JURNAL KRAKATAU
INDONESIAN OF MULTIDISCIPLINARY JOURNALS

http://jurnal.desantapublisher.com/index.php/krakatau/index
E ISSN: 3025-7085

AN EMPIRICAL STUDY OF PROFITABILITY AND LIQUIDITY ON PRICE EARNING RATIO IN BANKING COMPANIES LISTED ON IDX FOR THE PERIOD 2020 – 2022

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ABSTRACT

This research aims to investigate the interaction between return on assets, current ratio, and price earning ratio in Indonesia's banking sector. The objective is to gain insight into how these factors interact and affect the price-earning ratio of companies in Indonesia's banking industry. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of banking sector companies in Indonesia operating in Indonesia as many as 46 companies; with purposive sampling technique, the authors get a sample of 30 companies from 2020 - 2022. This study examines the relationship between return on asset profitability, liquidity current ratio and price earning ratio through statistical analysis and linear regression modelling techniques with SPSS version 26. The results showed that the return on assets hurts the earning ratio. Liquidity current ratio does not significantly affect the price earning ratio; return on assets and current ratio do not have a considerable impact simultaneously on the price earning ratio. The findings contribute to the literature on corporate valuation by providing empirical evidence specific to the banking sector in Indonesia. This research provides implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive the earning ratio, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provides benefits in the context of financial management.

Keywords: *Profitability, Liquidity, Price Earning Ratio, Companies Banking.*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui interaksi antara Return On Assets, Current Ratio, dan Price Earning Ratio pada sektor perbankan Indonesia. Tujuannya adalah untuk mendapatkan wawasan tentang bagaimana faktor-faktor ini berinteraksi dan mempengaruhi rasio harga-pendapatan perusahaan-perusahaan di industri perbankan Indonesia. Analisis ini menggunakan metode kuantitatif berdasarkan data keuangan dan metrik yang relevan untuk sampel perusahaan sektor perbankan di Indonesia yang beroperasi di Indonesia sebanyak 46 perusahaan; dengan teknik purposive sampling, penulis mendapatkan sampel sebanyak 30 perusahaan pada tahun 2020 – 2022. Penelitian ini menguji hubungan antara profitabilitas return on aset, rasio lancar likuiditas dan rasio harga pendapatan melalui analisis statistik dan teknik pemodelan regresi linier dengan SPSS versi 26. Hasil penelitian menunjukkan bahwa pengembalian aset merugikan rasio pendapatan. Rasio Likuiditas Lancar tidak berpengaruh signifikan terhadap Price Earning Ratio; Return on Assets dan Current Ratio tidak mempunyai pengaruh yang besar secara simultan terhadap Price Earning Ratio. Temuan ini berkontribusi pada literatur mengenai penilaian perusahaan dengan memberikan bukti empiris yang spesifik pada sektor perbankan di Indonesia. Penelitian ini memberikan implikasi bagi pembuat kebijakan, investor, dan manajer, karena memberikan wawasan berharga mengenai faktor-faktor yang mendorong rasio pendapatan, membantu pemangku kepentingan mengambil keputusan dan strategi untuk meningkatkan kinerja dan daya saing. Memberikan manfaat dalam rangka pengelolaan keuangan.

Kata Kunci: *Profitabilitas, Likuiditas, Price Earning Ratio, Perusahaan Perbankan.*

INTRODUCTION

The banking sector has an important role in spurring economic development towards improving the welfare of the people. In addition to its role in organizing payment traffic and its function as an intermediary institution, the banking sector is also a tool for transmitting monetary policy. This large role of the banking sector causes any changes that occur in the banking sector to impact other sectors (Natalia & Jonnardi, 2022)**.** Increasingly integrated economic activity causes the economies of various countries worldwide to be interconnected without barriers. The world is interrelated without borders, so if a crisis occurs in one country, it will quickly affect other countries. Banks as intermediary institutions must perform well by maintaining and improving bank health. Thus, banks can more easily gain and maintain the trust of their customers (agents of faith), which is a fundamental principle of banks. Based on Bank Indonesia Regulation number 13/1/PBI/2011 concerning Health Assessment of Commercial Banks, banks are required to maintain and improve the level of bank health continuously. Research on the health level of banks is carried out to determine the performance of banks using financial statements as an indicator underlying the assessment of banks' financial performance (Susilawati & Nurulrahmatiah, 2021).

