

Impact of Earning Per Share, Dividend Payout Ratio, and Price Earning Ratio on Stock Prices in the Manufacturing Sector

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ABSTRACT

Purpose: The research aims to determine the effect of Earning Per Share (EPS), Dividend Payout Ratio (DPR), and Price Earning Ratio (PER) on stock prices in manufacturing companies within the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX).

Methods: his study employs an associative strategy, focusing on manufacturing companies listed on the IDX from 2015 to 2019. A sample of 17 companies was selected through purposive sampling, leading to 85 observations. The analysis utilized secondary data and panel data regression using Eviews version 11 software.

Findings: The study reveals that earnings per Share (EPS) significantly impact stock prices. In contrast, the Dividend Payout Ratio (DPR) does not significantly affect stock prices. Furthermore, the Price Earning Ratio (PER) also significantly influences stock prices, underscoring the importance of EPS and PER in assessing market valuations.

Practical Implications: The study offers essential insights for investors and companies in the stock market. Investors should track EPS and PER due to their significant impact on stock prices and remain cautious of high DPR, indicating limited growth. Companies are urged to enhance EPS and PER to attract investors and boost stock prices. Effective financial management focused on growth can improve investor perceptions and enhance market performance.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk menentukan pengaruh EPS, DPR, dan PER terhadap harga saham pada perusahaan-perusahaan manufaktur dalam sektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia (BEI).

Metode: Penelitian ini menggunakan strategi asosiatif, dengan fokus pada perusahaan-perusahaan manufaktur yang terdaftar di BEI dari tahun 2015 hingga 2019. Sebanyak 17 perusahaan dipilih melalui purposive sampling, menghasilkan 85 pengamatan. Analisis menggunakan data sekunder dan regresi data panel dengan perangkat lunak Eviews versi 11.

Hasil: Studi ini mengungkapkan bahwa EPS berpengaruh signifikan terhadap harga saham. Sebaliknya, DPR tidak memiliki pengaruh yang signifikan terhadap harga saham. Selain itu, PER juga secara signifikan memengaruhi harga saham, menekankan pentingnya EPS dan PER dalam menilai valuasi pasar.

Implikasi Praktis: Studi ini menawarkan wawasan penting bagi investor dan perusahaan di pasar saham. Investor perlu memantau EPS dan PER karena keduanya memiliki dampak signifikan pada harga saham dan harus berhati-hati terhadap DPR tinggi, yang menunjukkan pertumbuhan terbatas. Perusahaan didorong untuk meningkatkan EPS dan PER agar menarik investor dan meningkatkan harga saham. Manajemen keuangan yang efektif dengan fokus pada pertumbuhan dapat memperbaiki persepsi investor dan meningkatkan kinerja pasar.

Kata Kunci: Laba per Saham, asio Pembayaran Dividen, Rasio Harga terhadap Laba, Harga Saham

1. Introduction

Investment involves allocating funds or resources now with the hope of future benefits (Tandelilin 2017). Investors often purchase shares to participate in companies, as stock investments offer significant advantages but also come with risks of loss due to their high return nature. Thus, careful stock selection is essential for maximizing profit while minimizing risk.

Assessing the market value signaled by stock prices is crucial to making effective investment choices. A stock's price reflects its performance; well-performing companies attract investors, increasing demand and prices, while poor performance leads to decreased demand and lower prices.

Stock prices are volatile, with fluctuations reflecting a company's performance as detailed in its financial statements. These statements provide necessary data for fundamental analysis, which helps investors decide whether to purchase or sell securities. Various financial ratios, such as EPS, DPR, and PER, are used for this analysis to predict stock prices.

The consumer goods industry, a significant sector on the Indonesia Stock Exchange, produces essential items like food and pharmaceuticals. This sector is considered defensive, as it performs better during recessions, making it appealing for long-term investments. During Q1 2020, while all sectors performed poorly, the consumer goods industry saw the smallest decline at 19.17%, compared to more significant losses in other sectors, demonstrating its resilience during economic downturns (Bisnis.com).

