The Effect of Price Earning Ratio on Market Performance in Banking Companies on the Indonesia Stock Exchange

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Abstract

This study aims to determine and analyze the effect of Price Earning Ratio on market performance in banking companies on the Indonesia Stock Exchange. The sampling method based on the purposive sampling method, there are 14 banking companies that meet the requirements and as a sample in this study using a simple regression analysis tool. The results of the study show that the variable Price Earning Ratio (PER) has no significant positive effect on Market Performance, this situation illustrates that Price to Earning Ratio (PER) is one of the company's financial ratios that can influence stock prices more dominantly than EPS. Companies that have a high PER value will attract investors to buy shares. So that the demand for these shares will increase, this will push the stock price to rise. Therefore, it can be concluded that the higher the PER, the higher the level of investor confidence in the company's future, seen from the company's growth, it will push the stock price up.

Keywords: Price Earning Ratio, Market Performance, Banking Companies, Indonesia Stock Exchange

INTRODUCTION

Investors can invest in several ways, one of which is by investing in the capital market (1). In this case, the capital market is defined as a place where activities related to public offerings and securities trading take place, public companies related to the securities they issue, as well as institutions and professions related to securities (2). With this understanding, it can be said that the capital market has a strategic role as a source of financing for the business world and a vehicle for investment for the community.

The capital market is an alternative funding for developing companies in Indonesia, because through the capital market, funds can be obtained in large amounts compared to funds from banks. Companies that need funds, sell their securities in the form of shares in the capital market, through an initial public offering (IPO) in the primary market which is then traded on the secondary market (3). For investors themselves, apart from being a vehicle for investment, the capital market is also an effort to diversify. Each investor can choose a variety of existing investments, where each type of investment has its own characteristics in terms of return and risk (4).

For investors, there are two things that are often a concern in deciding their investment, namely the return and also the risk of the investment. For securities that have the same return, they seek the lowest risk (5). As for securities that have the same risk,

they choose a high return. By investing in shares in the capital market, investors hope to be able to multiply their capital more than the return on other investments (6). The amount of return depends on the willingness of investors to take risks. The greater the risk taken, the greater the expected return that will be received, in accordance with the characteristics of the stock, namely high risk-high return. Stocks provide the possibility of getting high returns, but they can also make investors suffer big losses.

Market performance that combines return and risk can be used as a reference in determining which stocks have good performance. By knowing the return and risk of a stock, investors can determine the level of market performance of the stock. In addition to using market performance measures (7).

The development of banking companies is shown in Table 1, in 2003 and 2004 below which describes how big the Debt Equity Ratio, Price Earning Ratio, Profitability Ratio and market performance are measured using (sharpe's measure) in banking companies on the Indonesia Stock Exchange as following:

Table 1. Price Earning Ratio and Market Performance (Sharpe's Measure) Banking Company 2003 and 2004

Banking Company	Price Earning Ratio		Market Performance (Sharpe's Measure)	
	Year	Year	Year	Year
	2003	2004	2003	2004
1	2	3	4	5
Bank Artha Graha Internasional Tbk	27,13	60,8	0,6	0,064
Bank Central Asia Tbk	16,85	11,44	0,248	-0,045
Bank CIMB Niaga Tbk	0,586	5,454	-0,047	0,102
Bank Danamon Indonesia Tbk	6,496	8,915	0,364	0,568
Bank Int'l Indonesia Tbk	17,01	10,76	0,287	0,351
Bank KesawanTbk	33,55	25,94	-0,184	-0,380
Bank Mayapada Internasional Tbk	34,93	7,742	-0,073	0,124
Bank Mega Tbk	4,065	8,689	0,303	0,356
Bank Negara Indonesia Tbk	42,78	7,199	0,08	0,201
Bank NISP Tbk	8,537	11,01	-0,001	1,213
Bank Nusantara Parahyangan Tbk	5,115	3,951	0,081	0,157
Bank Pan Indonesia Tbk	10,71	7,693	0,216	0,040
Bank Permata Tbk	0,416	9,326	0,021	0,049
Bank Swadesi Tbk	10,63	61,04	0,171	0,348

Source: www.idx.co.id, 2008 (reprocessed).

Therefore, this study aims to determine the effect of Price Earning Ratio on market performance in banking companies on the Indonesia Stock Exchange.

