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# Determinants of Price Earnings Ratio: A Study in Manufacturing Companies

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## ABSTRACT

The purpose of this study was to see how the Dividend Pay-out Ratio, Profitability as measured by Return on Equity, Leverage as measured by Debt to Asset Ratio, and Earning Growth affected Firm Value as measured by Price Earnings Ratio in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019. Non-probability sampling with a purposive sampling methodology was utilized with a sample of 51 companies, and the SPSS for Windows 25 application was used to aid with data analysis. Dividend Pay-out Ratio and Earning Growth have a positive and significant effect on Price Earnings Ratio, Return on Equity has a positive and insignificant effect on Price Earnings Ratio, and Debt to Asset Ratio has a negative and significant effect on Price Earnings Ratio, according to the findings of this study.

**Keywords:** Dividend Pay-out Ratio, Return on Equity, Debt to Asset Ratio, Earning Growth, Price Earnings Ratio

## 1. INTRODUCTION

With the advancement of the economy, particularly in Indonesia, there will be growing competition among businesses to maximize profits. This is the result of the impact of many large companies that already have their own markets, as well as the emergence of many new companies that are ready to face any challenges in obtaining markets or consumers, as well as investor confidence in investing capital in their companies so that the new company can grow into a large company and survive in a highly competitive environment. Companies listed on the Indonesia Stock Exchange (IDX) would always aim to raise the relative attractiveness of their stocks in order to acquire investor trust in investing their money. However, investors will also assess the relative attractiveness of the company to determine stock investment decisions that rely on various valuation techniques.

One approach for estimating a company's value is to use the Price Earnings Ratio (PER). The PER is a tool that helps investors make decisions by comparing the price per share to the net income per share to see if investing in the company will be profitable. Many elements, both internal and external, influence the high and low value of a corporation. The Dividend Pay-out Ratio, Profitability, Leverage, and Earning Growth are just a few of the elements to consider. Because DPR reflects the status of the firm, information about DPR is useful and very significant for investors to be able to help make investment decisions on a company. A low Dividend Pay-out Ratio (DPR) can indicate a company's financial health. Another aspect that might affect the company's value, or the Price Earnings Ratio, is profitability (PER). Profitability is a metric that can be used to assess a company's profitability based on sales, assets, or ownership of investments ([1]). According to [1], solvency refers to a company's capacity to satisfy its long- and short-term financial obligations if it is liquidated. The larger the leverage, the higher the risk of a firm because it indicates that the corporation still has debts to pay off and requires a large amount of capital to finance its operations. Earning Growth is another factor that might influence the company's worth or Price Earnings Ratio (PER). Earnings Growth shows the increase in a company's earnings over time (usually one year). If a company's revenue grows, investors will be more interested in investing in it. Because the company's

income is high relative to the resultant expenses, a high Earning Growth also suggests that the company's operational performance is satisfactory.

Based on the description and explanation above, the subject of this research are manufacturing companies in 2017 – 2019 and this study aims to answer several problem formulations, namely (1) Does the Dividend Pay-out Ratio have a significant and positive effect on the value of Manufacturing companies in 2017 – 2019? (2) Does profitability have a significant and positive effect on the value of manufacturing companies in 2017 – 2019? (3) Does leverage have a significant and negative effect on the value of manufacturing companies in 2017 – 2019? (4) Does earning growth have a significant and positive effect on the value of manufacturing companies in 2017 – 2019?

### **1.1. Theories**

According to the different variables used in this research, we divided the theories into two categories.

#### *1.1.1. Grand Theory*

The goal of signaling theory is to explain why companies provide information to the capital market for its advantage ([2]). The theory proposes a method for a corporation to send a signal to financial statement users. These signals can take the shape of information or promotions claiming that the company is superior to others. According to [2], the information and promotions offered can take the shape of details regarding what the company or management has done to fulfil the company owners' wishes. The existence of information inequality between internal and external partners of the company is the subject of signal theory ([3]). Internal stakeholders, such as management, usually have more information about the company's current state than external parties, such as investors. As a result, to lessen information asymmetry about the company's state, management produces an annual report as a signal to investors or outside parties about the company's future prospects. The information presented to the company's external stakeholders, such as investors, will send signals to investors in order to help them make investment decisions. These signals can be positive signals or good news, or they might be negative signals or bad news. Signals communicated to the company's external partners or investors will have an impact on stock price movements. A good indication will cause the stock price of the company to rise, and vice versa. To attract investors' attention and interest in investing in a company, the company must send out a signal that can be recorded and interpreted successfully by them.

