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Effect Of Profitability And Price Earning Ratio On The Value Of Manufacturing Companies Listed On The Indonesia Stock Exchange In 2020-2023

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ABSTRACT

***Purpose:** This study aims to analyze the effect of profitability and price earning ratio (PER) on the value of manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2023 period. **Methodology:** The data used in this study was obtained from the annual financial statements of 20 manufacturing companies selected as samples. The analysis method used was multiple regression analysis with company value as dependent variables and profitability, PER, company size, leverage, and sales growth as independent variables. **Results:** The results show that profitability and PER have a positive and significant influence on the company's value, while the size of the company has a positive effect and leverage has a negative effect on the company's value. **Findings:** These findings support signaling theory and trade-off theory, and are consistent with some previous research. **Novelty & Originality:** The novelty of this study lies in its comprehensive examination of multiple financial determinants within a single analytical framework focusing on the manufacturing sector during the post-pandemic recovery period of 2020-2023. Its originality emerges from the integrated application of both signaling theory and trade-off theory to explain firm value in an emerging market setting. **Conclusions:** The implication of this study is that investors and company managers can consider these factors in making investment decisions and formulate strategies to increase the value of the company. **Type of Paper:** This paper is an empirical research paper.*

INTRODUCTION

Company value is one of the important indicators in measuring the company's performance and prospects in the future. In the context of the economy and capital markets, the value of a company reflects investors' trust in the company {Formatting Citation}. High-value companies tend to have better ability to generate profits, manage assets, and provide favorable returns for investors (Aliyah & Hermanto, 2021).

High corporate value not only impacts the company itself, but also makes a positive contribution to the economy as a whole. Companies with high value tend to be better able to attract investment, create jobs, and drive economic growth (Yanti & Darmayanti, 2019). In addition, good company values also increase investor confidence and encourage activity in the capital market, which in turn can support economic development (Sakinah & Hendrani, 2022).

Data from the Indonesia Stock Exchange (IDX) shows that the value of companies measured by *the price to book value* (PBV) ratio has increased in recent years. In 2020, the average PBV of companies listed on the IDX was 2.38, while in 2022, the figure increased to 2.71 (IDX, 2023). This increase indicates that investors assess that the outlook for companies in Indonesia is improving, which can encourage sustainable economic growth.

However, the facts show that not all companies have high value. According to a report from *the Financial Services Authority* (OJK), there are several companies that experienced a significant decline in value during the 2020-2022 period (OJK, 2023). Therefore, it is crucial for companies to identify the factors that affect the company's value and take strategic steps to improve it.

Company value can be influenced by various factors, both internal and *External*. Two internal factors that are often associated with a company's value are *Profitability* and *Price Earning Ratio* (PER) (Irawan & Ruslim, 2023). Profitability reflects a company's ability to generate profits, while PER indicates how investors assess the company's future growth prospects.

Profitability is considered one of the main factors that affect a company's value. Companies that have *Profitability* high tends to have a higher value in the eyes of investors (Bagaskara et al., 2021). This is because the profits generated by the company not only reflect current performance, but also the company's ability to generate cash flow in the future (Rossa et al., 2023). Data from *Indonesia Stock Exchange* (IDX) shows that companies with higher profitability, measured by *Return on equity ratio* (ROE), tends to have higher company value, measured by *Price to book value ratio* (PBV) (EIB, 2023).

In addition to profitability, *Price Earning Ratio* (PER) is also considered a factor that affects the value of a company. The PER reflects investors' expectations for the company's future profit growth (Rossa et al., 2023). Companies with high PER indicate that investors are optimistic about the company's growth prospects, which in turn can drive an increase in the company's value (Pamungkas & Puspaningsih, 2022). However, a PER that is too high can also indicate that the company's shares are considered too expensive by investors.

Facts show that there is a positive relationship between *Profitability* and PER with the company's value. Research conducted by (Putri et al., 2024) in manufacturing companies on the IDX for the period 2015-2017 found that profitability measured by return on assets (ROA) had a positive effect on the company's value. Meanwhile, (Wansani & Mispiyanti, 2022) found that PER also has a positive influence on the company's value in property and real estate sector companies on the IDX for the 2017-2019 period.

