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THE INFLUENCE OF PRICE EARNING RATIO AND DEBT TO EQUITY RATIO ON STOCK RETURN (EMPIRICAL STUDY OF BANKING COMPANIES ON THE ISE PERIOD 2016-2018)

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Keywords: PER, DER, and Stock Return.

ABSTRACT

This research is motivated by a decline in the value of stock returns in several banks listed on the ISE. This study aims to determine how the effect of PER and DER on stock returns on banks listed on the ISE in the 2016-2018 period. The research method used in this research is descriptive and explanatory methods. The population in this study is the banks listed on the Indonesia Stock Exchange for the period of 2016-2018, amounting to 41 companies, with a total sample of 31 companies. Analysis of the data used is panel data regression analysis using Eviews 9.The results showed that PER and DER affect stock returns. In addition, the magnitude of the effect of PER and DER on stock returns of 71.5%.

Keywords: PER, DER, and Stock Return.

INTRODUCTION

The capital market is a place to connect investors with companies or government institutions. This function shows the important role of the capital market in supporting the economy because the capital market can connect those who need funds with those who have excess funds and can encourage the creation of efficient fund allocations. In addition, those who have excess funds (investors) can choose investment alternatives that provide returns the most optimal. (Tandelilin, 2017). Stock return is the rate of return on an ordinary stock actually received by shareholders in a period in the past (Tandelilin, 2010). To ascertain whether the investment will provide the expected rate of return, the prospective investor first seeks financial information about the company through its financial statements. Fundamental analysis is one way to conduct stock valuations by observing various indicators related to macroeconomic conditions, the condition of a company's industry, finance and company management (Husnan, 2009).

At the analysis stage of the company in a fundamental approach, financial performance is one aspect of valuation that is highly considered. Investors can measure financial performance using financial ratio analysis. The ratio which is one of the considerations of investors in analyzing stock price movements in order to maximize the expected return is PER and DER. One sector listed on the ISE is a banking sector company. In Table 1.1 below, the comparative data between the ratio of PER and DER to stock returns to PT BNI (Persero) Tbk and PT Pan Indonesia Tbk in 2015-2018 will be presented, as follows:

Table 1.1
Stock Return, PER, DER at PT BNI (Persero) Tbk

No.	Variable	Year (%)			
		2015	2016	2017	2018
1	*Return* Saham	-0,24	0,11	0,79	-0,11
2	PER	10,16	10,01	13,56	10,65
3	DER	5,26	5,52	5,79	6,08

Source: Financial Report (data processed)

Based on table 1.1 above, shows the price to earnings ratio in 2015 amounted to 10.16 and in 2016 decreased to 10.01, while stock returns in 2015 amounted to -0.24 and in 2016 increased to 0.11. This is inversely proportional to the theory that the higher the PER, the higher the stock price so that stock returns will also increase. The DER in 2015 amounted to 5.26 and 2016 increased to 5.52, while the stock returns in 2015 amounted to -0.24 and 2016 increased to 0.11. This is inversely proportional to the theory that when the debt to equity ratio increases, then stock returns will decrease. This shows there is a mismatch or gap between facts and theories.

Problem Formulation

1. How does the PER affect stock returns on banking listed on the ISE in the period 2016-2018?

2. How does the DER affect stock returns on banking listed on the ISE in the period 2016-2018?

3. How does the PER and DER affect stock returns on banking listed on the ISE in the period 2016-2018?

LITERATURE REVIEW

Stock Return

Stock return is something that is obtained or the difference between the amount received and the amount invested divided by the amount invested from selling or buying a stock (Brigham, 2016). According to Brigham & Houston (2013) stock returns can be found using the following formula:

$$\textit{Stock Return} = \frac{P_1 - P_0}{P_0}$$

Information :
P1: Price, i.e. price for time t
P0: Price, which is the price for the previous time

Price Earning Ratio (PER)

PER indicates the amount of rupiah from earnings that investors are currently willing to pay for their shares, in other words PER is the price for each rupiah profit (Tandelilin, 2017). According to Fahmi (2013) PER can be searched by the following formula:

$$\text{PER} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

Debt to Equity Ratio

DER is a measurement ratio that compares debt to equity (Kasmir, 2014). According to Kasmir (2014) DER can be searched using the following formula:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Total Shareholders}'\text{Equity}}$$

FRAMEWORK

The Influence of PER on Stock Return

PER owned by a company affects the level of stock returns that will be obtained by investors. A high PER shows the level of investor expectations about the company's future performance is high so that investors are interested in the company's shares. The higher PER shows the prospect of stock prices being valued higher by investors on earnings per share, so a high PER usually has a high growth rate opportunity, causing investors to buy company shares which can then increase share prices and will have an impact on the acquisition of stock return (Husnan, 2009).

