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The Influence Of Price Earning Ratio, Return On Equity And Dividend Payout Ratio On Company Value

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ABSTRACT

Business development is currently growing rapidly and experiencing changes for the better. However, since the covid-19 pandemic hit the world, the economic sector has experienced a serious impact, namely fluctuations in stock prices which also have an impact on company value. One of the impacts is quite large on automotive companies where there is also a decrease in the company's net profit. This study aims to determine the effect of price earning ratio , return on equity and dividend payout ratio on firm value. The population in this study were 90 of the 18 automotive sub-sector manufacturing sector companies listed on the Indonesia Stock Exchange in 2019-2023. This research is a quantitative study with a sample size of 55 obtained through purposive sampling method. The analysis method used is multiple linear regression analysis with the SPSS 26 tool. The partial results showed that the price earning ratio and return on equity variables had a significant positive effect on firm value, while the dividend payout ratio variable had no effect and was not significant to firm value. Simultaneously, the price earning ratio, return on equity and dividend

Keywords: dividend payout ratio , firm value, price earning ratio, return on equity

INTRODUCTION

Business development is currently very rapid and continues to experience continuous change. Every business actor in various business categories must be sensitive to every change that occurs and make customer satisfaction a top priority. Globalization in the industrial world today has caused competition between companies to become increasingly tight and competitive. Therefore, companies must continue to develop to be able to compete (Kotler, 2017).

In achieving its goals, the company will try to make new positive changes and the company will also pay attention to the company's financial performance in order to increase the value of the company itself. As the value of the company increases, the profits obtained will be greater. The greater the profit of a company, the greater the prosperity of both company owners and shareholders. With maximum performance reflected in the market, it will maximize investors' perceptions of investing shares in the company. Company performance can be seen from several aspects, one of which is company value (Devianasari & Suryantini, 2015).

A high company value will increase shareholder prosperity. Company value is the value that investors are willing to pay for the company. Investors will give confidence to a company if the company has a high company value because a high company value reflects that the company has good job prospects so that investors will be increasingly interested in investing. High company value can be used as an indicator for investors in making investment decisions (Sembiring & Trisnawati, 2019).

The weak economy since the Covid-19 pandemic has had an impact on economic growth, where there have been fluctuations in share prices which also have an impact on company value. The impact is quite large, namely a decrease in the company's net profit (Luthfia, 2023). The performance of one of Indonesia's largest tire manufacturers, PT Gajah Tunggal Tbk (GJTL), experienced losses in the third quarter of 2020. In fact, in the 9 month period in 2019 the company posted quite a large net profit. Based on financial reports published up to the third quarter of 2020, Gajah Tunggal suffered a loss of IDR 104.6 billion. In the same period last year, the company posted a net profit of IDR 139.53 billion. Therefore, the weakening of the economy causes financial performance to suffer losses. This shows how much influence economic fluctuations have on company stability and value (Saragih, 2020).

The decline in company value will greatly disrupt the company's economic progress and stability. Meanwhile, the increase in company value occurs due to efforts to increase company value carried out by company management, namely by applying factors that can maximize company value. These factors can be internal factors or external factors. Several factors that influence company value are Price Earning Ratio (PER), Return On Equity (ROE) and Dividend Payout Ratio (DPR) (Sembiring & Trisnawati, 2019).

PER (P/E Ratio) is the ratio of market price per share to net profit per share, Price Earning Ratio shows the ratio of share price to earnings. This ratio shows how much investors assess the price of shares against the multiple of earnings. For investors, the higher the Price Earning Ratio, the expected profit growth will also increase. Thus, looking at the Price Earning Ratio can show the share price of a company which reflects information for investors so that investors can make a good decision or not to invest in that company (Languju et al., 2016).

Another factor that can influence company value is Return On Equity (ROE). ROE is a calculated ratio measure which can generally be used and used by many investors in the capital market to measure and determine the level of a company or issuer's ability to obtain net profits for each investor or stockholder (Syahyunan, 2015). The higher the ROE, the higher and stronger the position of the company owner and shows the greater return on investment. If a company is assessed as having a high ROE ratio then this can have a very good and positive influence on the value of the company in the eyes of potential investors (Dewi & Rahyuna, 2020).