#### *1.1.2. Variables*

According to the variables used in this research, we divided the theories into five categories.

##### 1.1.2.1. Firm Value

Almost every company has the same main purpose, which is to increase the firm's performance in order to benefit the company's shareholders. The value of the company itself is critical, because the larger the company's value, the greater the shareholders' wealth ([3]). In general, the share price is used to determine the company's worth. A high company value can boost investor confidence in the company's future potential as well as its future performance. This occurs because investors believe that the higher the company's value or stock price, the better the rate of return they will receive.

In this research, the Price Earnings Ratio is employed as a measure of firm value. The Price Earnings Ratio (PER) measures the relationship between a company's stock price and its net income per share. According to [4], the Price Earnings Ratio (PER) is used by many investors to make investment decisions as a measure of investor or market confidence in a company's development prospects. When the price per share and net income per share vary, the Price Earnings Ratio (PER) changes in value. If the price per share grows while profits per share stay stable or unchanged, the Price Earnings Ratio (PER) will increase in value. The Price Earnings Ratio (PER) ratio lowers if the price per share remains constant while earnings per share rises ([5]). Companies with promising

futures typically have a high Price Earnings Ratio (PER). In contrast, if a company's Price Earnings Ratio (PER) is low, it's a high-risk company ([3]). Low Price Earnings Ratio (PER) does not automatically imply poor performance. A low PER implies that the stock is currently trading at a low price, indicating that it is a good investment. Low Price Earnings Ratio (PER) can deter investors from investing in a company, but a low PER has the potential to rise, allowing investors to diversify their portfolios beyond those with a high PER value ([5]). A high Price Earnings Ratio (PER) figure indicates that the company's future prospects are favorable, as seen by the company's high stock price ([6]). A high Price Earnings Ratio (PER) does not necessarily indicate that a company is performing well, but it could indicate a drop in average profit growth. There are other investors that continue to purchase shares in companies with a high Price Earnings Ratio (PER) number because they believe in the company's future prospects and potential ([5]). The Price Earnings Ratio (PER) is used by investors since it makes evaluating the prospects of a company's stock easier. Furthermore, the Price Earnings Ratio (PER) is thought to be more practical, as it allows investors to compare one firm to others in the same industry ([5]).

#### 1.1.2.2. Dividend Pay-out Ratio

The DPR (Dividend Pay-out Ratio) is the amount of profit allocated to shareholders as a percentage of total earnings. Another ratio that specifies how much profit a company can maintain as a source of funding is the Dividend Pay-out Ratio (DPR) ([7]). The Dividend Pay-out Ratio (DPR), which is dependent on the amount of the after-tax earnings, determines the size of the dividends paid. Companies can only issue dividends if they earn higher profits, according to [8]. Even if a corporation makes a lot of money, it can't pay out more dividends because that means the company is distributing its own money. Dividends are one of the benefits that investors receive from their investment in a company's shares, thus they have a special appeal for investors. The Signal Theory states that the higher the Dividend Pay-out Ratio (DPR), the more investors will be encouraged to invest in the company since they would earn higher dividends. As a result, the bigger the number of investors who invest in [6] company, the higher the stock price. The first hypothesis of this research is that Dividend Pay-out Ratio has a positive and significant effect on Price Earnings Ratio, as stated above.