METHOD

This research is a verification research, namely research that requires testing, to determine the effect of one variable with another variable that is the subject of research, using relevant statistical equipment. A total of 28 banking companies listed on the Indonesia Stock Exchange in 2003-2008 were made into the population. The sample selection was carried out based on the purposive sampling method with the aim of obtaining a sample that was in accordance with the research objectives.

The data used in this study is secondary data, namely data regarding the company to be studied which has been published by the stock exchange authority. This secondary data is in the form of financial statements, both balance sheets and income statements from December 31, 2003 to 2008. These data are data on financial characteristics in the form of Price Earning Ratios. Meanwhile, the data used to calculate the Market Performance (Sharpe's measure), namely stock prices, dividends, and SBI interest rates were obtained from the Indonesia Stock Exchange and print media containing official publications from the Indonesia Stock Exchange such as financial report notes, Indonesia Capital Market Directory, and books related to research that will be discussed.

RESULTS

Price Earning Ratio (PER)

Price to Earning Ratio (PER) is one of the company's financial ratios that can affect stock prices more dominantly than Earning Per Share. Therefore, in the analysis of stock price movements, consideration of PER is very important. Especially in the long term, PER is more volatile than EPS. PER instability is caused by changes in required rete of return (k) and gowth rate of dividend (g). The greater investor confidence in the company's future (8).

Price Earning Ratio describes the magnitude of the comparison between the market price of shares per share with earnings per share (earnings per share). If the PER is high, it means that the stock price is too expensive or at a certain price only a small profit is obtained. Thus, prospective stock buyers will gain greater profits if they buy them when the PER is low because the stock tends to increase in price, while if the PER shows a high value, this indicates the right time to sell the shares.

Banking companies that have a Price to Earning Ratio for the period 2003 to 2008, can be seen in Table 2 below:

Table 2. Average Ratio of Market Price Per Share and Earnings Per Share 2003 to 2008

Banking Company	Price Earning Ratio					
	Year					
	2003	2004	2005	2006	2007	2008
2	**3**	**4**	**5**	**6**	**7**	**8**
Bank Arta Graha Internasional Tbk	27,126	60,796	67,050	44,205	39,017	19,601
Bank Central Asia Tbk	16,852	11,438	11,635	15,080	39,944	13,744
Bank CIMB Niaga Tbk	0,586	5,454	6,742	17,019	14,315	17,588
Bank Danamon Indonesia Tbk	6,496	8,915	11,650	25,102	18,901	10,207

Bank Int'l Indonesia Tbk	17,005	10,760	10,222	19,031	39,094	37,800
Bank Kesawan Tbk	33,549	25,942	57,845	56,362	40,043	107,873
Bank Mayapada Internasional Tbk	34,934	7,742	9,123	18,869	60,707	105,036
Bank Mega Tbk	4,065	8,689	16,292	21,432	9,833	11,340
Bank Negara Indonesia Tbk	42,781	7,199	12,017	12,897	30,960	8,496
Bank NIPS Tbk	8,537	11,010	15,781	17,700	19,871	12,843
Bank Nusantara Parahyangan Tbk	5,115	3,951	3,913	4,559	15,008	16,852
Bank Pan Indonesia Tbk	10,712	7,693	13,340	15,485	16,067	16,763
Bank Permata Tbk	0,416	9,326	18,898	21,628	13,810	8,387
Bank Swadesi Tbk	10,627	61,040	60,737	26,232	32,876	18,743
Average	**15,629**	**17,140**	**22,518**	**22,543**	**27,889**	**28,948**

Source: www.idx.co.id, 2008 (reprocessed).