Financial performance is an analysis to see the extent to which banking companies have used the rules of financial application safely and appropriately. Financial performance is a reflection of the finances of a bank that is analyzed in ways with financial analysis, and it can automatically be known what is good or bad about the financial condition of a bank that describes the results of activities in an extraordinary time (Melita & Wagiyo, 2020). The entire performance of the bank can be seen through the profitability value. The condition of a company in the future can be seen and predicted through its financial performance, and it is imperative to know the sustainability and stability of a business both from internal and external parties as a consideration in making a decision. The good and bad financial performance can be analyzed using financial ratios in the company's financial statements reviewed through the balance sheet and income statement. This ratio is urgent for companies because the return on assets is used to measure the company's operational effectiveness when managing assets to get net profit (Anisa & Anwar, 2021).

Profitability ratio is used to measure or assess the ability of a company to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management as indicated by the profit generated from various banking products and investment income. The point is that this ratio shows the company's efficiency. Profitability ratios can be used by comparing multiple components in the financial statements, especially the balance sheet and profit and loss (Gu et al., 2024; Gu et al., 2023; Gunawan et al., 2022). Analysis is a ratio used to measure the company's ability to meet the company's long-term obligations; besides that, profitability is a ratio used to measure the company's ability to generate profits from sales (Noordiatmoko, 2020). Profitability is the net result of various policies and decisions, where this ratio is used as a measure of the company's ability to profit from each rupiah of sales generated. So that the results of the profitability ratio can be used as an illustration of the effectiveness of the bank's performance in terms of net profit earned compared to the cost of revenue (Fernos, 2017). Profitability ratios measure a company's ability to generate profits using resources such as assets, capital, or sales. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and basic earning power

(Jajuli et al., 2023). The profitability ratio is a ratio used to measure the company's ability to generate profits from its normal business activities. Besides determining the company's ability to generate profits during a certain period, this ratio also aims to measure the level of management effectiveness in running the company's operations. Profitability ratios can be used to measure the effectiveness of management performance. Good performance will be shown through management's success in generating maximum profit for the company (Hariyanto, 2022).

The liquidity ratio is a company's ability to meet short-term obligations. The liquidity ratio measures the company's short-term liquidity ability by looking at its current assets relative to its current debt (debt, in this case, is a company liability). The current ratio is a ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed as a whole (Gunawan et al., 2022). The leverage ratio is used to measure the company's ability to meet its short- and long-term obligations if the company is liquidated at any time. This ratio shows how much of the company's assets are funded by debt. With the high debt owned by the company, the company is forced to generate more income to pay the debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress (Dewi et al., 2019). The liquidity ratio is a ratio used to determine how much the company can fulfil its short-term with available funds (Dewi, 2017). Liquidity is one of the factors that can encourage changes in stock prices. High liquidity indicates the company's ability to meet its short-term obligations. The current ratio can measure company liquidity. The current ratio shows the company's ability to pay existing debt using existing assets owned by the company (Octaviani & Komalasarai, 2017).

The economic growth and development of banking are primarily determined by the profit obtained from its operational activities. The profit level can indicate that the bank has carried out its intermediary function. One of the indicators used to measure the level of profitability of banks is Return on Asset. Return on Assets is used to measure the success of management in generating profits. The smaller percentage ratio indicates the lack of bank management's ability to manage assets to increase income (Almira et al., 2021; Rostami et al., 2016).