#### 1.1.2.3. Profitability

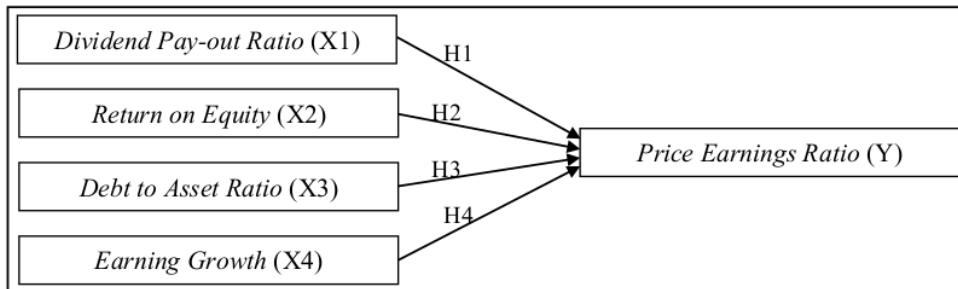
A lot of company policies contribute to profitability. The profitability ratio is a metric that determines how much profit a company can make. The profitability ratio, according to [1], is a ratio that connects profits with the sale of a company's investments. Profitability can also refer to a company's capacity to benefit from its investments ([1]). The ability of a company to produce its own profit is one of the most [9] crucial factors that investors examine when making an investment decision. Profitability can also be used to predict a company's ability to make money. Return on Equity is one of the financial indicators that may be used to determine profitability (ROE). In this study, Return on Equity is considered as a profitability metric. According to [2], return on equity (ROE) evaluates profitability from the perspective of shareholders and signifies a company's success in generating net [7]come for shareholders. By comparing a company's earnings or income after taxes to its equity, the return on equity (ROE) is calculated ([9]). The higher a company's Return on Equity (ROE) is, the more profitable it is and the more attractive it is to investors. A company's Return on Equity (ROE) determines whether or not it will pay dividends to its shareholders. A high Return on Equity (ROE) statistic indicates that a corporation is accepting of investment opportunities and managing costs effectively ([2]). A higher Return on Equity, according to signal theory, will also provide investors a signal to invest in a company because the company has more potential revenue. Investors' high interest in investing in the company will result in high stock prices, which will [7]se the Price Earnings Ratio's value, and vice versa. As a result, the study's second hypothesis is that Return on Equity has a positive and significant impact on Price Earnings Ratio.

#### 1.1.2.4. Leverage

According to [1], leverage refers to the amount of debt that can be used to fund a business. Leverage or solvency refers to a company's ability to meet all of its financial obligations, both short- and long-term, if it is liquidated ([1]). In this study, the Debt to Asset Ratio is employed as a measure of leverage. The Debt to Total Asset Ratio (DAR) measures how much debt a company has compared to how much it has in total assets. The Debt to Total Asset Ratio (DAR) indicates how much debt a firm utilizes to carry out its activities, according to [10]. The higher the Debt to Total Asset Ratio (DAR), the more reliant a company is on third parties and the greater the burden of debt obligations like interest. According to signal theory, the higher the Debt to Asset Ratio, the bigger the company's debt, posing a significant risk to the organization because its liabilities are growing both short and long term. The bigger the company's risk, the more it will signal to investors that the company is riskier, reducing investor interest in it. The drop in investor interest will almost likely lower the company's stock price, which will lower the Price Earnings Ratio's value, and vice versa. As a result, the study's third hypothesis is that the Debt to Asset Ratio has a negative and significant impact on the Price Earnings Ratio.

#### 1.1.2.5. Earning Growth

One of the most important factors to examine when investing in a company is earnings growth. The higher a company's earnings or net profit growth, the higher its stock price and market capitalization ([11]). Bigger earnings growth also means higher profits for investors, increasing the need for investors to put their money into the market. Growing earnings per share also indicates that an issuer or company is succeeding in enhancing its performance ([9]). With a high earnings per share, investors can obtain a better picture of the company's future prospects, which can influence their investment decisions. Companies with strong earnings growth will signal to investors that the company's prospects or future are improving, piqueing investor interest. High earnings growth suggests favorable company prospects, efficient company performance, and little company risk. The stronger investor interest in investing in a firm, the higher the company's share price, as it promotes a positive market sentiment about the company. A high stock price will result in a greater P/E ratio, and vice versa. As a result, the study's fourth hypothesis is that Earning Growth has a positive and significant impact on Price Earnings Ratio.



**Figure 1** Research Model

#### **1.2. Research Model**

There is a hypothesis in this study based on the explanation of the factors and the formulation of the hypothesis given above. Figure 1 depicts the research model that was employed.

Dividend Pay-out Ratio, Profitability, Leverage, and Earning Growth are the four independent variables in this study, while Firm Value is the dependent variable. Table 1 lists the proxies that were utilized for each of these variables.

