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The Influence of Return on Equity Ratio and Debt to Equity Ratio to Price to Earning Ratio in Galvalum Companies Listed on the Indonesia Stock Exchange for the 2014-2018 Period

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ABSTRACT

The development of the capital market in Indonesia has encouraged companies to sell their shares to the public so that more companies are listed on the Indonesian stock exchange. This study aims to determine the effect of Return On Equity Ratio and Debt to Equity Ratio on Price to Earning Ratio in Galvalum Companies listed on the Indonesia Stock Exchange Period 2014-2018. The method used is explanatory research with a sample of 5 years of financial statements. The analysis technique uses statistical analysis with regression testing, correlation, determination, and hypothesis testing. The results of this study Return On Equity Ratio significantly influence the Price to Earning Ratio of 47.8%, the hypothesis test obtained significance of 0,000 <0.05. Debt to Equity Ratio has no significant effect on Price to Earning Ratio of 0.01%, the hypothesis test obtained significance of 0.900> 0.05. Return On Equity Ratio and Debt to Equity Ratio simultaneously have a significant effect on Price to Earning Ratio of 49.2%, hypothesis testing obtained significance of 0,000 <0.05.

Keywords: Return on equity ratio, debt to equity ratio, price to earning ratio.

INTRODUCTION

The development of the capital market in Indonesia has encouraged companies to sell their shares to the public so that more companies are listed on the Indonesian stock exchange (Alwi, 2008; Hariyani & Purnomo, 2010; Market & Pendahuluan, 2015; Sujana, 2017). Every year a publicly listed company listed on the Indonesian stock exchange is obliged to submit its financial statements because financial statement information is an important element for investors and business people for the purposes of analysis and decision making (Almilia & Kristijadi, 2003; Barus & Christina, 2014; Christine et al., 2019; Saleh & Sudiyatno, 2013).

Before an investor will invest in the capital market there is the most important activity that needs to be done, namely a careful evaluation of the traded equity. There is a belief that the information received by investors is correct information, trading systems on the stock exchange that can be trusted, and no other party who manipulate the information and trade. In terms of analyzing a company, investors can use financial statements to assess the condition of the company.

One of the tools for selecting and analyzing stocks to be bought by investors can use financial ratio analysis (Edy Susanto, 2019; Faisal, Samben, & Pattisahusiwa, 2018; Harahap, 2007; Pramono, 2014; Pranomo, 2014). Financial ratio analysis is based on historical finance with the aim of giving an indication of future financial performance and predicting business continuity.

Analysis of financial statements is needed by analysts and investors to take investment policies (Hery, 2019; Kasmir, 2014; Munawir, 2010; Murhadi, 2015; Orniati, 2009). One of the analysis tools needed is fundamental analysis, which tries to estimate future stock prices by estimating the value of fundamental factors that affect stock prices in the future. In fundamental analysis, one stock valuation is carried out using the Price Earning Ratio (PER) approach, which is the ratio between the stock market price and earnings per share (Law Ren Sia & Tjun Tjun, 2011; Prasetyorini, 2013; Putri, 2012). Every share price movement will cause changes in PER. And in this study the analysis of financial ratios used is PER (Price Earning Ratio), this analysis compares the current market price of shares with earnings per share. PER (Price Earning Ratio) is the most widely used financial ratio of investors to determine whether a stock investment is profitable or not, because PER (Price Earning Ratio), is one of the tools to measure the company's performance and can affect the increase or decrease in the company's stock market price. Investors are interested in PER (Price Earning Ratio), high because it will provide benefits for rising stock market prices and reflect good company performance (Aditya, 2014; Beidleman, 1971; Wahyu Lusiana, 2010).

There are many factors that affect the Price to Earning Ratio one of which is the profitability ratio in this study measured Return On Equity (ROE). Return on Equity (ROE) is a ratio that shows how much the company's ability to generate net income for return of equity to shareholders. Another factor is the capital structure is a picture of the form of the company's financial proportions, namely between owned capital sourced from long-term debt and own capital which is a source of financing for a company (Astuti, Retnowati, & Rosyid, 2015; Supiyadi, Ramdhonah, & Fithriani, 2016; Tambunan, 2015).

Capital structure research uses Debt Equity Ratio (DER). Debt Equity Ratio (DER) to measure a company's ability to meet obligations in paying its debts with a guarantee of its own capital. The trade-off theory predicts a positive relationship between capital structure and firm value assuming that tax profits are still greater than the costs of financial pressures and agency costs. The trade-off theory also predicts a positive relationship between capital structure and the level of profitability or financial performance of the company.