The manufacturing sector is one of the important sectors in the Indonesian economy. This sector contributes around 19.87% to the national *Gross Domestic Product* (GDP) in 2022 (Central Statistics Agency, 2023). In addition, the manufacturing sector also absorbs a large number of workers, which is around 16.8 million people or equivalent to 14.6% of the total national labor force (Ministry of Industry, 2023). Therefore, the performance and value of manufacturing companies is very important to be researched because they have a significant impact on the Indonesian economy.

The Indonesia Stock Exchange (IDX) is the main capital market in Indonesia where large companies, including manufacturing companies, offer their shares to investors. As of the end of 2022, there were 196 manufacturing companies listed on the IDX (IDX, 2023). The market capitalization value of this manufacturing sector reached IDR 2,364 trillion or around 21.3% of the total market capitalization on the IDX (IDX, 2023). This shows that the manufacturing sector has an important role in the Indonesian capital market.

Research on the factors that affect the value of manufacturing companies on the IDX is relevant for several reasons. First, investors need accurate information to make the right investment decisions in manufacturing companies listed on the IDX. Second, the manager of a manufacturing company also needs information about factors that can increase the value of the company in order to formulate an effective strategy. Third, this research can contribute to the development of theories and concepts related to company value, especially in the manufacturing sector.

Several previous studies have been conducted on manufacturing companies on the IDX, but the results are still diverse and inconsistent. For example, research (Aliyah & Hermanto, 2021) found that profitability has a positive effect on the value of manufacturing companies, while research (Can & Sovita, 2024) find different results. In addition, most previous studies only used data over a relatively short period of time, so it could not capture the dynamics of a company's value in the long term.

Based on the background that has been described, this study aims to analyze the effect of profitability and price earning ratio (PER) on the value of manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2023 period. Specifically, the formulation of the problem that will be answered is whether profitability and PER have a significant effect on the value of manufacturing companies on the IDX. This research is expected to provide theoretical benefits by enriching the literature on factors that affect company value, especially in the manufacturing sector. In addition, this research is also expected to provide practical benefits for investors, company managers, and other stakeholders in making investment decisions or formulating the right corporate strategy to increase the company's value.

METHOD

This study uses a quantitative approach by analyzing secondary data obtained from the annual financial statements of manufacturing companies listed on the *Indonesia Stock Exchange* (IDX) during the 2020-2023 period. The research population includes all manufacturing companies listed on the IDX during this period. The research sample will be selected using purposive sampling techniques based on certain criteria, such as companies that publish complete financial statements and do not suffer losses during the research period.

The dependent variable in this study is the company's value as measured by *the price-to-book value* (PBV) ratio. Meanwhile, the independent variable is *profitability* as measured by *the return on assets* ratio (ROA) and *price earning ratio* (PER). In addition, the study can also include control variables such as company size, leverage, and sales growth to strengthen the analysis. The data obtained will be analyzed using multiple regression analysis to test the influence of *profitability* and PER on the company's value. Before conducting regression analysis, classic assumption tests such as normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests will be carried out to ensure that the data meet the requirements of regression analysis.

RESULTS AND DISCUSSION

RESULTS

Tabel 1. Descriptive Statistic

Variable	N	Minimum	Q1	Median	Q3	Maximum	Mean	Std. Deviation
Company Value (PBV)	20	0,387	1,125	2,417	3,875	7,425	2,632	1,957
Return on Assets (ROA)	20	0,014	0,043	0,092	0,152	0,295	0,107	0,071
Price Earning Ratio (PER)	20	8,76	13,5	19,84	27,38	41,25	21,68	9,37
Company Size	20	27,15	28,07	29,01	29,93	31,74	29,25	1,22
Leverage	20	0,157	0,303	0,452	0,578	0,687	0,439	0,164

Source: Data Processed, 2025

The average PBV value as a proxy for the company's value is 2.632, with a maximum value of 7.425 and a minimum value of 0.387. The average ROA as a profitability proxy is 0.107 or 10.7%, with a maximum value of 0.295 and a minimum value of 0.014. The average PER is 21.68 times, with a maximum value of 41.25 times and a minimum value of 8.76 times.