Table 2 shows the average Price Earning Ratio of banking companies on the Indonesia Stock Exchange from 2003 to 2008. In 2005, 2006, 2007 and 2008 the average growth of the Price Earning Ratio was high for each share of the fourteen banking companies. amounted to 22.518 in 2005, 22,543 in 2006, 27,889 in 2007 and 28,984 in 2008, this indicates that the share price of the banking company is too expensive or at a certain price only earns small profits. On the other hand, in 2003 and 2004 the average growth of the Price Earning Ratio was 15,629 in 2003 and 17,140 in 2004, which attracted investors to buy shares. So that the demand for these shares will increase, this will push the stock price to rise. Therefore, it can be concluded that the lower the PER, the higher the level of investor confidence in the company's future. The percentage growth of the Price Earning Ratio for each banking company on the Indonesia Stock Exchange can be seen more clearly in Figure 1 as follows:
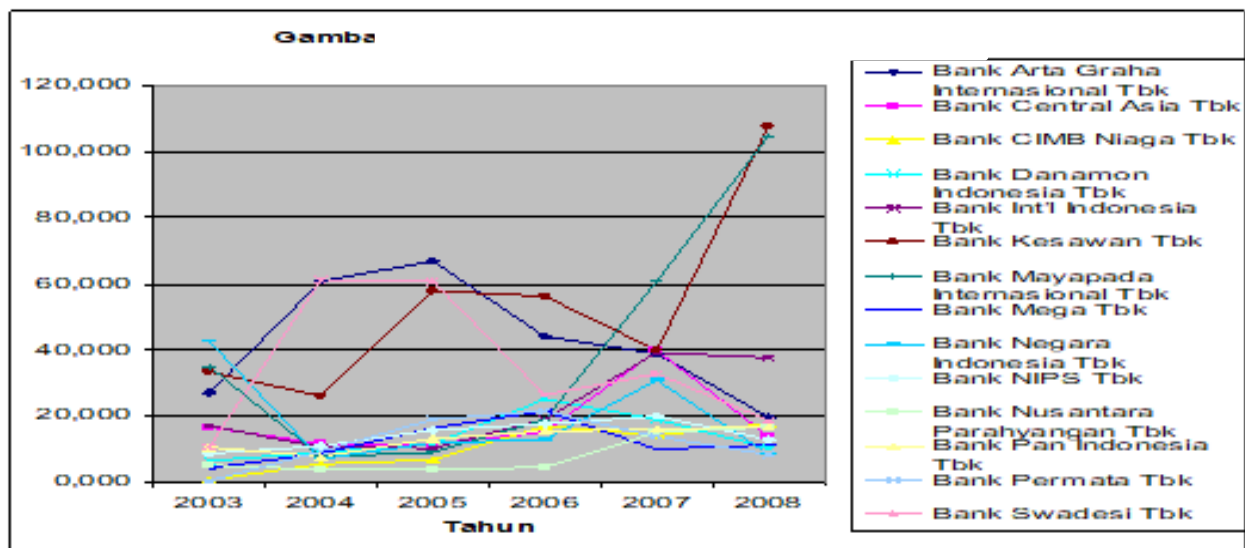

Figure 1. Development of the Earning Ratio Period (Source: Indonesia Stock Exchange "reprocessed").

Figure 1 shows that in 2008 Bank Kesawan Tbk and Bank Mayapada Internasional Tbk had the highest Price Earning Ratio growth rates when compared to other banking companies, which were 107.873 and 105.036, respectively. Meanwhile, in 2003 to 2008 of the fourteen banking companies that had the lowest growth rate of Price Earning Ratio, namely Bank Permata Tbk in 2003 at 0.416, Bank Nusantara Parahyangan Tbk in 2004, 2005 and 2006 each at 3.951, 3.913 and 4.559. , Bank Mega Tbk in 2007 amounted to 9,833 and in 2008 Bank Permata Tbk amounted to 8,387. This shows that the large comparison between the market price of shares per share and earnings per share (earnings per share) attracts investors to buy shares in banking companies. So that the demand for these shares will increase, this will push the stock price to rise. Meanwhile, from the average development of the Price Earning Ratio of the fourteen banking companies that have the highest growth rate is Bank Kesawan Tbk of 53.602 and the banking company that has the lowest growth rate is Bank Nusantara Parahyangan Tbk of 8.233.

Market Performance

Market Performance is calculated using Sharpe's Measure, namely the Market Performance of each share during 2003-2008. The data used in the calculation of Sharpe's Measure is the closing price of shares, dividends, and SBI interest rates. The results of this study, the Market Performance of a stock is calculated using Sharpe's Measure. The development of Sharpe's Measure for the period 2003 to 2008 can be seen in Table 3 below:

Table 3. Average Market Performance Ratio (Sharpe's Measure) Exces Returns Per Standard Deviation of Stock Returns 2003 to 2008