**Table 1** Proxies

Variable	Proxy	Scale	References
<i>Price Earning Ratio</i>	$\frac{\text{Market Price per Share}}{\text{Earning per Share}}$	Rasio	Supriati (2018)
<i>Dividend Payout Ratio</i>	$\frac{\text{Dividend per Share}}{\text{Earning per Share}}$	Rasio	Sari, Handajani & Pituringsih (2020)
<i>Return on Equity</i>	$\frac{\text{Net Income}}{\text{Total Equity}}$	Rasio	Sari & Priyadi (2016)
<i>Debt to Asset Ratio</i>	$\frac{\text{Total Debt}}{\text{Total Asset}}$	Rasio	Supriati (2018)
<i>Earning Growth</i>	$\frac{\text{Net Income}_1 - \text{Net Income}_0}{\text{Net Income}_0}$	Rasio	Dutta, Das & Saha (2018)

### 1.3. Our Contribution

This study can benefit a variety of parties, including businesses, investors, researchers, and future researchers. This research is expected to aid businesses in improving, evaluating, and developing new strategies for increasing and maintaining strong corporate values. The findings of this study should serve as one of the good suggestions for investors or new potential investors when making investment decisions, particularly in manufacturing companies. For the researchers, this research is meant to be a means of gathering information as well as contributing insight and understanding about the company's value, which is determined by four variables: Dividend Pay-out Ratio, profitability, leverage, and earnings growth. For future researchers, the findings of this study are likely to serve as a guide for those performing similar research in the future, as well as provide further insight and information.

### 1.4. Paper Structure

The remainder of the paper is laid out as follows. The assumption tests, which comprise the Kolmogorov-Smirnov Test, Multicollinearity Test, Durbin-Watson Test, and Glejser Test, are introduced in Section 2 of this study. The strategy employed in this study is presented in Section 3. Then there's Section 4's t test result. Finally, Section 5 brings the research to a close and offers suggestions for future research.

## 2. BACKGROUND

### 2.1. Assumption Test

Before analyzing the data, an assumption test will be performed to see if the regression model that will be utilized in this study is feasible. Kolmogorov-Smirnov Test, Multicollinearity Test, Durbin-Watson Test, and Glejser Test are the classic assumption tests that will be used in this study. The SPSS version 25 application for Windows will be used to conduct the assumption test.

### 2.2. Data Analysis

To analyze the data of manufacturing companies that are the subject of research, five types of tests will be used which can also answer the hypotheses that have been compiled in this study.

#### 2.2.1. Descriptive Statistical Test

Descriptive analysis is used to provide descriptions or descriptions of the variables employed in a study, according to [15]. The mean or average, standard deviation, minimum value, and maximum value are the metrics employed in this study.

### 2.2.2. Multiple Regression Analysis

Multiple regression analysis is used to show the effect of an independent variable, which in this study is the Dividend Pay-out Ratio (X1), Return on Equity (X2), Debt to Asset Ratio (X3), and Earning Growth (X4), on the dependent variable which in this study is the Price Earnings Ratio (Y).

### 2.2.3. Adjusted R Square Test ( $R^2$ )

The coefficient of determination test ( $R^2$ ) is used in research to figure out how big the link between the independent and dependent variables is. The size of the coefficient of determination test ( $R^2$ ) ranges from 0 to 1. The independent variable has no or only a minimal effect on the dependent variable if the coefficient of determination ( $R^2$ ) is near to or equal to 0 ([10]). If the coefficient of determination ( $R^2$ ) is close to or equal to 1, however, the independent variable has an effect on the dependent variable.

### 2.2.4. F-test

The F test is used to examine if the independent variables in a research have a simultaneous influence on the dependent variable, according to [12]. The hypothesis was tested using the criteria of comparing the significance and constant values ( $\alpha = 0.05$ ). If the significance value is less than the constant, then the dependent variable is influenced by all independent factors and vice versa.

### 2.2.5. t-test

The t-test [6] performed to see if the independent variable has any effect on the dependent variable. The t-test can also be used to determine the significance of individual regression coefficients. This test is carried out by comparing the significance value to a constant value ( $\alpha = 0.05$ ). The independent variable has a [13]trial effect on the dependent variable if the significance value is smaller than the constant. The independent variable has no effect on the dependent variable if the significance value is greater than or equal to the constant.

