

# Determinants of Price to Earnings Ratio: An Empirical Analysis

Veny<sup>1\*</sup>, Vianty Adella Santo<sup>2</sup>, Ester Faulina Siagian<sup>3</sup>, Electra Miracle Edgar<sup>3</sup>

<sup>1</sup> Program Studi Akuntansi; Universitas Bunda Mulia; Jl. Jalur Sutera Bar. No.Kav.7-9, (021) 80821428I; e-mail: [veny@bundamulia.ac.id](mailto:veny@bundamulia.ac.id)

<sup>2</sup> Program Studi Akuntansi; Universitas Bunda Mulia; Jl. Jalur Sutera Bar. No.Kav.7-9, (021) 80821428I; e-mail: [vsanto@bundamulia.ac.id](mailto:vsanto@bundamulia.ac.id)

<sup>3</sup> Program Studi Akuntansi; Universitas Bunda Mulia; Jl. Jalur Sutera Bar. No.Kav.7-9, (021) 80821428I; e-mail: [s11230088@student.ubm.ac.id](mailto:s11230088@student.ubm.ac.id)

<sup>2</sup> Program Studi Akuntansi; Universitas Bunda Mulia; Jl. Jalur Sutera Bar. No.Kav.7-9, (021) 80821428I; e-mail: [s11230068@student.ubm.ac.id](mailto:s11230068@student.ubm.ac.id)

\* Korespondensi: e-mail: [veny@bundamulia.ac.id](mailto:veny@bundamulia.ac.id)

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**Abstract:** *This study aims to analyze the effect of debt to equity ratio, price to book value, ukuran perusahaan, return on equity, current ratio dan total assets turnover terhadap price earning ratio in consumer companies listed on the stock exchange from 2020 to 2023. The method used in this research is multiple regression analysis to examine the relationship between independent and dependent variables. The results indicate that DER, company size, and ROE have a significant negative effect on PER, suggesting that increasing debt and company size can reduce the expected return ratios by investors. Conversely, PBV has a significant positive effect on PER, indicating that companies with higher book values tend to have better price-to-earnings ratios. On the other hand, CR and TAT do not show a significant effect on PER. These findings provide important insights for investors and company managers in making investment decisions and financial strategies in the consumer sector.*

**Keywords:** *Debt to Equity Ratio; Price to Book Value; Ukuran Perusahaan; Return on Equity; Current Ratio; Total Assets Turnover; Price Earning Ratio*

## 1. Introduction

In the world of investment, understanding the factors that influence a company's value is crucial for investors and stakeholders. One of the measurements used to assess a company's value is the Price Earnings Ratio (PER), which reflects how much the stock price is compared to earnings per share (Andika, Chomsatu, & Wijayanti, 2021). PER serves as an important indicator for evaluating the investment attractiveness of a company. Various fundamental factors, such as Debt to Equity Ratio (DER), Price to Book Value (PBV), company size, Return on Equity (ROE), Current Ratio (CR), and Total Assets Turnover (TATO), are suspected to have a significant impact on PER (Andika, Chomsatu, & Wijayanti, 2021).

Debt to Equity Ratio (DER) illustrates a company's capital structure and can influence investor perception of risk. PBV provides a relative picture between the book value and

market value of a company. Company size is often associated with stability and growth potential. ROE, on the other hand, reflects the company's ability to generate profits from its equity, which can attract investor interest. Current Ratio (CR) indicates the company's liquidity, while Total Assets Turnover (TATO) measures the efficiency of asset use in generating revenue.

In 2023, PT Unilever reported an increase in profit of 4.8 trillion Rupiah (Saputra B., 2024). This resulted in a Return on Equity of 91.84% for the year 2023. However, it is noteworthy that PT Unilever's Price Earnings Ratio did not experience a significant increase, rising only from 12.93% in 2022 to 12.97% in 2024 (<https://idx.co.id/>, 2024). This phenomenon suggests that while the substantial increase in ROE has positively influenced the Price Earnings Ratio, the improvement is not drastic.

The objective of this study is to examine whether Debt to Equity Ratio, Price to Book Value, company size, Return on Equity, Current Ratio, and Total Assets Turnover have an impact on the consumption sector listed on the Indonesia Stock Exchange during the period from 2020 to 2023.

