-2021. The data collection technique used in this research is the documentation method. The data analysis method is regression using SPSS Version 25.

4. RESULTS AND DISCUSSION

Normality test

The normality test is used to see whether the residual values are normally distributed. A good regression model has average residual values. Data normality testing on the PER(X1) and (X2) variables on Stock price (Y).

The results obtained are shown in the histogram below. It can be seen that the data has approached the standard form of a normal distribution, namely an inverted bell-shaped data distribution (Sarwono, 2012: 52). Then a Linearity test is carried out to find out whether there is a linear relationship between the independent and dependent variables. A Histogram graph and Normal P-P Plot Pattern are obtained from the data processing results. The test results are as follows:

Figure 1 P-Plot Graph of Normality Test

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether or not there are deviations from the classic assumption of heteroscedasticity, namely the inequality of variance of the residuals for all observations in the regression model. This research shows the heteroscedasticity test on the scatterplot graph (Gendro Wiyono, 2011:160).
Based on the results, the points on the scatter plot graph do not have a clear distribution pattern or do not form specific patterns, and the points are spread above and below the number 0 on the Y axis. Thus, this shows that there is no heteroscedasticity disturbance in the regression model so that this regression model is suitable for use.

Discussion
The test results using SPSS 25 show that the t-count value is 2.093 < Table 6.944 with a sig value of 0.104 > 0.05, so it can be concluded that H01 is accepted and H11 is rejected, meaning that the Price Earning Ratio (X1) variable does not have a significant effect on Stock Prices (Y). This can cause this because external factors are more substantial in influencing stock prices. For example, in the Indonesian macro economy experiencing the COVID-19 pandemic, changes in the industry or government actions can have a more significant impact on stock prices than the P/E Ratio.

Further, the stock market is dynamic, and conditions can change quickly. The P/E Ratio may not be able to reflect these changes accurately. Stock prices can be affected by changes in investor sentiment, important news, or other unexpected events that the P/E Ratio cannot predict. Another thing is that the P/E Ratio is based on a company's profits, but it cannot always predict whether those profits will continue. Some companies may have a high P/E Ratio due to good financial performance in a short period but then experience a significant decline in profits, for example, during a pandemic, which reduces profits.

Conversely, a company with a low P/E Ratio may have good growth prospects in the future. Regarding BCA as a very stable issuer with solid management, the management of the company by the management team has a significant impact on the stock price. If company management has a good track record of managing and creating value for shareholders, investors may be more willing to pay a premium, even if the P/E Ratio is high.

5. CONCLUSIONS AND RECOMMENDATIONS

Conclusion
Based on the test results using SPSS 25, the t-count value (2.093) is smaller than the t-table value (6.944) with a significance level (sig) of 0.104, which is much less than 0.05. Therefore, it can be concluded that the null hypothesis (H0) is accepted, while the alternative hypothesis (Ha) is rejected. This means that the Price Earning Ratio (X1) variable does not significantly affect the Stock price (Y). This may be caused by external factors that substantially impact stock prices, such as the macroeconomic situation, changes in the industry, or government actions that the P/E Ratio cannot predict. In addition, rapidly changing stock market dynamics, changes in investor sentiment, important news, and unexpected events can also influence stock prices, which are difficult to predict by the P/E Ratio.

Another factor that may influence the results is that the P/E Ratio only reflects a company's financial performance in a certain period and cannot always predict the continuation of future profits. Strong management and a good track record can also influence stock prices, even if the P/E Ratio is high. In the context of PT Bank Central Asia Tbk (BCA) as a company with stable management and a good track record, investors may be more willing to pay a premium for its shares, regardless of the high P/E Ratio. Therefore, in investment analysis, it is essential to consider various factors and not just rely on one indicator, such as the P/E Ratio.

Suggestion
The results of this research can provide information to investors and potential investors for consideration before investing in shares. It is recommended to add other variables in further research and a more extended observation period and expand the research object to obtain more diverse research results. The research period can be extended by expanding the observation years so that the research results can better explain the relationship between the influence of PER accuracy and ROA, which needs to be increased or further developed.

REFERENCES