The Influence of DER on Stock Return

If the DER ratio shown by the company is high, this will result in a greater risk of loss. This effect also results in a low rate of return. The higher the DER tends to reduce stock returns, because the higher level of debt shows the company's interest expense will be greater and reduce profits, so that the company's stock returns have decreased (Kasmir, 2014).

The Influence of PER and DER on Stock Return

Changes in stock prices are influenced by the company's fundamental conditions. Fundamental corporate analysis involves the analysis of basic financial variables to estimate the intrinsic value of the company by using financial ratios and is often used by investors in company analysis including DER and PER. Changes in PER and DER affect changes in stock returns. If the value of PER increases, stock returns will increase. Conversely, if PER decreases, stock returns decline. Unlike the DER increases, stock returns will decrease. Conversely, if the DER value decreases, stock returns will increase.

Below, a frame of thought will be illustrated as a form of researcher's thought flow, as follows:

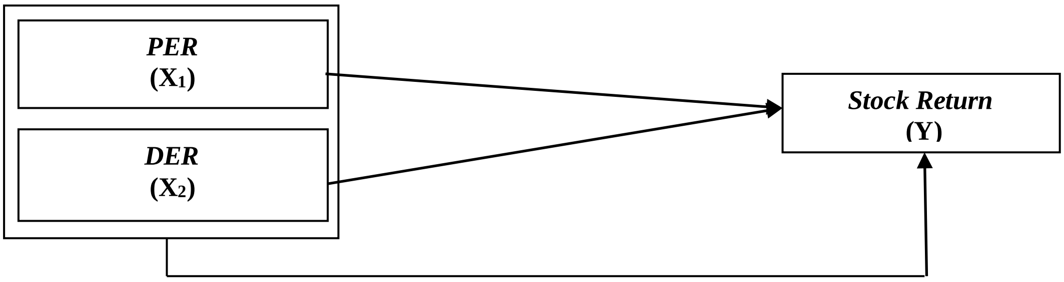

Figure 1. Framework

Research Hypothesis

H_1: PER affects stock return
H_2: DER affects stock return
H_3: PER, and DER affect stock return.

3. RESEARCH METHODOLOGY

The type of research used is quantitative. The research methodology used in this research is descriptive and explanatory. The population in this study is the banking listed on the ISE for the period of 2016-2018, amounting to 43 companies. The sampling technique used is non probability sampling with a purposive sampling. Based on the criteria, the samples in this study were 31 companies. Types and sources of data used are secondary data sourced from www.idx.co.id (ISE). The independent variable is PER and DER, while the dependent variable is stock return. Data analysis used in this research is mutlivariate analysis using panel data regression analysis. The statistical software used in this study is Vers 9 Eviews Software.

RESEARCH RESULTS AND DISCUSSION

Research Results

Table 1. Panel Data *(Fixed Effect Model)*

Variable	Coefficient
C	-1.679909
Price Earning Ratio	1.262640
Debt to Equity Ratio	-0.770554

Source: Eviews Output Results

Based on table 4.1 above shows that the regression equation model formed is :

$Y = -1,679909 + 1,262640\ X_1 - 0,770554\ X_2 + e$

Table 2. Partial Hypothesis Testing

Variable	t Value	Probability Value	Result
Price Earning Ratio	5,402>1,987	0,006<0,05	H_1 Accepted
Debt to Equity Ratio	3,228>1,987	0,000<0,05	H_2 Accepted

Source: Eviews Output Results

Based on table 2. above partially shows that PER and DER affect stock returns.