Companies in the consumer goods sector listed on the Indonesia Stock Exchange have encountered a peculiar situation where their EPS has increased even as their share prices have decreased. For example, PT Kimia Farma (Persero) Tbk, identified by the stock code KAEF, announced a net profit of Rp415.90 billion in 2018, marking a 27.27% rise from Rp326.79 billion

in 2017, leading to an increase in EPS from Rp58.84 to Rp74.88. However, despite this profit growth, KAEF's share price declined from Rp2,700 to Rp2,600. Furthermore, PT Nippon Indosari Corpindo Tbk (ROTI) reported a net profit of Rp172.69 billion in 2018, up 18.29% compared to Rp145.98 billion in the previous year.

The company's General Meeting of Shareholders approved a cash dividend of Rp59.72 billion for 2018 and Rp36.01 billion for 2017, which accounted for 34.59% and 24.66% of their respective net profits. Despite an increased DPR, ROTI's share price fell from Rp1,275 in 2017 to Rp1,200 in 2018. The drop in ROTI's stock price in 2018 was less significant compared to 2017 when it had plummeted from Rp1,600 at the end of 2016 to Rp1,275. In 2016 and 2017, ROTI's EPS was Rp55.31 and Rp27.66, respectively, while the PER for 2017 soared to 46.10, much higher than 28.93 in 2016. Typically, a rise in PER would indicate a higher stock price; however, contrary to expectations, ROTI's share price faced a decline.

2. Theoretical Background

Agency Theory

Scott (2015: 358) defines agency theory as a relationship between a principal and an agent, where the principal hires the agent to act in their interest. In this context, shareholders represent the principal, and managers serve as the agents tasked with managing the company for the benefit of the shareholders. However, the interests of managers and shareholders often diverge; shareholders seek high returns on their investments, while managers may prioritize personal incentives and compensation. This divergence leads to agency problems when managers prioritize their goals over maximizing shareholder wealth, ultimately resulting in agency costs (Gitman and Zutter, 2015: 68).

Stakeholder Theory

Mardikanto (2014: 68) explains that stakeholder theory is a strategic management approach focused on enhancing competitive advantage and nurturing relationships with external parties. A company's success is intertwined with its ability to foster strong relationships; deteriorating relationships can lead to a loss of trust and cooperation. The Sustainability Report is a tool for disclosing the company's economic, social, and environmental performance to relevant stakeholders. This strategy aims to maintain positive relationships with stakeholders and fulfill their information needs, securing support for the company's survival.

Capital Market

In a broad sense, the capital market is a means for parties who need long-term capital (more than 1 year) from the general public. In contrast, the capital market, in a narrow sense, is a stock exchange, which is a place or means of trading securities among investors (Samsul, 2015: 6). According to Tandelilin (2017: 25), "The capital market is a meeting between parties who have excess funds and those who need funds by trading securities." Securities that are traded generally have a lifespan of more than 1 (one) year, such as stocks, bonds, and mutual funds.

Share

According to Husnan (2015: 32), "Shares are proof of ownership of a company in the form of a limited liability company." Meanwhile, Martalena and Malinda (2019: 17) define "Share as a certificate that shows proof of ownership of a company." Shareholders of a company are referred to as shareholders. Stocks are one of the investment instruments that many investors choose

because they can provide an attractive profit level. As owners, shareholders have proportional voting rights in the GMS (General Meeting of Shareholders) to determine important decisions.

Stock Price

The stock price is established in the market and is influenced by the law of supply and demand (Samsul, 2015: 197). Fluctuations in stock prices in the market depend on the company's prospects and associated risks. Investors can realize capital gains when stock prices rise, while they may experience capital losses if prices fall. The market price of a stock is its market value. Sunariyah (2011: 126) notes, "The market value of a stock is the price at which it trades in the stock market. When the stock market closes, the market price is called the closing price."

Earning Per Share

EPS, also known as the book value ratio, is a metric used to evaluate how effectively management generates profits for shareholders (Kasmir, 2017: 115). Tandelilin (2017: 367) explains that EPS is calculated by comparing total earnings (the net income available for shareholder distribution) to the total number of shares outstanding. EPS is considered significant and valuable information, providing insights into future earnings prospects. Investors seek EPS data since it can indicate the company's performance and help assess the outcomes achieved by management.

