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THE EFFECT OF *NPL, ROE, CAR* ON *PRICE EARNING RATIO* ON COMMERCIAL BANKS IN INDONESIA

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Abstract: Economic development in Indonesia can influence companies, especially service companies such as banks. Seeing the growth of service companies such as banks that continue to fluctuate can impact the performance of banking companies on the price earning ratio. Therefore research can be carried out to examine the effect of non-performing loans, return on equity, and capital adequacy ratios on the price-earnings ratio in commercial banks in Indonesia. The analytical tool in this study using multiple regression analysis. Data analysis was carried out on banking companies listed on the Indonesian stock exchange in 2017 - 2019. A total of 15 banks met the criteria as members of the study population. All members of the population were used as research samples. This study indicates that non-performing loans have a significant effect on the price earning ratio, return on equity has a significant effect on the price earning ratio. The capital adequacy ratio has a significant effect on the price earning ratio.
Keywords: NPL, ROE, CAR, PER, and banking companies.

Abstrak: Perkembangan ekonomi di Indonesia dapat memberikan pengaruh terhadap perusahaan, khususnya perusahaan jasa seperti perbankan. Melihat perkembangan perusahaan jasa seperti bank yang terus mengalami fluktuasi, hal ini dapat memberikan pengaruh kinerja perusahaan perbankan terhadap *price earning ratio,* oleh karena itu dapat dilakukan penelitian yang bertujuan untuk menguji pengaruh *non perfoming loan, return on equity,* dan *capital adequacy ratio* terhadap *price earning ratio* pada bank umum di Indonesia. Alat analisis pada penelitian ini menggunakan analisis regresi berganda. Analisis data dilakukan pada perusahaan perbankan yang listing di bursa efek Indonesia pada tahun 2016 - 2018. Sebanyak 15 bank yang memenuhi kriteria sebagai anggota populasi penelitian, seluruh anggota populasi digunakan menjadi sampel penelitian. Hasil penelitian ini menunjukkan *non perfoming loan* berpengaruh signifikan terhadap *price earning ratio*, *return on equity* berpengaruh signifikan terhadap *price earning ratio,* dan *capital adequacy ratio* berpengaruh signifikan terhadap *price earning ratio*.
Kata Kunci : NPL, ROE, CAR, PER, dan perusahaan perbankan

INTRODUCTION

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Banking activities can be seen from financial performance, according to Sucipto (2003). Financial performance is an absolute measure that can measure an organization's success or company to generate profits. According to Jumingan (2006), financial performance is the company's financial condition in a certain period, concerning the aspects of raising funds and channeling funds as measured by indicators of capital adequacy, profitability, and liquidity. According to Fahmi (2012), financial performance is a description of the company's success in the form of results. That has been achieved from its activities. Seeing that the bank company's financial performance will get better in its operational activities can positively value the *price earning ratio.* Bank financial performance can be seen through *non-performing loans, return on equity,* and *capital adequacy ratios.*

Non-performing loans (NPLs) are bank management's ability to manage non-performing loans provided by banks, Mulyono (1999). Seeing the development of the lower NPL, banks selectively monitor the use of credit and the ability and compliance of debtors to meet their obligations. With this monitoring, banks can increase their profit and directly increase the *price earning ratio.* This statement is reinforced by El-Sood (2017), Irawan (2018), Susanto and Wiksuana (2014), and Sundari and Utami (2013). Meanwhile, research conducted by Chairani (2009) stated that *non-performing loans have* no significant effect on firm value. The higher NPL, the greater the bank's risk of credit, which results in lower income received by the bank and can decrease the *price earning ratio*.

Return on equity is a ratio to measure net profit after tax with own capital. This ratio is obtained by dividing the profit after tax by the average of own capital. It can be stated that the higher the ROE also shows that the company's performance is getting better and has an impact on increasing firm value, so theoretically, ROE may have a significant effect on the *price earning ratio*. This statement is supported by Andini and Raharjo (2016), Sudiyatno and Suharmanto (2011), while research conducted by Permatasari (2016) states that ROE has no significant effect on the *price earning ratio*. This is because in bank operations, the profit received by the bank company has decreased so that it affects the company's performance and directly affects the decline in the value of the *price earning ratio*. If the CAR value is high, the bank can finance operational activities and make a large enough contribution to profitability, so the increase in profitability will impact the positive *price earning ratio*. This statement is supported by Zouari and Taktak (2014), Menicucci and Poulucci (2016), Bouheni (2014), Sari

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and Wirawati (2015). Meanwhile, Sundari and Utami (2013) found that CAR does not significantly affect the *price earning ratio*. This is because banks do not maintain the CAR value, which continues to decline every year due to the decline in CAR value, which will have an impact on their performance and *price earning ratio*.

The results of previous research indicate that there is still a gap *research*. Research - studies show that there are different results on several variables that affect stock returns. Some studies show a significant effect, and some studies show insignificant results. For this reason, this study aims to examine the effect of *non-performing loans, return on equity,* and *capital adequacy ratios* on *price earning ratios* in commercial banks in Indonesia

METHOD

This research uses the relationship between variables through hypothesis testing. It uses secondary data in annual financial reports, annual reports, and *Indonesian Capital Market Directory* (ICMD) on banking companies in the 2017, 2018, and 2019 periods. The data was obtained from the Universitas Brawijaya Investment Gallery.