**Table 2** Hypothesis Result

	6 Hypothesis	10 Test Results	Conclusion
Ha1	Dividend Payout Ratio has a positive and significant effect on Price Earning Ratio.	Dividend Payout Ratio has a positive and significant effect on Price Earning Ratio.	Ha1 accepted.
Ha2	Return on Equity has a positive and significant effect on Price Earning Ratio.	Return on Equity has a positive and insignificant effect on Price Earning Ratio.	Ha2 rejected.
Ha3	Debt to Asset Ratio has a negative and significant effect on Price Earning Ratio.	Debt to Asset Ratio has a negative and significant effect on Price Earning Ratio.	Ha3 accepted.
Ha4	Earning Growth has a positive and significant effect on the Price Earning Ratio.	Earning Growth has a positive and insignificant effect on the Price Earning Ratio.	Ha4 rejected.

## 3. METHODS

This study's technique is quantitative research based on secondary data gathered from the Indonesia Stock Exchange (IDX). The sample was manufacturing companies listed on the Indonesia Stock Exchange (IDX), and the sampling method was non-probability sampling with a purposive sampling strategy with criteria 1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017 – 2019 consecutively; 2. Manufacturing companies that publish financial reports every December 31 in 2017 – 2019; 3. Manufacturing companies that issue financial reports using Rupiah

(Rp.) in 2017 – 2019; 4. Manufacturing companies that did not record losses in 2017 – 2019; and 5. Manufacturing companies that distributed dividends in 2017 – 2019. The number of samples of manufacturing companies used were 51 companies that used secondary data taken through the Indonesia Stock Exchange website ([www.idx.co.id](http://www.idx.co.id)) and the official website of the manufacturing company. Data processing using SPSS Version 25 application for Windows.

#### 4. FINDINGS AND DISCUSSIONS

Dividend Pay-out Ratio has a minimum value of -1.96211, a maximum value of -0.12422, a mean or average of -0.9441374, and a standard deviation of 0.4400707. Return on Equity has a minimum value of 0.02227, a maximum value of 0.26355, a mean or average value of 0.1266744, and a standard deviation of 0.05824474. The Debt to Asset Ratio has a minimum value of 0.08306, a maximum value of 0.78305, a mean or variable average value of 0.3498721, and a standard deviation of 0.17494205. Earning Growth has a minimum value of -0.40422, a maximum value of 0.57577, a mean or average value of 0.0834452, and a standard deviation of 0.21255936. Price Earnings Ratio (PER) has a minimum value of 1.77629, a maximum value of 3.75538, a mean or average value of 2.6527286, and a standard deviation of 0.49743740. Kolmogorov-Smirnov test results are 0.164; Multicollinearity test with VIF less than 10 and Tolerance value more than 0.1; Durbin-Watson test of 1.160; and the Glejser test with the significance value of each independent variable being more than 0.5. The value of the adjusted r square test ( $R^2$ ) in this study is 0.117 or if it is converted into a percentage, the value of the adjusted r square in this study is 11.7%. The adjusted r square test ( $R^2$ ) of 11.7% indicates that the dependent variable in this study is 11.7% explained by variations in the independent variables, namely Dividend Pay-out Ratio (DPR), Return on Equity (ROE), Debt to Asset Ratio (DAR), and Earning Growth. While the remaining 88.3%, explained by other factors or variables that are outside this research.

**Table 3**  $R^2$ -test result

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.404 <sup>a</sup>	.163	.117	.46746400	1.160
a. Predictors: (Constant), DPR, EG, DAR, ROE					
b. Dependent Variable: PER					

The results obtained from Table 4 which explain the results of the t-test, the Dividend Pay-out Ratio (DPR) variable has a significant (0.033) and positive effect (constant value of 0.280 and t-count value of 2.172), thus indicating if the Dividend Pay-out Ratio value (DPR) increases, it will cause the value of Price Earnings Ratio (PER) to also increase. The Return on Equity (ROE) variable has an insignificant (0.113) and positive effect (constant value of 1.579 and t-count value of 1.603), and shows that if Return on Equity (ROE) has increased, the value of Price Earnings Ratio (PER) will also increase. The next independent variable is Debt to Asset Ratio (DAR) which has a negative effect (constant value -0.651 and t-count value of -2.101) and significant (0.039), so that every time there is an increase in the value of Debt to Asset Ratio (DAR), it will reduce the value of Price Earnings Ratio (PER). The last independent variable is Earning Growth, which has a positive effect (constant value of 0.085 and t value of 0.331) and not significant (0.742), which concludes that every time there is an increase in Earning Growth value, it will also cause an increase in the value of the Price Earnings Ratio (PER).