In addition to using profitability ratios, banks also use liquidity ratios to measure banking performance. The liquidity ratio that is often used is the Loan to Deposit Ratio. Loan Deposit Ratio is a ratio to measure the bank's ability to meet short-term obligations (liquidity) by dividing total credit by total third-party funds. If the bank can distribute credit effectively, the Loan Deposit Ratio will increase, meaning that the fundamental distinction that has been channelled is higher than the increase in total third-party funds, so bank profits will increase, which means that return on assets will increase (Rajindra et al., 2021). Return on assets is influenced by loan deposit to ratio. Loan deposit to ratio is the ratio between the amount of the entire volume of credit channelled by the bank and the amount of receipt of funds from various sources. Another understanding of loan deposit to ratio is the financial ratio of banking companies related to liquidity aspects. Loan deposit to ratio is also called the ratio of credit to total third-party funds, which measures third-party fundschannelledd in the form of credit. Loan Deposit Ratio assesses a bank's liquidity by dividing the amount of credit the bank provides against third-party funds. This ratio determines the bank's ability to repay obligations to customers who have invested funds with honours and honours debtors (Digdowiseiso, 2021).

Shares are one form of securities traded in the capital market. Shares are securities as a sign of ownership of the issuing company (Mahendra, 2023; Utami, 2017). Shares also mean the participation or ownership of a person or entity in a public company. The share price is the present value of the cash flow that will be received by the owner of the shares in the future (Andarint, 2016; Fathia et al., 2020; Muhammad, 2017). The share price is the money spent to obtain proof of participation or ownership of a company. Stock prices can also be interpreted as prices formed from the interaction of sellers and buyers of shares based on their expectations of company profits; for this reason, investors need information related to the formation of these shares in making decisions to sell or buy shares (Öztürk, 2017; Ramadhan et al., 2023).

This study empirically investigates the effect of profitability and liquidity on the price-earning ratio. By testing these factors partially and simultaneously, we aim to contribute to the existing literature and provide practical implications for makers in these banking companies, theoretically contributing to the context of financial management.

RESEARCH METHOD

This research uses descriptive quantitative research methods with a causal approach. The data source taken is secondary data. Researchers receive secondary data, making direct measurements of the object under study. However, researchers use data from an institution whose data has been published. The population in this study are banking sector companies in Indonesia listed on the Indonesia Stock Exchange for the period 2020 - 2022, and there are 46 banking companies. In withdrawing the sample, the authors used a purposive sampling technique to take only 30 banking sector companies in Indonesia listed on the Indonesia Stock Exchange for the period 2020 - 2022, which have been published following the research variables that the authors analyzed from 2020 to 2022 with variables of profitability, liquidity and price earning ratio. Data is collected by observation. Observation is carried out on all data sources following the observation/analysis units determined in the study. Data sources for research are obtained from websites such as banking sector companies in Indonesia, the Indonesia Stock Exchange website http://www.idx.co.id, and companies sampled in this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested with descriptive analysis followed by a classical assumption test, including data normality, heteroscedasticity, multiclonierity, and autocorrelation. Then, the author continued with multiple linear regression tests. The author uses t-test and f-test to test the hypothesis. The author formulates the research hypothesis, namely:

H1: Profitability has a significant effect on the price-earning ratio.
H2: Liquidity has a significant effect on the price-earning ratio.
H3: Profitability and liquidity have a significant effect simultaneously on the price-earning ratio

RESULTS AND DISCUSSIONS

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 2 below.

Table 1. One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		90
Normal Parameters,b	Mean	.0000003
	Std. Deviation	2647645677.13259120
Most Extreme Differences	Absolute	.122
	Positive	.122
	Negative	-.077
Test Statistic		.122
Asymp. Sig. (2-tailed)		.072c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.072), which is residual data having a significance value greater than 0.05. It can be concluded that the data is normally distributed. The following multicollinearity test results can be seen in Table 2 below.

Table 2. Multiklonieritas Test

Tableicients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Return On Asset	.994	1.006
	Current Ratio	.994	1.006

a. Dependent Variable: Price Earning Ratio

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of > 10 and a Tolerance value of > 10. The result of the decision for the multicollinearity test is that if the tolerance value < 0.10 and VIF < 10, it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain symptoms of multicollinearity. The results of linear regression analysis can be seen in Table 3 below.

Table 3. RegresRegressionr Test

Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.193	4335		9.672	.000
	Return On Asset	-2.408	1187	-.213	-2.028	.046
	Current Ratio	-3.980	6004	-.070	-.663	.509

a. Dependent Variable: Price Earning Ratio

The positive constant of 4.193 means that if the value of return on assets and current ratio is equal to zero, then the level or magnitude of the price-earning ratio is still 4.193.