Analysis in the financial statements is a process that is full of consideration in helping to evaluate the financial position and results of the company's operations in the present and the past with the aim of predicting the changing conditions of performance in the future. Investors can observe financial performance by evaluating and projecting stock prices. If the profits obtained by the company are good, then the company's value will be even better. All companies in Indonesia experienced fluctuating company values in all sectors. No exception in the galvalume sub-sector.

METHOD

The type of research used is associative, where the aim is to find out the relationship between variables. The population in this study amounted to 5 years of Galvalum Company's financial statements listed on the Indonesia Stock Exchange for the 2014-2018 period. The sampling technique in this study is saturated sampling, where all members of the population are sampled. Thus the sample in this study amounted to 5 years of financial statements. In analyzing the data used the instrument test, classical assumption test, regression, coefficient of determination and hypothesis testing.

RESULT AND DISCUSSION

The Indonesia Stock Exchange or the capital market functions to connect investors, companies and government institutions through the trading of long-term financial instruments and one of the instruments traded is shares.

Descriptive Analysis

In this test is used to determine the highest minimum and maximum scores, average values and standard deviations of each variable. The results are as follows:

Table 1.
Descriptive Statistics Analysis Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Equity	20	-2	1	.03	.586
Debt To Equity Ratio	20	-8	9	.43	3.201
Price to Earning Ratio	20	-13	40	14.41	14.759
Valid N (listwise)	20				

Return On Equity Ratio obtained a minimum variance of -2 and a maximum variance of 1 with an average value of 0.03% with a standard deviation of 0.586. Debt to Equity Ratio obtained a minimum variance of -8 and a maximum variance of 9 with an average value of 0.43% with a standard deviation of 3.201. Price to Earning Ratio obtained a minimum variance of -13 and a maximum variance of 40 with an average value of 14.41% with a standard deviation of 14.759.

Multiple Regression Analysis

This regression test is intended to determine changes in the dependent variable if the independent variable changes. The test results are as follows:

Table 2.
Multiple Regression Testing Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	14.017	2.513		5.578	.000
	Return on Equity	18.034	4.452	.717	4.051	.001
	Debt To Equity Ratio	-.557	.816	-.121	-.683	.504

a. Dependent Variable: Price to Earning Ratio

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Based on the test results in the above table, the regression equation Y=14.017+18.034X - 0.557X2 is obtained. A constant of 14,017 means that if there is no Return on Equity Ratio and Debt to Equity Ratio, then there is a Price to Earning Ratio of 14,017 points. The regression coefficient of Return On Equity Ratio of 18,034, this number is positive meaning that every time there is an increase in Return On Equity Ratio of 18,034 the Price to Earning Ratio will also increase by 18,034 points. Debt to Equity Ratio regression coefficient of -0.557, this number is positive meaning that every time there is a change in Debt to Equity Ratio of -0.557 then the Price to Earning Ratio will also change by -0.557 points.

Correlation Coefficient Analysis

Correlation coefficient analysis is intended to determine the degree of relationship strength of the independent variables on the dependent variable either partially or simultaneously. The test results are as follows:

Table 3.
Test Results Correlation Coefficient Return On Equity Ratio Against Price to Earning Ratio.

Correlations[b]

		Return on Equity	Price to Earning Ratio
Return on Equity	Pearson Correlation	1	.691**
	Sig. (2-tailed)		.001
Price to Earning Ratio	Pearson Correlation	.691**	1
	Sig. (2-tailed)	.001	

**. Correlation is significant at the 0.01 level (2-tailed).
b. Listwise N=20

Based on the test results obtained by a correlation value of 0.691 means that the Return On Equity Ratio has a strong relationship to Price to Earning Ratio.

Table 4.
Test Results Correlation Coefficient Debt to Equity Ratio Against Price to Earning Ratio.

Correlations[a]

		Debt To Equity Ratio	Price to Earning Ratio
ebt To Equity Ratio	Pearson Correlation	1	.030
	Sig. (2-tailed)		.900
Price to Earning Ratio	Pearson Correlation	.030	1
	Sig. (2-tailed)	.900	

a. Listwise N=20

ased on the test results obtained by a correlation value of 0.030 means that Debt to Equity Ratio has a very weak relationship to Price to Earning Ratio.