Dividend Payout Ratio

The Dividend Payout Ratio is the percentage of net income designated for distribution to shareholders as dividends. Samsul (2015: 175) defines it as the ratio of cash dividends to earnings per share. Gumanti (2011: 315) further explains that this ratio illustrates the proportion of profits allocated to investors as dividends. However, recording profits does not obligate companies to distribute dividends. This ratio reflects management's commitment to balance dividend distribution against retained earnings for growth. Typically, companies with rapid growth have a lower payout ratio. In comparison, those with slower growth tend to have a higher ratio (Hanafi and Halim, 2016: 84). Growing firms often retain more earnings to fund their operations than established companies.

Price Earning Ratio

PER is a metric that compares stock prices to a company's earnings (Tandelilin, 2017: 321). It indicates how much investors must pay to earn one rupiah of company profit. According to Gumanti (2011: 314), PER shows the market's willingness to pay for one rupiah of profit. A higher PER suggests a higher market value for the company, reflecting investor assessment of future growth prospects. Hanafi and Halim (2016: 83) note that companies anticipated to grow significantly tend to have a high PER, while those expected to grow slowly have a low PER.

Hypothesis

The effect of earnings per share on stock prices

EPS reflects the profit investors earn per share and is an essential metric for evaluating a company's performance. An increase in EPS year after year is favorable for the company as it indicates growth. When EPS rises, it naturally pleases investors, as the profits associated with each share they own are also increasing.

Fauza and Mustanda (2016) noted that "an increase in EPS typically leads to a rise in stock prices." A high EPS suggests that the company is delivering a satisfactory return, contributing to the wealth of its shareholders, which in turn stimulates investor interest.

H₁: Earnings per share has an effect to stock price

The effect of dividend payout ratio on stock price

DPR indicates the proportion of profits distributed to shareholders versus the portion retained for the company's operational sustainability. According to Badruzaman et al. (2018), a higher dividend ratio tends to boost stock prices. Companies that effectively distribute dividends enhance public perception of their financial health, as evidenced by their stability. This perception encourages investors to purchase shares, consequently increasing the share price.

Fauza and Mustanda (2016) noted that "an increase in the dividend payout ratio will lead to a rise in stock prices, while a decrease will result in falling stock prices." Investors generally view a high dividend payout policy as indicating a company's capability to meet its financial obligations, representing a positive signal for investment decisions. This, in turn, boosts demand for shares and further contributes to an increase in stock prices.

H₂: Dividend payout ratio has an effect on stock prices

The effect of price earning ratio on stock price

PER is a metric that reflects a company's stock price and profits or earnings. By comparing the stock price to the company's net income, this ratio verifies how the market values the company's ability to generate revenue and profit. According to Desiana (2017), "An increase in PER can lead to higher stock prices and influence future stock prices." PER is frequently utilized to assess investment prospects.

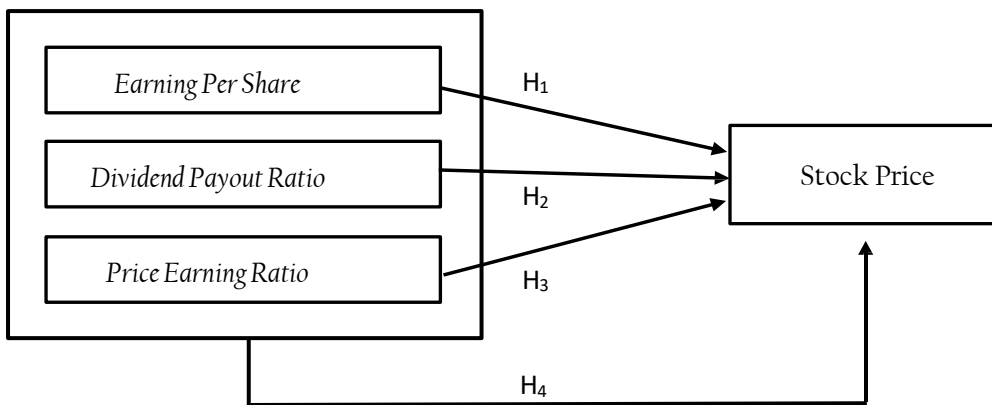
A company with a high PER indicates a significant growth potential, suggesting that the market anticipates future profit growth. Conversely, companies with a low PER typically exhibit lower growth expectations. When PER is elevated, investors are inclined to view the company as having strong prospects. As a result, an increase in investor interest leads to a higher demand for shares, subsequently increasing stock prices