The Dividend Pay-out Ratio (DPR) is one of the instruments that investors use to choose whether or not to invest in a company. The quantity of dividends that investors will receive is undoubtedly one of the elements that will influence whether or not they choose to invest in a firm. The bigger the

income that investors receive from the company's dividends, the greater their interest in investing their capital in the company. Companies, on the other hand, want to offer a greater Dividend Pay-out Ratio (DPR) since they seek to raise cash from investors rather than from banks. This is because when a company takes out a capital loan from a bank, it incurs additional costs in the form of interest, which must be paid regardless of the company's financial situation or profitability. Based on table 4, the coefficient value is 0.280 and the significance value in the t-test is 0.033. The Dividend Pay-out Ratio (DPR) has a positive and significant effect on the Price Earnings Ratio, according to both results (PER). This is also supported by study [12], which found that the Dividend Pay-out Ratio (DPR) has a positive and significant impact on the dependent variable of Firm Value as assessed by the Price Earnings Ratio (PER). The findings of this study, however, contradict those of [6], who found that the Dividend Pay-out Ratio (DPR) had no significant impact on the Price Earnings Ratio (PER) variable.

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**Table 4 t-test Result**

Model	Unstandardized Coefficients		Beta	t	Sig.
	B	Std. Error			
1	(Constant)	2.938	.241	12.182	.000
	ROE	1.579	.985	.185	.113
	DAR	-.651	.310	-.229	.039
	EG	.085	.259	.037	.742
	DPR	.280	.129	.250	.033

a. Dependent Variable: PER

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Return on Equity (ROE) is a profitability statistic that assesses a company's ability to generate profits or gains through the use of capital, which is then used to return funds to shareholders. The better or more effective a corporation is at creating profits, the higher the level or value of Return on Equity (ROE). A high rate of Return on Equity (ROE) also indicates that a company is less risky and that it has the ability to expand and develop. Furthermore, a high level or value of Return on Equity (ROE) indicates a high level of profit or income for shareholders, which will increase investor interest in the company's shares, causing an increase in the company's share price and, in turn, an increase in the value of the Price Earnings Ratio (PER), though not significantly (PER). The coefficient value is 1.579 and the significance value of the t-test on the Return on Equity (ROE) variable is 0.113. These two values show that the Return on Equity (ROE) variable has a positive but non-significant impact on the Price Earnings Ratio (PER). This is consistent with the findings of [13], who found that Return on Equity (ROE) had a positive but small impact on company value as evaluated by the Price Earnings Ratio (PER). The findings of this study, however, contradict those of [14], who found that Return on Equity (ROE) has a negative impact on Price Earnings Ratio (PER).

The higher a company's Debt to Asset Ratio (DAR) is, the less likely it is to pay off its debts or financial obligations. The higher the Debt to Asset Ratio (DAR), the greater the danger that a company may be liquidated or insolvent in the future. If a company's debt level is high, it means the company has many sources of funds that come from loans. However, if these sources of funds are not used properly by the company, for example, for company expansion, increasing production capacity, improving product quality, research and development, and so on, the company's risk increases. Furthermore, keep in mind that the company's sources of cash, whether loans or debt, will suffer fees in the form of interest, the amount of which will be determined by the loan's size. The greater the costs incurred, the larger the value of a company's debt, and hence the greater the risk. Based on table 4, the coefficient value is -.651 and the t-test significance value is 0.039. These two data shows that leverage, as measured by the Debt to Asset Ratio (DAR), has a negative and significant impact on the P/E Ratio (PER). The findings support research by [1], which found that the Debt to Asset Ratio (DAR) has a negative and significant impact on the Price Earnings Ratio (PER). The test results, however, contradict those of [11], who found that leverage, as measured by the Debt to Asset Ratio (DAR), had a positive effect on the Price Earnings Ratio (PER).