Table 5
Test Results Correlation Coefficient Return On Equity Ratio and Debt to Equity Ratio Simultaneously Against Price to Earning Ratio.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.701[a]	.492	.432	11.125

a. Predictors: (Constant), Debt To Equity Ratio , Return on Equity

Based on the test results obtained by a correlation value of 0.701 means that Return On Equity Ratio and Debt to Equity Ratio simultaneously have a strong relationship to Price to Earning Ratio.

Analysis of the Coefficient of Determination

Analysis of the coefficient of determination is intended to determine the percentage of influence of the independent variable on the dependent variable either partially or simultaneously. The test results are as follows:

Table 6.
Test Results for the Determination Coefficient of Return On Equity Ratio Against Price to Earning Ratio.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691[a]	.478	.449	10.959

a. Predictors: (Constant), Return on Equity

Based on the test results obtained a determination value of 0.478 means that the Return On Equity Ratio has an influence contribution of 47.8% to the Price to Earning Ratio.

Table 7.
Test Results Determination Coefficient Debt to Equity Ratio Against Price to Earning Ratio.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.030[a]	.001	-.055	15.157

a. Predictors: (Constant), Debt to Equity Ratio

Based on the test results obtained a determination value of 0.001 means that Debt to Equity Ratio has an influence contribution of 0.01% to the Price to Earning Ratio.

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Table 8.
Testing Results Determination Coefficient Return On Equity Ratio and Debt to Equity Ratio Against Price to Earning Ratio.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.701[a]	.492	.432	11.125

a. Predictors: (Constant), Debt To Equity Ratio , Return on Equity

Based on the test results obtained a determination value of 0.492 means that Return On Equity Ratio and Debt to Equity Ratio simultaneously have an influence contribution of 49.2% to Price to Earning Ratio, while the remaining 50.8% is influenced by other factors.

Hypotesis Testing

Hypothesis testing with t-test is used to find out which partial hypotheses are accepted.

Table 9.
Hypothesis Test Results Return On Equity Ratio Against Price to Earning Ratio.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.799	2.455		5.620	.000
	Return on Equity	17.394	4.287	.691	4.057	.001

a. Dependent Variable: Price to Earning Ratio

Based on the test results in the table above, the value of $t_{count}> t_{table}$ or (4.057> 2.101) is obtained, thus the first hypothesis proposed that there is a significant influence between Return On Equity Ratio to Price to Earning Ratio is accepted.

Table 10.
Debt to Equity Ratio Hypothesis Test Results Against Price to Earning Ratio.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	14.348	3.422		4.193	.001
	Debt To Equity Ratio	.138	1.086	.030	.127	.900

a. Dependent Variable: Price to Earning Ratio

Based on the test results in the above table, the value of $t_{count} <t_{table}$ or (0.127 <2.101) is obtained, thus the second hypothesis proposed that there is no significant effect between Debt to Equity Ratio to Price to Earning Ratio is accepted.

Hypothesis testing with the F test is used to find out which simultaneous hypotheses are accepted.

Table 11.
Hypothesis Test Results Return on Equity Ratio and Debt to Equity Ratio Against Price to Earning Ratio.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2034.855	2	1017.428	8.220	.003[b]
	Residual	2104.104	17	123.771		
	Total	4138.960	19			

a. Dependent Variable: Price to Earning Ratio
b. Predictors: (Constant), Debt To Equity Ratio , Return on Equity

Based on the test results in the above table, the calculated $F_{count} > F_{table}$ or (8.220> 3.200), thus the third hypothesis proposed that there is a significant influence between the Return On Equity Ratio and Debt to Equity Ratio to Price to Earning Ratio accepted.

CONCLUSION

Based on the results of the study, the Return On Equity Ratio significantly influence the Price to Earning Ratio with a contribution of 47.8%. Hypothesis testing obtained $t_{count} > t_{table}$ or (4.057> 2.101). Debt to Equity Ratio has no significant effect on Price to Earning Ratio with an influence contribution of 0.01%. Hypothesis testing obtained $t_{count} < t_{table}$ or (0.127 <2.101). Return On Equity Ratio and Debt to Equity Ratio has a significant effect on Price to Earning Ratio with a contribution of 49.2% while the remaining 50.8% is influenced by other factors. Hypothesis testing obtained by the calculated $F_{count} > F_{table}$ or (8.220> 3.200).

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