H₃: Price earning ratio has an effect on stock prices

The effect earning per share, dividend payout ratio, and price earning ratio on stock price

Earnings per share, dividend payout ratio, and price-earnings ratio are crucial information investors can utilize when making investment decisions. An increase in a company's earnings per share means that investors will receive a more significant profit from each share they own. As a company's profits rise, investors become entitled to dividends, which can be determined based on the dividend payout ratio. A higher dividend payout ratio leads to more significant dividends for investors. Additionally, a high price-earnings ratio indicates favorable prospects for the company. Therefore, when the EPS, DPR, and PER values are higher for a company, it enhances the company's valuation in the eyes of the public. This increase in company value subsequently influences a rise in its stock price.

H₄: Earning per share, dividend payout ratio, and price earning ratio have a joint effect on stock prices.



Picture 1. Research Conceptual Framework

3. Methods

This study employs an associative research strategy to determine the effect or relationship between multiple variables, specifically a causal relationship. The independent variables under investigation are EPS, DPR, and PER. In contrast, the dependent variable is stock prices in manufacturing companies within the consumer goods industry sector listed on the Indonesia Stock Exchange from 2015 to 2019. The sampling method used is non-probability purposive sampling, ensuring the selected sample aligns with the research objectives. The sample criteria include:

- 1) Manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange during 2015-2019.
- 2) Manufacturing companies in the consumer goods industry sector that publish annual financial reports for 2015-2019
- 3) Manufacturing companies in the consumer goods industry that posted positive net profits during 2015-2019.
- 4) Manufacturing companies in the consumer goods industry that distribute dividends to shareholders during 2015-2019.

The study utilizes secondary data in financial reports from manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange between 2015 and 2019. These reports were collected from the PT: Indonesia Stock Exchange website and the respective company websites. Operationalization is defined as defining constructs to create measurable variables (Indriantoro and Supomo, 2016: 69). The research variables are categorized into independent and dependent variables.

The data analysis method is the panel data regression technique, which combines time series and cross-sectional data. This combination results in more informative and varied data that can reduce collinearity between variables, enhance degrees of freedom, and increase efficiency (Ghozali and Ratmono, 2017: 196). The collected data was processed and analyzed using Eviews version 11, involving descriptive statistical testing, classical assumption testing, model selection, and hypothesis testing.

Table 1. Variable Operational Summary

Variable Name	Formula	Scale
Independent Variable:		
Earning Per Share	$EPS = \frac{\text{Net Profit After Interest and Tax}}{\text{Number of Shares Outstanding}}$	Rasio
Dividend Payout Ratio	$DPR = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$	Rasio
Price Earning Ratio	$PER = \frac{\text{Stock Price}}{\text{Earning Per Share}}$	Rasio
Dependent Variable:		
Stock Price	Average closing price (5-10 trading days after the annual financial statements are published)	Nominal

4. Results and Discussion

The research focuses on manufacturing companies within the consumer goods industry sector that are listed on the Indonesia Stock Exchange from 2015 to 2019. These companies produce goods for everyday needs. During the specified period, the total population of manufacturing companies in this sector comprises 56 companies. From this population, 17 companies that met specific criteria were selected as the research sample, resulting in 85 units of analysis observed throughout the study period.

Descriptive Statistical Analysis

The descriptive statistics presented in this study include the minimum, maximum, mean, and standard deviation values. The results of the descriptive statistical analysis for each of these variables, based on a sample of 85, are displayed in table 2.

Table 2. Descriptive Statistics Test Results

	Stock Price	EPS	DPR	PER
Mean	4671.72	310.3122	0.571722	23.0059
Maximum	17891.67	2707.9300	1.459200	60.8900
Minimum	266.67	7.0800	0.082100	1.6600
Std. Dev.	4667.74	455.5008	0.296275	11.2886
Observations	85	85	85	85

Source: Copied according to the output of Eviews Version 11

From Table 2, the descriptive statistics of each research variable yield significant insights. Firstly, the stock price variable presents a minimum value of 266.67 and a maximum value of 17,891.67, with an average of 4,671.72 and a standard deviation of 4,667.74. This indicates a wide range in stock prices, highlighting substantial variability within the dataset. Secondly, the EPS variable shows a minimum of 7.0800 and a maximum of 2,707.9300, along with an average value of 310.3122 and a standard deviation of 455.5008, suggesting that earnings can vary significantly among the sampled entities. Additionally, the DPR variable reveals a minimum value of 0.082100 and a maximum of 1.459200, with an average of 0.571722 and a standard deviation of 0.296275.