Banking Company	Sharpe's Measure					
	Year					
	2003	2004	2005	2006	2007	2008
2	3	4	5	6	7	8
Bank Arta Graha Internasional Tbk	0,600	0,064	-0,716	-0,200	0,053	-0,878
Bank Central Asia Tbk	0,248	-0,045	0,103	0,447	0,302	-0,376
Bank CIMB Niaga Tbk	-0,047	0,102	-0,033	0,530	-0,043	-0,287
Bank Danamon Indonesia Tbk	0,364	0,568	0,043	0,257	0,090	-0,465
Bank Int'l Indonesia Tbk	0,287	0,351	-0,279	0,091	0,123	0,067
Bank Kesawan Tbk	-0,184	-0,380	0,476	0,045	0,001	0,296
Bank Mayapada Internasional Tbk	-0,073	0,124	-0,333	0,501	0,327	0,303
Bank Mega Tbk	0,303	0,356	0,014	-0,118	0,172	0,025
Bank Negara Indonesia Tbk	0,080	0,201	-0,247	0,074	-0,001	-0,461
Bank NIPS Tbk	-0,001	1,213	-0,096	-0,019	-0,053	-0,282
Bank Nusantara Parahyangan Tbk	0,081	0,157	0,158	-0,170	0,216	-2,736
Bank Pan Indonesia Tbk	0,216	0,040	0,008	0,169	0,079	-0,127
Bank Permata Tbk	0,021	0,049	-0,065	0,291	0,198	-0,144
Bank Swadesi Tbk	0,171	0,348	-0,147	0,433	0,173	-0,264
Average	**0,148**	**0,225**	**-0,080**	**0,166**	**0,117**	**-0,381**

Source: www.idx.co.id, 2008 (reprocessed).

Table 3 shows the average development of Market Performance (Sharpe's Measure) of Banking Companies on the Indonesia Stock Exchange. In 2003 the average development of Market Performance was 0.148 and increased to 0.225 in 2004. In 2005 and 2008 Banking Company Market Performance was low by -0.080 and -0.381, respectively. This means that banking companies have not been able to maximize returns that have not yet occurred, but which will occur in the future so that the stock market performance in the future will be low and will reduce the interest of investors to buy these shares. In 2006 and 2007 the average development of Market Performance decreased by 0.166 in 2006 to 0.117 in 2007.

The development of market performance for each banking company on the Indonesia Stock Exchange can be seen more clearly in Figure 2 below:
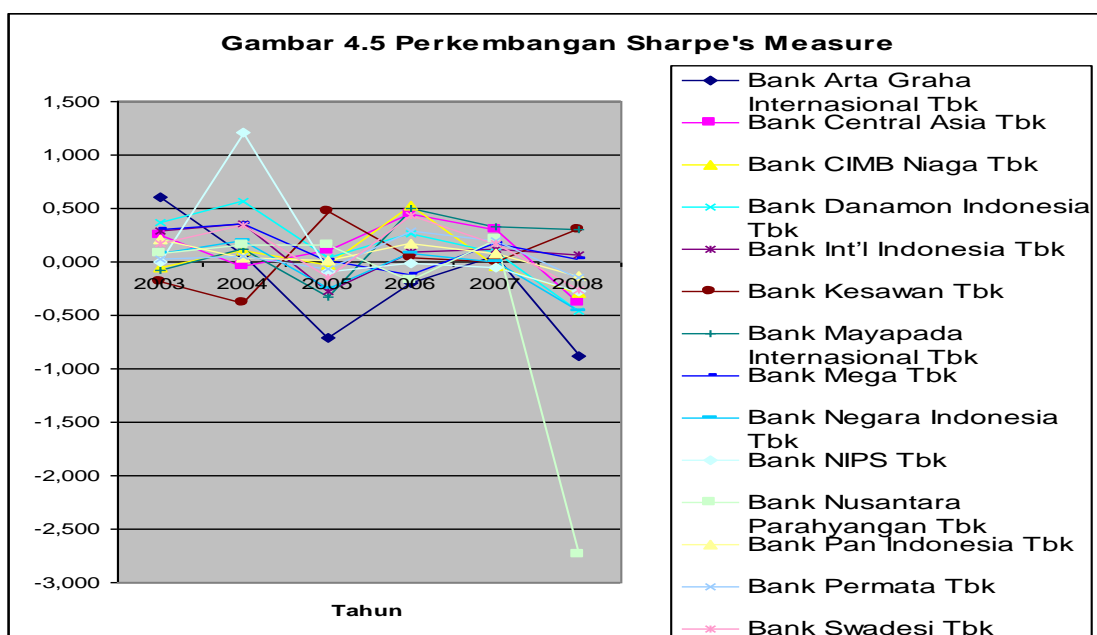

Figure 2. Sharpe's Measure Development (Source: Indonesia Stock Exchange "reprocessed")

Figure 2 shows that in 2003 Bank Arta Graha Internasional Tbk had a high market performance of 0.600 (60.0%) which means that the company's ability to obtain a return that is expected to occur in the future will occur at 60.0%. On the other hand, Bank Kesawan Tbk has the lowest Market Performance of -0.184 (-18.4%), in 2004 Bank Danamon Indonesia Tbk has a high Market Performance of 0.568 (56.8%) while Bank Kesawan Tbk has the lowest Market Performance, namely of -0.380 (-38.0%).