The population of this study has the following requirements: banks that are listed on the Indonesian stock exchange, the financial statements of banks that have been audited for the period 31 December 2017 - 2019, banks that have positive equity in 2017 - 2019, banks that always have positive returns on 2017 - 2019.

The population target is obtained from the total population in this study of 15 banks. The number of the population studied in accordance with the criteria amounted to (15 bank companies). The observation period was three years, 2017 - 2019, so the number of observations in this study was 45 observations (15 x 3 = 45). The companies that are the samples in this study include:

Table 1. Research Sample

No	Code	Name Commercial Bank
1	BMRI	Bank Mandiri
2	BBRI	BRI Bank
3	BBNI	Bank BNI
4	BBTN	Bank BTN
5	BBCA	Bank BCA
6	MEGA	Bank Mega
7	NISP	Bank OCBC NISP

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8	BNII	Bank Maybank Indonesia
9	BNGA	Bank CIMB Niaga
10	SDRA	Bank Woori Saudara
11	BNLI	Bank Permata
12	BDMN	Bank Danamon
13	BBKP	Bank Bukopin
14	BNBA	Bank Bumi Arta
15	READ	Bank Capital Indonesia

Source: Indonesia Stock Exchange, 2020

This study uses regression analysis multiple linear *(multiple regression)* to determine the effect of the variable - the independent variable on the dependent variable. The analysis is carried out to measure the relationship between the variable *non-performing loan, return on equity, capital adequacy ratio,* and the *price earning ratio*. The multiple linear regression model in this study is as follows: Y = β0 + β1X1 + β2X2 + β3X3 + e. Information: Y = *price earning ratio*, β0 = constant, β1-3 = regression coefficient, X1 = *non performing loan*, X2 = *return on equity*, X3 = *capital adequacy ratio*, e = confounding error.

RESULT

Table 2. Results ofMultiple Regression Analysis

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4,062	3	1,354	19,566	.000[b]
Residual	2,768	40	.069		
Total	6,830	43			

a. Dependent Variable: PER

b. Predictors: (Constant), CAR, NPL, ROE

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.164	.925		-.177	.860		
NPL	-.426	.158	-.288	-2,700	.010	.888	1.126
ROE	.541	.258	.309	2,099	.042	.468	2,138
CAR	.872	.347	.366	2,512	.016	.478	2,093

a. Dependent Variable: PER

Source: Primary data processed, 2020

The Effect Of Non-Performing Loans On Price Earning Ratios

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Non-performing loans have a negative and significant effect on price earning ratios. The result of t statistical test for the variable is non-performing loan -2,700 with a significance of 0,000 <0.05. It can be concluded that the variable non-performing loan has a significant effect on the price earning ratio.

The Effect Of Return On Equity On Price Earning Ratio

Return on equity has a positive and significant effect on the price earning ratio. The result of t statistical test for the variable return on equity shows that it is 2,099 with a significance of 0,000 <0.05. It can be concluded that the variable return on equity has a significant effect on the price earning ratio.

The Effect Of Capital Adequacy Ratio On Price Earning Ratio

Capital adequacy ratio has a positive and significant effect on price earning ratio. The t statistical test results for the variable capital adequacy ratio showed 2,512 with a significance of 0,000 <0.05. It can be concluded that the variable capital adequacy ratio has a significant effect on the price earning ratio

The Theoretical Implication

Non-performing loans, return on equity, and capital adequacy ratios are bank financial ratios to assess bank performance in a period. Bank's financial ratios have several objectives, which were to determine the bank's capital adequacy's capacity in its activities efficiently, to measure the bank's ability to settle short-term obligations, to determine the bank's ability to generate profits, and measure the bank's ability to manage risks from its operational activities. Seeing that the condition of the bank's financial ratios is getting better, it can positively influence the performance of the bank company.

Practical Implications

The results of this study are practically related to the price earning ratio. Investors need to consider the condition of financial ratios to be used as a basis when investing. This study proves that the variable non-performing loan has a negative and significant effect on the price earning ratio because the NPL ratio has decreased to increase the price earning ratio. The variable return on equity has a positive and significant effect on the price earning ratio. This is because the ROE value continues to increase so that it can increase the price earning ratio. The variable capital adequacy ratio has a positive and significant effect on the price earning ratio. This result shows that the CAR value has increased and can directly increase the price earning

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ratio. For banks, this study's results can be used as a basis for making policies related to the delivery of information on bank performance reports to investors. These results can be used as a basis for conducting similar studies, especially those related to price earning ratios in banks.

CONCLUSION

Based on the research objectives and discussion described in the previous chapter, the following conclusions were generated: 1). Non-performing loans have a negative and significant effect on price earning ratios at commercial banks listed on the IDX; 2). Return on equity has a positive and significant effect on price earning ratio in commercial banks listed on the IDX, and 3). The capital adequacy ratio has a positive and significant effect on the price earning ratio of commercial banks listed on the IDX.

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