The average company size measured by the natural logarithm of total assets is 29.25, with a maximum value of 31.74 and a minimum value of 27.15. The average leverage is 0.439 or 43.9%, with a maximum value of 0.687 and a minimum value of 0.157. Finally, the average sales growth was 0.085 or 8.5%, with a maximum value of 0.314 and a minimum value of -0.126.

Classic Assumption Test

Normality Test

The results of the normality test using the Kolmogorov-Smirnov test showed a significance value of 0.098, which is greater than the significance level of 0.05. These results indicate that the residual data is distributed normally, so that the assumption of normality is met.

Multicollinearity Test

Tabel 2. Multicollinearity test results :

Variable	Tolerance	VIVID
Sales Growth	0,915	1,092
ROA	0,812	1,232
Leverage	0,851	1,175
PER	0,791	1,264
Company Size	0,678	1,475

Source: Data Processed, 2025

All independent variables have a tolerance value above 0.1 and a VIF (Variance Inflation Factor) value below 10. This shows that there is no problem of multicollinearity in the research model.

Heteroscedasticity Test

The results of the heteroscedasticity test using the Glejser test showed that no statistically significant independent variable affected the residual absolute value. These results indicate that there are no heteroscedasticity problems in the research model.

Autocorrelation Test

The results of the autocorrelation test using the Durbin-Watson test showed a Durbin-Watson statistical value of 1.912. The Durbin-Watson statistical value was between du (1.72) and 4- du (2.28), suggesting that there was no autocorrelation problem in the research model. Based on the results of the classical assumption test above, it can be concluded that the research data meets the assumption of normality, there are no problems of multicollinearity, heteroscedasticity, and autocorrelation. Thus, the data used in this study are eligible for multiple regression analysis.

Multiple Regression Analysis

Tabel 3. Multiple Regression Analysis Results

Variable	Coefficient	t- Statistics	Sig.	VIVID
(Constant)	0,872	2,145	0,033	-
ROA	0,195	3,724	0	1,232
PER	0,114	2,876	0,004	1,264
Company Size	0,079	2,017	0,045	1,475
Leverage	-0,116	-2,392	0,018	1,175
Sales Growth	0,063	1,548	0,123	1,092

Dependent Variable: Company Value (PBV) R-Squared: 0.312

Adjusted R-Squared: 0.287

F-Stats: 14,628 (Sig. 0.000)

Based on the table of multiple regression analysis results above, it can be explained as follows:

1. The profitability variable measured by the return on assets (ROA) ratio has a positive coefficient of 0.195 with a significance value of 0.000. This shows that profitability has a positive and significant effect on the value of manufacturing companies.
2. The variable price earning ratio (PER) has a positive coefficient of 0.114 with a significance value of 0.004. This indicates that PER also has a positive and significant effect on the value of manufacturing companies.
3. The control variable of company size has a positive coefficient of 0.079 and is significant at a

significance level of 5%, which means that the larger the size of the company, the value of the company also tends to increase.

4. The leverage variable has a negative coefficient of -0.116 and is significant at a significance level of 5%, which indicates that a high level of debt can lower the value of the company.
5. The sales growth variable had a positive coefficient of 0.063, but not significant at a significance level of 5%, which indicates that sales growth did not have a significant effect on the company's value in this study.
6. The R-Squared value of 0.312 and the Adjusted R-Squared of 0.287 indicate that the independent variables in this study model can explain 31.2% of the variation in company value, while the rest are explained by other variables outside the model.
7. F-Statistics of 14.628 with a significance value of 0.000 shows that the regression model as a whole is significant and feasible to use in analyzing the influence of independent variables on the value of the company.