In 2005, Bank Kesawan Tbk had a high market performance of 0.476 (47.6%), while Bank Arta Graha Internasional Tbk, Bank Negara Indonesia Tbk, and Bank Mayapada Internasional Tbk each had the lowest market performance of - 0.716, (-71.6%) and -0.333 (-33.3%), in 2006 and 2007 Bank CIMB Niaga Tbk and Bank Mayapada Internasional Tbk had high Market Performances of 0.530 (53.0%) and 0.327, respectively. (32.7%) which means the company's ability to obtain returns that are expected to occur in the future will occur at 53.0% and 32.7%, respectively. On the other hand, Bank Arta Graha Internasional Tbk and Bank NIPS Tbk have the lowest Market Performances, which are -0.200 (-20.0%) and -0.053 (-5.3%).

In 2008 Bank Mayapada Internasional Tbk had a high market performance of 0.303 (30.3%). On the other hand, Bank Central Asia Tbk, Bank Nusantara Parahyangan Tbk had the lowest Market Performance of -2.736 (-273.6%).

Simple Regression Analysis

Multiple Linear Regression Analysis in this study aims to determine the direction of the influence of the variable Price Earning Ratio (PER) on Market Performance (Sharpe's Measure), in banking companies on the Indonesia Stock Exchange. Data processing using SPSS software for windows version 16 as shown in Table 4 as follows:

Table 4. Multiple Linear Regression Processing Results

Variable	Reg. Coef	Std. Error	Beta	T	Sig
Dependent Variable Y = Market Performance (Sharpe's Measure)					
C = Constanta	.005	.069		.074	.941
X = *Price Earning Ratio*	.001	.002	.059	.536	.593
R- Square = 0,059 F statistics = ,287					
Adjusted R-Square = -,009 Sig F = ,593					
Durbin-Waston = 1,635					

The results of Table 4 show the value of the coefficient of multiple determination ($R2$) from the regression model formed is 0.059, this means that the independent variable Price Earning Ratio (PER) has no positive effect on market performance, in banking companies on the Indonesia Stock Exchange by 5.9% , while the remaining 94.1% is influenced by other variables outside of this study. Other factors that affect market performance are the Liquidity Ratio, which measures how much the company's ability to pay short-term debt, Efficiency Ratio, to see how much efficiency the company's assets are used, and Return on Equity (ROE), which sees how big the company's growth opportunities are (Mamdu, 2004).

The reasons for conducting research on Price Earning Ratio (PER) in banking companies on the Indonesia Stock Exchange as an independent variable are: Price Earning Ratio is a measure of the ability to generate future earnings (Future Earnings) of a company where investors will consider which stocks will be able to provide benefits. In the future, the development of the capital market and the volume of trading of stock prices in Indonesia is heading towards an efficient direction where all relevant information can be used as input to assess stock prices.

The results of the ANOVA or F test in Table 8 obtained a result of 0.287 with a probability level (significant) of 0.005. Probability based decision making. Because the probability (0.287) is greater than 0.05, the Price Earning Ratio (PER) has an insignificant positive effect on Market Performance (Sharpe's Measure). Thus the hypothesis in this study which states that the Price Earning Ratio (PER) has no effect on market performance is rejected.

Based on the regression coefficient value of the independent variable on the market performance function, it shows that if the Price Earning Ratio variable is equal to zero, then the average use of market performance in the company has decreased by 0.005. The constant value of 0.005 is a fixed variable outside the independent variable where this variable has a negative relationship with the level of market performance.

The results of the research in the next section, will be tested for the adequacy of the model on the regression equation. If the model adequacy test shows that market performance can be explained by the variable. The regression coefficient value for PER is 0.005, meaning that PER has a positive influence on Market Performance. In this case, if the

PER variable increases by one rupiah, assuming the other variables are constant (ceterus paribus), then the Market Performance value will increase by Rp. 0.005. On the other hand, if the PER variable decreases by one unit, the Market Performance will decrease by 0.005 rupiah.