This data reflects the varying strategies companies employ regarding dividend distributions. Lastly, the PER variable has a minimum value of 1.6600 and a maximum value of 60.8900, with an average of 23.0059 and a standard deviation of 11.2886, illustrating differing perceptions of valuation among the sample stocks. These statistics provide a comprehensive overview of the financial indicators analyzed in this research.

Hypothesis Test

The panel data regression model selection results, assessed through Chow tests, Hausman tests, and Lagrange multipliers, confirm that the Fixed Effect Model (FEM) is the best estimation method for this study. The analysis aims to evaluate the influence of independent variables EPS, DPR, and PER on the dependent variable, stock price, across multiple companies over different periods.

Table 3. Results of Panel Data Regression Analysis and t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.12789	12.75496	1.186041	0.2399
EPS	0.956827	0.255848	3.739820	0.0004
DPR	-5.540281	8.842131	-626578	0.5331
PER	7.538323	1.670703	4.512068	0.0000
R-squared	0.952603	Mean dependent var		60.21806
Adjusted R-squared	0.938748	S.D. dependent var		32.52622
S.E. of regression	8.049947	Akaike info criterion		7.211532
Sum squared resid	4212.107	Schwarz criterion		7.786274
Log likelihood	-286.4901	Hannan-Quinn criter.		7.442709
F-Statistic	68.75726	Durbin-Watson stat		1.360832
Prob(F-statistic)	0.000000			

Source: Copied according to the output of Eviews Version 11

Based on the table of panel data regression analysis results above, it can be formulated the panel data regression equation as follows:

$$\text{Stock Price} = 15.12789 + 0.956827 \text{ EPS} - 5.540281 \text{ DPR} + 7.538232 \text{ PER}$$

Based on the panel data regression equation, conclusions can be drawn regarding the effect of EPS, DPR, and PER on stock prices. The constant value of 15.12789 indicates that in the absence of the influences of EPS, DPR, and PER, the stock price would stand at 15.12789. The EPS variable has a coefficient of 0.956827, suggesting that for every one-unit increase in EPS, while keeping other variables constant, the stock price will rise by approximately 0.956827. Conversely, the DPR has a coefficient of -5.540281, meaning that a one-unit increase in DPR will decrease the stock price by -5.540281. On the other hand, PER, with a coefficient of 7.538323, indicates that a one-unit increase in PER results in a stock price increase of about 7.538323, assuming the other variables remain unchanged.

The t-statistical test evaluates the impact of independent variables EPS, DPR, and PER on stock prices, the dependent variable. The hypothesis testing involves comparing the calculated t-value with the critical t-value from the t-table at a significance level (α) 0.05. With

85 observations ($n = 85$) and three independent variables ($k = 3$), the degrees of freedom (df) are 81 ($85 - 3 - 1$), resulting in a t-table value of 1.98969.

Referring to Table 3 presented, the hypotheses have been formulated. The first hypothesis examines the influence of earnings per share on stock prices. The statistical test results indicate that the t-value is greater than the t-table value ($3.739820 > 1.98969$), and the probability is less than the significance level ($0.0004 < 0.05$). Thus, earnings per share do indeed affect stock prices, leading to the acceptance of the hypothesis that earnings per share impacts stock prices.

The second hypothesis considers the effect of the dividend payout ratio on stock prices. The findings from the t-statistical test reveal that the t-value is less than the t-table value ($-0.626578 < 1.98969$), and the probability result exceeds the significance level ($0.5331 > 0.05$). Hence, the dividend payout ratio does not influence stock prices, rejecting the hypothesis that the dividend payout ratio affects stock prices.

The third hypothesis addresses whether the price-earning ratio influences stock prices. The t-statistical test results indicate that the t-value surpasses the t-table value ($4.512068 > 1.98969$), and the probability value is below the significance threshold ($0.0000 < 0.05$). Consequently, the price-earning ratio affects stock prices, affirming the hypothesis that the price-earning ratio indeed influences stock prices.