Signaling theory explains how companies communicate signals to investors regarding their prospects for the future (Brigham & F., 2019). Companies strive to convey positive messages to the public in order to elicit a positive response (Setiawan & Venona, 2023). Fundamental Conditions Of A Company, Such As Debt To Equity Ratio, Return On Equity, Current Ratio, Total Assets Turnover, Price To Book Value, And Company Size, Can Serve As Signals For Investors About The Company'S Future. This Encourages Investors To Pay More To Gain The Benefits Of The Company, Which Can Ultimately Enhance The Value Of The Price To Earnings ratio

The Price to Earnings Ratio (PER) is a ratio used to measure the comparison between market price and earnings per share (Weygant, Kimmel, & Kieso, 2022). This ratio reflects investors' assessments of a company's future prospects. A higher Price Earnings Ratio indicates greater investor confidence in the company's performance, leading investors to be willing to pay a higher price for the stock (Saputra, Veny, & Mayangsari, 2018). The company's financial condition, as indicated by the Debt to Equity Ratio, Return on Equity, Current Ratio, and Total Assets Turnover, can enhance the value of PER; the better the financial performance of the company, the higher the PER. Additionally, company size and Price to Book Value can provide signals to investors regarding the company's future prospects, which can further increase the company's PER.

The Debt-to-Equity Ratio (DER) indicates the comparison between borrowed funds and the total equity of the company (Kimmel, et al., 2023). A higher DER indicates that the capital structure relies more on debt relative to equity, reflecting lower solvency, which decreases the company's ability to pay its debts. This implies that the company's risk is relatively high (Andika, Chomsatu, & Wijayanti, 2021). An increase in DER will reduce investor confidence, potentially leading to a decline in stock prices and the Price Earnings Ratio.

*H1: Debt to Equity Ratio has a negative effect on Price Earnings Ratio.*

Price to Book Value (PBV) serves as an important indicator for assessing a company's performance in the stock market (Andika, Chomsatu, & Wijayanti, 2021). A higher PBV indicates greater market confidence in the company's achievements, which increases the company's desire to acquire shares that will rise in price (Putriana, 2019). Ultimately, this leads to an increase in the Price Earnings Ratio as well.

*H2: Price to Book Value has a positive effect on Price Earnings Ratio.*

Company size is classified based on the value of the company's assets (Fadjar, Jumana, & Gunawan, 2021). A larger company size is expected to provide greater prospects for the company's future. This is because larger companies are anticipated to deliver higher returns to investors, which in turn increases the Price Earnings Ratio.

*H3: Company Size has a positive effect on Price Earnings Ratio.*

Return on Equity (ROE) is a ratio used to measure the net profit generated from each Rupiah invested by common stock investors (Weygant, Kimmel, & Kieso, 2022). A higher ROE reflects a company's greater ability to generate profit. This can serve as a positive signal for investors regarding the company's future. Investors who believe in the company's ability to produce profits from their investments are willing to pay a higher price for the company's stock, leading to an increase in the Price Earnings Ratio (Andika, Chomsatu, & Wijayanti, 2021).

*H4: Return on Equity has a positive effect on Price Earnings Ratio.*

The Current Ratio (CR) is a ratio used to measure a company's ability to meet its short-term obligations from current assets (Weygant, Kimmel, & Kieso, 2022). This serves as a positive signal for shareholders and potential investors, indicating that the company has adequate assets to settle its short-term obligations (Veny, Angelene, & Junita, 2023). A higher CR indicates that the company's current assets are sufficient to meet its short-term liabilities,

demonstrating that the company is in good health. Companies with a high CR can enhance their stock prices, thereby increasing their Price Earnings Ratio (Naufal & Hakim, 2023).

*H5: Current Ratio has a positive effect on Price Earnings Ratio.*

Total Assets Turnover (TATO) is a ratio that describes how effectively a company uses its assets to generate sales (Weygant, Kimmel, & Kieso, 2022). A higher TATO indicates greater efficiency in utilizing total assets to produce sales. Companies that can efficiently use all of their assets to increase sales attract investor interest, as investors see this as improving investment decisions with rising stock prices, ultimately leading to an increase in the Price Earnings Ratio (Fuadi, Debatara, & Hidayat, 2022).