Company value is also influenced by the Dividend Payout Ratio (DPR). Dividend Payout Ratio is a policy related to determining whether profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings. Another definition of Dividend Payout Ratio states that DPR is the amount of dividends paid to shareholders compared to the company's total net profit. Dividend Payout Ratio in a company is a complex matter because it involves the interests of many related parties. The aim of shareholder investment is to improve their welfare by obtaining returns from the funds invested. Meanwhile, company management is more oriented towards increasing company value. If the dividends distributed are large, this will increase share prices which will also result in an increase in company value (Rizal, 2019).

The focus of this research lies in the addition of the dividend payout ratio variable. The use of dividend payout ratio as an independent variable is because in essence the dividend payout ratio reflects the portion of profit that will be distributed to shareholders, and which will be retained as part of retained earnings. Thus, companies with a higher dividend payout ratio are more attractive to investors and can increase company value. So the dividend payout ratio is an important variable to analyze in order to see the extent of its influence on firm value.

Based on the background description above, the researcher takes the title "The Effect of Price Earning Ratio, Return On Equity and Dividend Payout Ratio on Company Value".

LITERATURE REVIEW

Signal Theory

The theory used in this research is signaling theory, Spence, (1973) states that the sender (information owner) provides a signal or signal in the form of information that reflects the condition of a company which is beneficial for the recipient (investor). Signaling theory is an action taken by company management that provides instructions to investors about how management views the company's prospects (Sigar & Kalangi, 2019). Signal theory is a theory related to investors' views in reviewing and analyzing the performance of a company that will be chosen to invest their funds. Signal theory concludes that investors will differentiate between companies that are likely to have high and low value. Through this, investors will easily invest their capital and funds into companies that are considered profitable. If managers use debt well, the company value will be positive among investors so that investors have greater opportunities to invest their funds. Meanwhile, positive signals can also occur when a company makes investments that can increase share prices and company value, which is a positive signal among the public. This happens because the company grows and continues to develop (Himawan & Andayani, 2020).

Price Earning Ratio

According to Wira (2020) the price earning ratio is calculated in units of times. A high PER shows that the company is a company that is being targeted by many investors, so that its share price continues to rise and ultimately the PER value is high. According to Budiman (2021), the lower the PER ratio, the cheaper a stock. Price Earning Ratio is used to assess whether shares are expensive or cheap based on the company's ability to generate net profits. The net profit in question is net profit per share. A high price earning ratio value indicates that investors expect high net profit growth from the company they are investing in. According to Sukamulja (2019) the price earning ratio reflects the growth of a company's shares. The benefit of the price earning ratio for investors is that it can measure the future share value of the company.

Dividend Payout Ratio

Dividend payout ratio is a ratio that shows the comparison between cash dividends per share and profit per share. This ratio describes the amount of profit from each share allocated in the form of dividends. In this way, this ratio is used as an approach in determining dividend policy, namely when making decisions (Hery, 2018). Dividend payout ratio is the percentage of income that a company gives to its owners or shareholders. Any money that is not paid to shareholders will usually be used to pay debts or to reinvest in several important company operations (Ramadhani, 2021).

Return on Equity

Return on equity (ROE) is a ratio that shows the extent to which a company manages its own capital effectively, measuring the level of profit from investments made by the company's own capital owners and shareholders. Return on equity (ROE) shows the profitability of own capital or is often referred to as business profitability. Based on this statement, if this ratio is low, it indicates that the company is not doing well and will result in a decrease in the level of return desired by shareholders (Sa'adah & Nur'ainui, 2020). Return on equity (ROE) shows the company's ability to generate profits after tax using the company's own capital. This ratio is important for shareholders, to determine the effectiveness and efficiency of own capital management carried out by company management. The higher this ratio means the more efficient the company management uses its own capital (Sudana, 2009).

Company Value

According to Gunadi et al. (2020), company value is a condition where a company will gain public trust with its operational activities since the company was founded. Company value can be said to be the price sold based on an agreement that the buyer can pay. Franita (2018) explains that company value is related to investment opportunities if it is formed from stock market value indicators. This linkage will provide positive value to the company's future growth, so that the company's value can increase.

RESEARCH METHODS

This type of research uses quantitative methods. Quantitative methods are research methods based on the philosophy of positivism, used to research certain populations or samples, collecting data using research instruments, quantitative/artistic data analysis, with the aim of testing predetermined hypotheses (Sugiyono, 2019).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PER	55	-25076,61	7516,40	216,70	4315,72
ROE	55	-74,19	28,55	6,36	14,88
DPR	55	-943,55	492,18	-27,37	169,82
PBV	55	4,28	1389,38	145,46	208,19
Valid N (listwise)	55				

In this research, the population used is automotive subsector manufacturing companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2023 period, totaling 18 companies.