DISCUSSION

The results of the t test show that the variable Price Earning Ratio (PER) partially has a positive and significant effect on Market Performance, this can be seen from the level of Price Earning Ratio of the independent variable, which is $0.035 < 0.05$ so that the third hypothesis is accepted, this means increased profits net per share, so that increasing company earnings indicate good company prospects in the future. This good prospect will be responded positively by investors, a positive response from these investors will increase stock prices. The size of the company's profit indicates the greater the need for funds to finance expansion, the size of the company's growth will increase the company's retained earnings (capital gain) so that the interest of investors to invest in banking companies increases because the dividends that will be received by investors also increase (9).

Most of the banking companies in Indonesia, the growth of the company depends on the source of funding with the increase in stock prices (10). This phenomenon can be seen in the average development of the Price Earning Ratio, which is greater than the average development of Market Performance (11). Where the average development of Price Earning Ratio from 2003 is 15.629 and the average development of Market Performance is 0.148. In 2004 the Price Earning Ratio increased by 17,140 this was followed by an increase in the average market performance of banking companies of 0.225. In 2005 the Price Earning Ratio increased by 22.518 on the contrary Market Performance decreased by -0.080. In 2006 the Price Earning Ratio experienced an increase of 22.543 this increase was followed by an increase in Market Performance of 0.166. In 2007 the average Price Earning Ratio increased by 27.889 on the contrary Market Performance decreased by 0.117. In 2008 the average Price Earning Ratio increased by 28.948, on the contrary, Market Performance decreased by -0.381 this indicates that the company will face a high information gap between managers and outside investors about the development of investments made by the company, the information gap causes cost of share equity capital.

The information gap also causes if the company issues new shares, outside investors will suspect that the stock price is overpriced, this is seen as a negative signal about the company's growth prospects in the future, which will cause the stock price to decline. The positive and significant effect shows that the greater the Price Earning Ratio, the more the company's profits will increase, and will have an impact on increasing stock prices, thus the value of the company will be better, so investors are interested in investing in banking companies on the Indonesia Stock Exchange (12).

If the share price drops seriously enough, the old shareholders will be harmed if new shares are issued. Conversely, new shareholders who will benefit from being able to buy shares at a low price, the fall in share prices is related to information asymmetry where there is a cost of information asymmetry associated with the issuance of shares. These costs will be even greater if the stock price drops significantly. Issuance of shares is the last alternative in an effort to find funds to increase company profits.

This research is not in line with the research conducted by Riadevi and Darma, (2016) that the Price Earning Ratio has no significant effect on stock returns both in the bullish period and in the bearish period. The difference between the research conducted by Rusman and Basuki with this research is that the Price Earning Ratio has a positive and significant influence on the dependent variable of Market Performance, due to the different assumptions used in the research conducted Triani, (2012) which states that the different interpretations or forecasts of each investor. Some investors assume that with a high PER value the company has high growth. Others stated that with a high PER value, the chances of price increases are getting smaller. While in this study provides a real picture that PER

has a positive and significant effect on Market Performance, this means that a high PER will improve market performance in banking companies on the Indonesia Stock Exchange.

The results obtained are in line with the opinion Munisi and Randøy, (2013) which states that companies that allow higher growth have a large PER, and vice versa. Based on this opinion, it can be explained that high growth indicates better Market Performance, which is generally indicated by a high PER. This means that if the company wants better market performance, the company should increase its PER. The limitation of this study is that this study is only able to explain 5.9% of the factors that influence market performance, therefore it is recommended for further researchers to conduct research on other factors that influence stock prices, which are internal, including: liquidity ratio, and return on equity (ROE). Other external factors include general domestic interest rates, inflation rates, foreign exchange rates and special government policies related to banking companies.

CONCLUSION

This study concludes that the Price Earning Ratio (PER) has a significant positive effect on market performance in banking companies on the Indonesia Stock Exchange. Price Earning Ratio (PER) has no significant positive effect on Market Performance, this situation illustrates that Price to Earning Ratio (PER) is one of the company's financial ratios that can influence stock prices more dominantly than EPS. Companies that have a high PER value will attract investors to buy shares. So that the demand for these shares will increase, this will push the stock price to rise. Therefore, it can be concluded that the higher the PER, the higher the level of investor confidence in the company's future, seen from the company's growth, it will push the stock price up.

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