Table 3. Simultaneous Hypothesis Testing

Variable	F Value	Probability Value	Result

Price Earning Ratio & Debt to Equity Ratio	96,907>3,10	0,000<0,05	H_3 Accepted

Source: Eviews Output Results

Based on table 3. above simultaneously shows that PER and DER affect stock returns.

Table 4. Determination Coefficient Testing

Variabel	R-squared	Percentage
Audit internal & Pengendalian Internal	0,688	68,8%

Source: Eviews Output Results

Based on table 4. above shows that the magnitude of the effect of PER and DER on stock returns is 71.5%.

Discussions

The Influence of Price Earning Ratio on Stock Return

The results showed that the PER affect stock returns. A high PER shows the level of investor expectations about the company's future performance is high so that investors are interested in the company's shares, which will increase returns (Rahardjo, 2009). PER owned by a company affects the level of stock returns that will be obtained by investors. A high PER shows the level of investor expectations about the company's future performance is high so that investors are interested in the company's shares. The higher PER shows the prospect of stock prices being valued higher by investors on earnings per share, so a high PER usually has a high growth rate opportunity, causing investors to buy company shares which can then increase share prices and will have an impact on the acquisition of stock return (Husnan, 2009). The results of research conducted by Susetyo (2013), Dewi et al (2016), show that PER affects stock returns. While the results of research conducted by Carlo (2014), Andansari et al (2016), show that the PER has no effect on stock returns.

The Influence of *DER* on Stock Return

The results showed that the DER affect stock returns. The company's capital structure is very important to evaluate the long-term risk and return of its prospects. Leveraged companies add excess to their shareholders as long as the return on investment funded by debt is greater than the cost of debt (Fahmi, 2013). If the results of the calculation of the company turns out to have a high solvency ratio, this will have an impact on the risk of greater losses. This impact also results in a low rate of return (Kasmir, 2014). The higher the DER tends to reduce stock returns, because the higher the level of debt indicates the company's interest expense will be greater and reduce profits, so that stock returns will decrease. The results of research conducted by Putra et al (2018), showed that DER affects stock returns. While the results of research conducted by Dewi et al (2016), Gunadi and Kesuma (2015), showed that DER had no effect on stock returns.

The Influence of PER and DER on Stock Return

The results showed that the PER and DER affect stock returns. PER can be used as an indicator of the ability to calculate stock returns. Price earning ratio is often associated with the speed of return on investment. The smaller the value of the price earning ratio, the faster the return on investment, and increase investor interest in buying a stock (Carlo, 2014). The higher PER shows the prospect of stock prices being valued higher by investors against earnings per share, so high PER usually have a high growth rate opportunity, causing investors to buy company shares which can then increase share prices and will impact on the acquisition of stock returns (Husnan, 2009).

If the results of the calculation of the company turns out to have a high solvency ratio, this will have an impact on the risk of greater losses. This effect also results in a low rate of return. The higher the DER tends to reduce stock returns, because the higher level of debt shows the company's interest expense will be greater and reduce profits. This will have an impact on the decline in company stock returns (Kasmir, 2014).

5. CONCLUSIONS AND SUGGESTION

Conclusions

1. PER affects stock returns, so the higher the PER, the higher the stock return.
2. DER affects stock returns, so the higher the DER, the lower the stock return.
3. PER and DER affect stock returns, the higher the PER and the lower the DER, the higher the stock return.

Suggestion

1. For companies
    a. Increase the price earning ratio by increasing stock price by increasing the performance of the company's stock capital, as well as assessing or managing risk in the face of macroeconomic factors to minimize risks that can impact on the decline in share prices.
    b. Minimizing the use of debt as a source of capital to finance assets or operational activities of the company. The use of capital sourced from debt can also be limited so that financial risk is not too high, so it does not negatively impact the company's financial distress.
    c. Increase the stock return by increasing the company's stock price through improving the company's financial and management performance.
2. For Further Researchers

It is recommended for further researchers not to focus only on the variables that exist in this study, but can add other variables outside of this study that if it has an influence on profitability. It is recommended for researchers to further use research subjects such as companies in other sectors listed on the ISE. And it is recommended for further researchers to always use the research period with the latest year. These are intended to provide a broad and up-to-date picture of the company's stock returns.

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