The sample is part of the number and characteristics of the population (Sugiyono, 2019). The sampling used was a purposive sampling technique. Purposive sampling technique is a technique for determining samples with certain considerations (Sugiyono, 2019).

The data sources used in this research are books, journals, news and publications of annual reports on automotive subsector manufacturing companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2023 period. Annual report data is obtained through the official IDX website, namely www.idx.co.id and related company websites.

The analytical data used in this research is annual report data from automotive companies listed on the Indonesian Stock Exchange. Researchers obtain information that is used as a theoretical basis and reference for data processing by conducting library research sourced from theses and journals, books and other sources related to this research.

RESULTS AND DISCUSSION

Based on the explanation of the problems and methods that have been put forward, as well as tests that have been carried out using SPSS 26 software, the following results were obtained:

Descriptive Statistics

Table 1
Results of Descriptive Statistical Analysis

Based on table 1, it can be seen that descriptive statistical testing shows that the data (N) used to analyze each variable amounted to 55 samples.

Classic Assumption Test

Normality Test

Table 2
Normality Test Results

		Unstandardized Residual
N		55
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	1,00926297
Most Extreme Differences	Absolute	0,108
	Positive	0,076
	Negative	-0,108
Test Statistic		0,108
Asymp. Sig. (2-tailed)		0,167[c]

The results of SPSS data processing in table 2 show that the value of Asymp. Sig. (2-tailed) with the one sample Kolmogrove Smirnov test above of 0.167 > 0.05. This can be said to be normally distributed data so that it avoids bias.

Multicollinearity Test

Table 3
Multicollinearity Test Results

Model		Collinearity Statistics		Keterangan
		Tolerance	VIF	
1	PER	0,746	1,340	Tidak Terjadi Multikolinearitas
	ROE	0,951	1,052	Tidak Terjadi Multikolinearitas
	DPR	0,779	1,283	Tidak Terjadi Multikolinearitas
a. Dependent Variable: PBV				

The results of the multicollinearity test in table 3 show the tolerance value of each variable. From these results it can be seen that the variable the research has a tolerance value of > 0.10 and < 10, which means that all variables are free from the classical assumption of multicollinearity and can be used for further analysis.

Heteroscedasticity Test

Table 4
Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	109,421	22,601		4,841	0,000
	PER	0,004	0,006	0,123	0,767	0,447
	ROE	0,114	1,423	0,011	0,080	0,937
	DPR	-0,081	0,138	-0,093	-0,591	0,557
a. Dependent Variable: ABRESID						

The results of the heteroscedasticity test in table 4 show that the value of each variable is > 0.05. From these results it can be concluded that the regression equation model does not experience heteroscedasticity.

Autocorrelation Test

Table 5
Autocorrelation Test Results

Model	Durbin-Watson
1	1,712

Based on table 5 above, the Durbin Watson value is 1.712, compared using a significance value of 5%, a sample size of 55 (n), and a number of independent variables of 3 (k=3), then in the DurbinWatson table you will get a du value of 1.6815. Because the DW value of 1.712 is greater than the upper limit (du) of 1.6815 and less than 4 – 1.6815 (2.32), it can be concluded that there is no autocorrelation.

Multiple Linear Regression Analysis

Table 6
Multiple Linear Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	115,290	28,720		4,014	0,000
	PER	0,014	0,007	0,297	2,034	0,047
	ROE	3,950	1,808	0,282	2,184	0,034
	DPR	-0,071	0,175	-0,058	-0,407	0,686
a. Dependent Variable: PBV						

The explanation of the regression equation can be concluded that:

1) The regression equation shows that the constant coefficient is 115.290, which indicates that if the independent variable is considered non-existent, it will increase the company value by 115.290.
2) PER regression coefficient (β1), the PER value is 0.014 which indicates a positive relationship direction. A positive sign on PER has a direct influence on company value, namely if PER increases by 1%, the company value will increase by 0.014 units. Likewise, if PER decreases, the company value will also decrease.
3) ROE regression coefficient (β2), the ROE value is 3.950, which shows the direction of a positive relationship between ROE and company value. A positive sign on ROE has a direct influence on company value, namely if ROE increases by 1%, the company value will increase by 3,950 units. Likewise, if ROE decreases, the company value will also decrease.
4) DPR regression coefficient (β3), the DPR value is -0.071, which indicates a negative relationship between DPR and company value. This means that if the DPR variable increases by one unit, the company value will decrease by -0.071 units. Likewise, if the DPR decreases, the company value will increase.