A company's high earning growth suggests that the management can effectively and efficiently manage the company's operational finances to further reduce the present financial strain while still generating revenue growth. Furthermore, a high Earning Growth value shows that the company's risk is decreasing and its future prospects are improving. The lower the company's risk and the better the company's future prospects, the more likely investors will be interested in investing in it. The bigger the number of investors who invest in a firm, the higher the stock price, and the higher the company's Price Earnings Ratio (PER). If, on the other hand, the value of Earning Growth continues to drop from one period to the next, it would, of course, erode investor trust in the company's management, which is still ineffective and inefficient in managing finances, resulting in income declining from one period to the next. When the value of Earning Growth falls for a second time in a row, the company's prospects deteriorate and the risk of the company rises. The coefficient value is 0.085 and the significance value of the t-test on the Earning Growth variable is 0.742. Both of these values indicate that the variable rate of profit growth or Earning Growth has a positive but not significant effect on the Firm Value variable which is measured using the Price Earnings Ratio (PER). The results of the tests that have been carried out in this study are in line with the result<sup>5</sup> of research conducted by [15] which concludes that the rate of profit growth or Earning Growth has a positive and insignificant effect on the Price Earnings Ratio (PER) variable.

## 5. CONCLUSIONS

The Dividend Pay-out Ratio (DPR) variable has a positive and significant impact on the Price Earnings Ratio (PER). This shows that as the Dividend Pay-out Ratio (DPR) rises, so does the Price Earnings Ratio (PER). The greater the number of dividends paid out by a firm, the greater the desire of investors to invest in it since the profits they receive through dividends increase as well. Other research shows that Return on Equity (ROE) has a positive but small impact on Price Earnings Ratio (PER). This means that any increase in Return on Equity (ROE) will result in a small but significant increase in the Price Earnings Ratio's value (PER). According to the test results, the greater the Return on Equity (ROE) figure, the more investor confidence in the company's future prospects. Investors' assessments of a company's prospects and investment decisions, however, are not just dependent on Return on Equity (ROE), as there are other metrics to consider. Similarly, the Earning Growth variable has a positive but small effect on the Price Earnings Ratio, according to the results of hypothesis testing (PER). It also demonstrates that any rise in the company's profit growth value will boost investor confidence in the company's prospects as well as management efficiency in maintaining consistent profit growth. However, not many investors base their investing decisions simply on Earnings Growth. On the Price Earnings Ratio, the Debt to Asset Ratio (DAR) variable yielded a negative and insignificant hypothesis testing result (PER). This shows that as the Debt to Asset Ratio (DAR) rises, the Price Earnings Ratio (PER) falls. This is because the higher the Debt to Asset Ratio (DAR) rises, the more the company's risk and debt rise, reducing investor confidence in the company's ability to meet its financial obligations and causing investors to become less interested in investing in the company because they want to avoid company risk. Suggestions for investors: The findings of this study are expected to be one of the useful guidelines for investors or new potential investors in making investment decisions before investing in manufacturing companies in particular, and suggestions for companies: This research is expected to assist companies in improving, evaluating, and developing new strategies to increase and maintain high company value.

The limitations that exist and need to be corrected in this study are that this research is limited to using four independent variables, namely Dividend Pay-out Ratio (DPR), Profitability as measured by Return on Equity (ROE), Leverage as measured by Debt to Asset Ratio (DAR), and Earning Growth; the sample studied only focuses on manufacturing companies, so it does not explain companies in other sectors listed on the Indonesia Stock Exchange (IDX); and the period used is only around 2017 – 2019 so it does not describe the Company Value as measured using the Price Earnings Ratio (PER) outside that period. It is expected that independent variables such as liquidity and firm size will be added to future research in order to obtain more diverse information about a company in order to assist users of company information such as creditors, company management, and shareholders in making investment decisions; the sample companies used are not only manufacturing companies, but

also other companies such as service or financial companies to assist shareholders in seeing the capacity of a company; and increasing the research period so that it can show the company's state in a more complex manner and produce more accurate information about the company's state for users of financial statements such as management, creditors, and investors in making decisions about investing in or providing loans to the company.

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