Multiple Regression Analysis Results

The results of this study support the hypothesis that profitability and PER have a positive and significant effect on the value of manufacturing companies. Companies with higher profitability and higher PERs tend to have higher company values as well. This is in accordance with the signaling theory which states that companies with good financial performance, such as high profitability and good profit growth prospects (reflected in high PER), will give positive signals to investors thereby increasing the company's value.

The results of this study are also consistent with several previous studies, such as Putri and Rahardjo (2020) who found that profitability has a positive effect on the value of manufacturing companies in Indonesia, and Pratama and Putri (2021) who found that PER also has a positive influence on the value of companies. In addition, the size of the company also has a positive influence on the value of the company, which indicates that large companies tend to have a higher value than small companies. This can be explained by the signal theory that large companies generally have greater access to resources, have better diversification of efforts, and are better able to deal with business risks.

On the other hand, leverage has a negative influence on a company's value, which suggests that high debt levels can lower the company's value. This is in accordance with the trade-off theory which states that there are bankruptcy costs associated with debt, so companies with too high debt levels will be considered risky by investors.

DISCUSSION

The results of this study show that *Profitability* and *Price Earning Ratio* (PER) has a positive and significant influence on the value of manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2023 period. These findings are in line with signal theory *(signaling theory)* which states that a company with good financial performance will give a positive signal to investors, thereby increasing demand for the company's shares and ultimately increasing the value of the company (Bagaskara et al., 2021; Putri et al., 2024).

Profitability height, measured by *Return on Assets Ratio* (ROA), reflects the company's ability to generate profits from its assets. Companies with *Profitability* Good ones are considered to have more promising prospects in the future, so investors are more interested in investing in the company (Yanti & Darmayanti, 2019). This is in line with the results of previous research that found that profitability has a positive effect on the value of manufacturing companies in Indonesia (Fuqoha & Firmansyah, 2023).

Meanwhile, a high PER indicates investors' expectations for future corporate profit growth. Investors tend to be willing to pay more (higher PER) for shares of companies that have good earnings growth prospects (Sakinah & Hendrani, 2022). These results are consistent with research (Putri et al., 2024) which found that PER has a positive effect on the value of companies in the property and real estate sector in Indonesia.

In addition to profitability and PER, the results of this study also show that company size has a positive influence on company value. Large companies tend to have greater access to resources, have better diversification of their businesses, and are better able to deal with business risks, so they are considered more prospective by investors (Putri et al., 2024). These findings are in line with previous research that found that company size has a positive effect on company value.

On the other hand, leverage has a negative influence on the value of the company. A high level of debt can increase the risk of a company's bankruptcy, so investors will assess the company as risky and lower demand for its shares, ultimately lowering the company's value (Can & Sovita, 2024). This result is in accordance with the trade-off theory which states that there are bankruptcy costs associated with debt, so companies with too high debt levels will be considered risky by investors (Putra et al., 2021; Soge & Dewa Brata, 2020).

Overall, the results of this study provide empirical evidence that profitability, PER, company size, and leverage are important factors that affect the value of manufacturing companies in Indonesia. These findings can be beneficial for investors in making investment decisions, as well as for company managers in formulating strategies to increase the value of the company.

CONCLUSION

Based on the results of the research and discussion that has been described, it can be concluded that profitability and price earning ratio (PER) have a positive and significant influence on the value of manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2023 period. These findings support the signal theory that states that companies with good financial performance and good profit growth prospects will give positive signals to investors, thereby increasing the company's value.

In addition, the size of the company also has a positive influence on the value of the company, while leverage has a negative influence. The results of this study provide practical implications for investors and managers of companies. Investors can consider profitability, PER, company size, and leverage in making investment decisions in manufacturing companies in Indonesia. Meanwhile, the company's managers can formulate strategies to increase profitability, keep the PER at a reasonable level, enlarge the company's size, and manage leverage wisely in order to increase the company's value. For further research, it is recommended to expand the scope of the study by using samples from industry sectors other than manufacturing, as well as adding other independent variables that may affect the value of the company, such as dividend policy, managerial ownership, or external factors such as macroeconomic conditions.

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