Model Feasibility Test

Coefficient of Determination Test

Table 7
Results of Determination Coefficient Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,435[a]	0,189	0,142	192,89659

The results from table 7 can be seen that the regression test obtained an Adjusted R Square coefficient of 0.142, which means that statistically the independent variables PER, ROE and DPR are able to explain the dependent variable of company value by 14.2%, thus 85.8% is influenced by other variables. which were not included in this study.

F Test

Table 8
F Test Results

The F test results based on table 8 show a value of 3.967 with a significant value of 0.013. Thus it can be concluded that 0.013 < 0.05 so that PER, ROE and DPR have a simultaneous and significant effect on company value.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	442825,414	3	147608,471	3,967	0,013[b]
	Residual	1897663,817	51	37209,094		
	Total	2340489,231	54			
a. Dependent Variable: PBV						
b. Predictors: (Constant), DPR, ROE, PER						

T Test

This partial test or t test aims to partially test the success of the regression coefficient. The t test basically shows how much influence one independent variable has on the dependent variable assuming the other independent variables are constant (Ghozali 2021).

The Effect of Price Earning Ratio on Company Value

In testing the influence of the price earning ratio on company value, it has a sig value of 0.047 < 0.05, so this result shows that the price earning ratio partially has a significant influence on company value or in other words, H1 is accepted. price earning ratio has a significant impact on company value because PER reflects how much investors are willing to pay for each unit of profit generated by the company. A high PER figure indicates that the market has high expectations for future profit growth, so investors are more optimistic about the company's prospects (Wiranto & Yustrianthe, 2022).

The Effect of Return on Equity on Company Value

In testing the effect of return on equity on company value, it has a sig value of 0.034 < 0.05, so this result shows that return on equity partially has a significant influence on company value or in other words, H2 is accepted. The higher the ROE, the higher and stronger the company will be in generating greater profits from the capital invested by the owners, thereby strengthening the position of company owners and increasing their confidence in the company's performance. Therefore, companies are seen as more competitive and stable, so that the value of the company in the eyes of investors is more attractive for investment (Dewi & Rahyuna, 2020).

The Effect of Dividend Payout Ratio on Company Value

Dividend payout ratio, in testing the influence of the dividend payout ratio on company value, it has a sig value of 0.686 > 0.05, so this result shows that the dividend payout ratio partially does not have a significant influence on company value or in other words, H3 is rejected. dividend payout ratio is a policy related to determining whether profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings. The dividend payout ratio which has no effect on company value is caused by increasing dividends, which does not necessarily mean that the company value will increase or vice versa. Because, company value may be more influenced by investment policy (earned income) compared to income that is divided between dividend distribution or retained earnings for reinvestment (Nurhayati et al., 2020).

CONCLUSIONS AND SUGGESTIONS

Conclusion

After conducting research and testing the hypothesis, the following conclusions can be obtained:

1. PER has a positive and significant effect on company value. A high PER indicates market expectations for future profit growth, thereby increasing optimism regarding company value, especially in industries that are sensitive to changes in demand and costs such as automotive.
2. ROE has a positive and significant effect on company value. This is because the company's profits are high, the higher the company value. Because high profits will indicate good company prospects.
3. DPR has no effect and is not significant on company value. This is because increasing dividends does not always have an impact on increasing company value, because company value is more influenced by investment policy than the decision to distribute dividends or retain profits.

Suggestions

Suggestions that researchers can give regarding the research that has been carried out include:

1. For Readers
   For readers, it is hoped that this research can be the basis for conducting more in-depth and specific research, and this research can be a source of information for every reader, especially in analyzing company financial reports.
2. For further researchers
   For other studies interested in further research on firm value, it is recommended to use other external and internal factors that may affect firm value in addition to the variables used by researchers, namely the PER, ROE and DPR ratios, such as liquidity, solvency, company size, capital structure and others. Using a longer research time period to find out the real capital market conditions.Contribute to decision making, especially in the field of financial management and as additional information for the company to improve its performance.

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