*H6: Total Assets Turnover has a positive effect on Price Earnings Ratio.*

## 2. Research Method

### 2.1 Research Procedure

This study employs a quantitative research design using secondary data from the annual reports of Consumer Companies from 2020 to 2023. The research will utilize two types of variables: independent variables and a dependent variable. The independent variables in this study are the Debt to Equity Ratio, Price to Book Value, Company Size, Return on Assets, Current Ratio, and Total Assets Turnover. The dependent variable is the Price to Earnings Ratio. The analysis will be conducted using multiple regression analysis. The results of the multiple regression will serve as the basis for decision-making in the hypothesis testing of this study. The sampling method used in this research is purposive sampling, where the companies included as samples are those that have complete financial reports for the years 2020 to 2023 and have comprehensive data for the measurement of variables.

### 2.2 Variable Measurement

The measurement of variables used in this study is as follows:

Variable	Indikator	Skala
Price to Earning Ratio	Stock Market Price	Ratio
	Earnings Per Share	
Debt to Equity	Total Debt	Ratio
	Total Equity	
Price to Book Value	Stock Market Price	Ratio
	Book Value of Shares	
Ukuran Perusahaan	Ln (Total Assets)	Ratio
Return on Equity	Net Income	Ratio
	Total Equity	
Current Assets	Current Assets	Ratio

	Current Liability	
<b>Total Assets Turnover</b>	Income	Ratio
	Total Assets	

## 2.3 Statistical Testing

### 2.3.1 Classic Assumption Test

Classical assumption testing was carried out to find out whether the results of the regression estimation carried out were normally distributed and free from the constraints of heteroscedasticity, multicollinearity, and autocorrelation. In this study, the classical assumption test will be carried out are normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test.

### 2.3.2 Uji *multiple regression*

Furthermore, in this study, a multiple regression test will be carried out to see the relationship between the following formula:

$$PER = \alpha + \beta_1. DER + \beta_2. PBV + \beta_3. Size + \beta_4. ROE + \beta_5. CR + \beta_6. TATO + \varepsilon$$

PER = *Price to Earnings Ratio*

DER = *Debt to Equity Ratio*

PBV = *Price to Book Value*

Size = *Company Size*

ROE = *Return on Equity*

CR = *Current Ratio*

TATO = *Total Assets Turnover*

### 2.3.3 Simultaneous Test

The simultaneous effect test, or F-test, is used to examine the effect of independent variables collectively on the dependent variable (Priyanto, 2016). The F-test is conducted by examining the significance value in the ANOVA table. If the significance value is less than 0.05, it indicates that the independent variables collectively have an effect on the dependent variable.

### 2.3.4 Individual Test

The individual effect test, or T-test, is used to examine the effect of independent variables individually on the dependent variable (Priyanto, 2016). The T-test is performed by looking at the significance value in the coefficients table. If the significance value is less than 0.05, it indicates that the independent variable individually has an effect on the dependent variable.

### 3. Results and Discussion

#### 3.1. Classical Assumption Test

##### Normality Test

The following are the results of the normality test in this study:

Table 1. Normality Test

<i>N</i>	162
<i>Asymp. Sig (2-tailed)</i>	0,200

Source: Research Results (2024)

The results above show that the *Asymp. Sig (2-tailed)* value is greater than 0.05, indicating that the data in this study are normally distributed.

##### Heteroskedasticity Test

The following are the results of the heteroskedasticity test in this study:

Table 2. Heteroskedasticity Test

<i>Model</i>	<i>Sig.</i>
<i>Constant</i>	0,729
<i>DER</i>	0,238
<i>PBV</i>	0,354
<i>Size</i>	0,604
<i>ROE</i>	0,758
<i>CR</i>	0,467
<i>TATO</i>	0,765

Source: Research Results (2024)

The results above show that the *Sig* value is greater than 0.05, indicating that there is no evidence of heteroskedasticity in the data of this study.