The regression coefficient of the variable return on assets has a negative value of -2.408, which means that if the value of return on assets decreases one hundred per cent, the variable price earning ratio decreases -2.408 times. The value of the regression coefficient of the current ratio variable is negative by -3,980. This explains that if the value of the current ratio decreases by one hundred per cent, then the existing ratio variable decreases by -3,980 times. The following analysis results in hypothesis testing are presented in Table 4.

Table 4. Hypothesis Test

Variable	T-value	P-values	Result
ROA ⟶ PER	-2.028	0.046	Accepted
CR ⟶ PER	-.663	0.509	Rejected
ROA & CR ⟶ PER	2.188	0.188	Rejected

Source: Results of research data processing

Table 4 shows that in the results of this study, the first hypothesis is accepted, which means that the variable profitability of non-asset returns has a significant negative effect on the price-earning ratio. The profitability ratio is used to measure or assess the ability of a company to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management as indicated by profits generated from various banking products and investment income, and the point is that this ratio shows the company's efficiency. Profitability ratios can be used by comparing various components in financial statements, especially balance sheets and profit and loss (Gu et al., 2024; Gu et al., 2023; Gunawan et al., 2022). Ratio analysis is a ratio used to measure the company's ability to meet the Long-term liabilities of the company, and profitability is a ratio used to measure the company's ability to generate profits generated from sales (Noordiatmoko, 2020). Profitability is the net result of various policies and decisions, where this ratio is used as a measure of a company's ability to profit from every dollar of sales generated.

The second finding shows that the current ratio's variable liquidity does not significantly influence the price-earning ratio. The liquidity ratio is a company's ability to meet short-term obligations. The liquidity ratio measures the company's short-term liquidity capability by looking at its current assets relative to its current debt (debt, in this case, is the company's obligation). The current Ratio is a ratio to measure the company's ability to pay short-term obligations or debts that are immediately due when collected as a whole (Gunawan et al., 2022). The leverage ratio measures a company's ability to meet its short-term and long-term obligations if the company is liquidated at any time. This ratio shows how much a company's assets are funded from debt. With the high debt owned by the company, the company is forced to generate more income to pay its debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress (Dewi et al., 2019).

The third finding in this study is that statistically, the variables of profitability, return on assets, liquidity, and current ratio do not have a significant effect simultaneously on the price-earning ratio. The profitability ratio measures a company's ability to profit using resources such as assets, capital, or sales. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and basic earning power (Jajuli et al., 2023). The profitability ratio is a ratio used to measure a company's ability to generate profits from its normal business activities. Besides determining the company's ability to generate profits during a certain period, this ratio also measures management's effectiveness in conducting company operations. The profitability ratio can be used as a tool to measure the level of effectiveness of management performance. Good performance will be shown through the success of management in generating maximum profit for the company (Hariyanto, 2022).

Meanwhile, with the high debt owned by the company, the company is forced to generate more income to pay its debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress (Dewi et al., 2019). The liquidity ratio is a ratio used to determine how much the company can meet its short term with available funds (Dewi, 2017). Liquidity is one of the factors that can encourage changes in stock prices. High liquidity indicates the company's ability to meet its short-term obligations. The current ratio can measure the company's liquidity. The current ratio shows the company's ability to pay the existing debt using it's existing (Octaviani & Komalasarai, 2017).

CONCLUSION

From the results of research and discussion, the authors conclude the first hypothesis, which is the significant effect of profitability of returns on assets on the price-earning ratio. The second hypothesis shows the absence of a substantial impact of current ratio liquidity on the price-earnings ratio. Then the third hypothesis is that the profitability of returns on assets and liquidity of current ratios cannot simultaneously affect the price-earning ratio. To increase the company's value through the management of capital structure, profitability, and liquidity, the company must pay attention to the optimal composition of the capital structure, the level of profitability, and financial liquidity. Some things that can be done are increasing the company's profitability by increasing revenue, maintaining financial ratios so that the company's value becomes high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers; it emphasises the importance of making informed capital structure decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors that drive the value of banking companies and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature.

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