This study's coefficient of determination test is represented by the Adjusted R-Square value. The Adjusted R-squared value of the regression model is utilized to assess the extent to which the independent variables can explain the variation of the dependent variable. According to Table 10, the Adjusted R² value is 0.938748 or 93.8748%, indicating that all independent variables account for 93.8748% of the variation in the dependent variable. The remaining 6.1252% ($100\% - 93.8748\%$) is attributed to other independent variables not included in this research model.

Discussion

The effect of earning per share on stock price

The results validate his first hypothesis, which suggests that EPS has an effect on stock prices. This is shown by a t-value that significantly surpasses the critical benchmark and a probability result that falls below the accepted significance level. The positive coefficient for EPS indicates that an increase in this metric leads to a corresponding rise in stock prices. This relationship arises because an increase in EPS reflects the company's growth, prompting investors to view its performance positively. A higher EPS yields better returns for investors, increasing their willingness to invest in or acquire the company's shares, subsequently boosting stock prices. These conclusions are consistent with research conducted by various scholars affirming the influence of EPS on stock prices. In contrast, this study does not align with other research indicating that EPS does not affect stock prices.

The effect of dividend payout ratio on stock prices

The second hypothesis is rejected, suggesting that the Dividend Payout Ratio affects stock prices. This is evidenced by a t-count value lower than the t-table and a probability exceeding the significance level. The negative coefficient of the Dividend Payout Ratio indicates that a one-unit increase leads to a decrease in stock prices. Investors perceive a high Dividend Payout Ratio as a sign of reduced retained earnings, which may hinder future growth. Thus, they focus more on

retained earnings for funding operations than the Dividend Payout Ratio percentage. These results align with previous studies by Desiana (2017) and Hertina et al. (2020) but contradict Fauza and Mustanda (2016), who found a positive relationship between the Dividend Payout Ratio and stock prices.

The effect of price earning ratio on stock prices

The third hypothesis, which posits that the Price Earnings Ratio impacts stock prices, is confirmed. This is demonstrated by the t-count value exceeding the t-table and the probability result below the significance level. The positive coefficient of the PER indicates that an increase in the ratio by one unit results in a substantial rise in stock prices. A high PER suggests that the market is willing to pay more for the company's earnings, reflecting investor optimism regarding future growth prospects. Consequently, a higher PER attracts investor interest, increasing the stock price. These findings are consistent with studies by Desiana and Son, which confirm the relationship between PER and stock prices. However, they contradict Hanifah's research, which found no such effect.

The effect of earning per share, dividend payout ratio and price earning ratio on stock prices

The analysis supports the fourth hypothesis, which asserts that EPS, DPR, and PER collectively influence stock prices. This is evidenced by the F-count value surpassing the F-table and the significantly low probability result. These factors demonstrate that changes in EPS, DPR, and PER impact stock prices for manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange. The findings suggest that EPS and PER mainly drive fluctuations in stock prices; growth in these metrics prompts investor interest, leading to an increase in share prices. Conversely, the DPR has no significant effect, as investors do not consider it a key factor in their buy or sell decisions.

5. Conclusion

In conclusion, the findings from this research reveal several significant factors influencing stock prices in the manufacturing sector, particularly among companies in the consumer goods industry listed on the Indonesia Stock Exchange. Firstly, EPS positively affects stock prices, indicating that an increase in EPS correlates with a rise in stock values. Conversely, the DPR shows no significant impact; its negative coefficient suggests that stock prices may decline as DPR increases. PER, like EPS, positively affects stock prices — higher PER values are associated with increased stock prices. Notably, the study indicates that EPS, DPR, and PER collectively influence stock prices, reinforcing their importance as indicators for investors.

Based on the conclusions, recommendations for investors include closely monitoring EPS and PER, as they significantly impact stock prices. A comprehensive approach, combining fundamental and technical analyses, is vital for informed decisions. Companies should improve their EPS and PER to foster positive investor perceptions and assess profit distribution strategies with a forward-looking approach to enhance investor confidence. The study acknowledges its limitations, focusing on three independent variables and a limited timeframe, prompting future researchers to explore additional financial metrics and a broader scope.

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