##### Multicollinearity Test

The following are the results of the multicollinearity test in this study:

Table 3. Multicollinearity Test

<i>Model</i>	<i>Tolerance</i>	<i>VIF</i>
<i>DER</i>	0,652	1,535
<i>PBV</i>	0,202	4,944
<i>Size</i>	0,878	1,1139
<i>ROE</i>	0,199	5,032
<i>CR</i>	0,717	1,395
<i>TATO</i>	0,907	1,102

Source: Research Results (2024)

The results above show that the tolerance values are above 0.1 and the VIF values are below 10, indicating that there is no evidence of multicollinearity in the data of this study.

### Autocorrelation Test

The following are the results of the autocorrelation test in this study:

Table 4. Autocorrelation test

<i>Model</i>	<i>Durbin- Watson</i>
1	1,161

Source: Research Results (2024)

The results above show that the Durbin-Watson statistic is between -2 and 2, indicating that there is no evidence of autocorrelation in the data of this study.

### 3.2. F-Test

The following are the results of the F-test in this study:

Table 5. F-Test

<i>Model</i>	<i>F</i>	<i>Sig.</i>
1	76,513	0,000

Source: Research Results (2024)

The results above show that the Sig. value is below 0.05, indicating that the model used in this study is suitable for the research.

### 3.3 t-Test

The following are the results of the t-test in this study:

Tabel 5. T-test

<i>Variable</i>	<i>t</i>	<i>Sig</i>	<i>Result</i>
<i>Constant</i>	5,198	0,000	
<i>DER</i>	-2,732	0,007	H1: Diterima
<i>PBV</i>	21,207	0,000	H2: Diterima
<i>Size</i>	-2,877	0,005	H3: Ditolak
<i>ROE</i>	-17,305	0,000	H4: Ditolak
<i>CR</i>	-0,851	0,396	H5: Ditolak
<i>TATO</i>	0,597	0,330	H6: Ditolak

Source: Research Results (2024)

The results from the table above indicate that:

1. **DER** has a t-value of -2.732 and a Sig. of 0.007. This result shows that DER has a significant negative effect on PER, and H1 is accepted. It indicates that the higher the

level of debt a company has, the lower the investor confidence and the lower the company's PER.

2. **PBV** has a t-value of 21.207 and a Sig. of 0.000. This result shows that PBV has a significant positive effect on PER, and H2 is accepted. It indicates that the higher the PBV, the more investor confidence in the company, which will increase the company's PER.
3. **Company Size** has a t-value of -2.877 and a Sig. of 0.005. This result shows that company size has a significant negative effect on PER. It indicates that a larger company size suggests that the company no longer requires internal funding, so the potential returns to investors may not be as high as those for companies that still need external funding.
4. **ROE** has a t-value of -17.305 and a Sig. of 0.000. This result shows that the company's profitability significantly negatively affects PER. It indicates that a higher ROE will attract more investor attention, increasing the number of outstanding shares, which will lower the EPS and ultimately decrease the company's PER.
5. **CR** has a t-value of -0.851 and a Sig. of 0.396. This result shows that the current ratio does not affect the company's PER. It indicates that the company's liquidity level will not impact PER, as liquidity is not a concern for investors if the company is performing well and generating profits.
6. **TATO** has a t-value of 0.597 and a Sig. of 0.330. This result shows that total assets turnover does not affect the company's PER. It indicates that the level of TATO does not influence PER, as a company's profitability is affected not only by how quickly it can generate sales from its assets but also by how effectively it operates, ensuring that sales expenses are not excessive and that it generates significant profits for investors.

#### 4. Conclusion

This study shows that in companies in the consumer sector listed from 2020 to 2023, the debt-to-equity ratio, company size, and return on equity have a significant negative effect on the price-to-earnings ratio, while the price-to-book value has a significant positive effect on the price-to-earnings ratio. Additionally, the current ratio and total assets turnover do not affect the price-to-earnings ratio. Based on these findings, companies should pay more attention to the factors that can influence their PER. For future research, researchers may consider other factors that could affect PER, such as dividend payout ratio, return on assets, and debt-to-asset ratio, as alternative variables and indicators to examine their impact on PER.

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