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## Table of Content

<b>MONEY MASTERMIND: 1MDB.....</b>	<b>1</b>
Nur Amanina Binti Johari, Nivashini Neela Megan, Abirame Segaran, Muhammed Fauzi Bin Othman	
<b>STUDENT ENGAGEMENT IN HIGHER EDUCATION OF PAKISTAN: A LITERATURE REVIEW ....</b>	<b>11</b>
Hina Kosar, Hamdan Said	
<b>KELETIHAN EMOSI DALAM KALANGAN KAKITANGAN BANK .....</b>	<b>21</b>
Mohammad Saipol Mohd Sukor, Nurul Aini Mohd Yasin	
<b>HUBUNGAN ANTARA PENGLIBATAN KERJA DAN KEPUASAN KERJA DALAM KALANGAN GURU .....</b>	<b>25</b>
Nor Akmar Nordin, Siti Aisyah Panatik	
<b>WOMEN’S USE OF THEIR TIME .....</b>	<b>36</b>
Siti Rokiah Siwok and Siti Nisrin Mohd Anis	
<b>PENGARUH FAKTOR ORGANISASI TERHADAP PENGLIBATAN KERJA .....</b>	<b>50</b>
Noorsyazwani Sahari dan Norhani Bakri	
<b>HUBUNGAN KECERDASAN EMOSI DAN TEKANAN KERJA DALAM KALANGAN ANGGOTA DAN PEGAWAI POLIS .....</b>	<b>60</b>
Asfaeliza binti Paino, Irmawati Binti Norazman	
<b>MUSLIM WOMEN ENTREPRENEURS: BULDING CUSTOMER TRUST IN ONLINE SHOPPING..</b>	<b>67</b>
Grafiyana, Gisella Arnis	
<b>THE INFLUENCE OF FAMILY SUPPORT ON QUALITY OF LIFE IN PEOPLE WITH HIV/AIDS (PLWHA) IN THE BANYUMAS REGIONAL HOSPITAL.....</b>	<b>75</b>
Pambudi Rahardjo, Hilman Rachmatiar	
<b>TURNOVER INTENTION: THE ROLE OF ORGANIZATIONAL COMMITMENT AND JOB INSECURITY ON EMPLOYEES OF PRODUCTION .....</b>	<b>81</b>
Retno Dwiyantri, Amnel Indah Lestari, Tri Na’imah	
<b>SELF ADJUSTMENT AND PEER SOCIAL SUPPORT AMONG THE STUDENTS OF MADRASAH TSANAWIYAH IN A MODERN ISLAMIC BOARDING SCHOOL OF DARUL MUJAHADADAH87</b>	
Suwarti, Nadya Adlina	

<b>THE CONCEPTUALIZATION OF BUSINESS MODEL INNOVATION AND INVESTIGATING OF THE INNOVATION-RELATED PROFICIENCIES IN PROCESS OF BUSINESS MODEL DESIGN FOR TRANSFORMATION BASED ON A SERVICE DOMINANT .....</b>	<b>98</b>
Ibrahim Suleiman Yahaya, Aslan Bin Amat Senin, Maryam M.B Yusuf, Ahmed H. Alsharif	
<b>FACTORS IMPACTING CUSTOMERS PURCHASE INTENTION IN MOBILE COMMERCE .....</b>	<b>107</b>
Yang Chee Beng, Huam Hon Tat	
<b>FACTORS AND ATTITUDES OF PARENTS TOWARDS LOW FEMALE ENROLMENT RATE AND RECURRENT WITHDRAWAL FROM SCHOOLS IN SOKOTO STATE, NORTHERN NIGERIA .....</b>	<b>113</b>
Zainab Lawal Ibrahim, Aqeel Khan, Jamaluddin bin Ramli	
<b>THE INFLUENCE OF MOTIVATION, DISCIPLINE, WORK SATISFACTION AND COMPANY ENVIRONMENT TO EMPLOYEES PERFORMANCE OF PT PROFAB INDONESIA .....</b>	<b>118</b>
Decky Antony Kifta	
<b>CONTROLLING METHOD OF CONDITIONAL CASH TRANSFER (CCT) IN LONG TERM INDONESIA HUMAN CAPITAL INVESTMENT .....</b>	<b>126</b>
Yentina Siregar, Rahman Hasibuan	
<b>USER SATISFACTION AND TECHNOLOGY ACCEPTANCE MODEL OF INTEREST IN THE USE E-SPT IN TAX REPORTING .....</b>	<b>137</b>
Susiana Mochtar, Asbi Amin	
<b>LEADERSHIP BEHAVIOR AND WORK ENGAGEMENT. EMPLOYEE WELL-BEING AS MEDIATOR: A CONCEPT PAPER.....</b>	<b>144</b>
Norwana Binti Pawzia and Siti Aisyah Panatik	
<b>MICROPOLITICS AND ITS IMPACT ON EMPLOYEES ORGANIZATION: A SYSTEMATIC REVIEW .....</b>	<b>155</b>
Mohamad Aznorkamaruddin Bin Mohd Azman, Shah Rollah Abdul Wahab	
<b>LEADERSHIP AND ORGANIZATIONAL LEARNING: A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>163</b>
Garba Haruna Wase, Roziana Shaari	
<b>ORGANIZATIONAL CULTURE AND ORGANIZATIONAL PERFORMANCE: A SYSTEMATIC REVIEW .....</b>	<b>176</b>
Li Jing Jing, Irmawati Norazman	

<b>LEADER’S PERSONALITY TRAITS INFLUENCE EMPLOYEES JOB PERFORMANCE: A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>183</b>
Law Kar Men, Siti Aisyah Panatikb, Roziana Shaari	
<b>THE LINK OF HR COMPETENCIES AND EFFECTIVENESS IN MALAYSIA’S HOTELS : SYSTEMATIC REVIEW .....</b>	<b>202</b>
Lim Zhi Hwey, Roziana Shaari	
<b>ORGANIZATIONAL CULTURE AND ORGANIZATIONAL PERFORMANCE: A SYSTEMATIC REVIEW .....</b>	<b>218</b>
Muhammad Akmal Hakim, Shah Rollah Abdul Wahab	
<b>THE RELATIONSHIP BETWEEN WORKPLACE SPIRITUALITY, ORGANIZATIONAL CITIZENSHIP BEHAVIORS AND MEDIATING BY JOB SATISFACTION IN BANKING INDUSTRIES: A SYSTEMATIC REVIEW .....</b>	<b>227</b>
Nor Nadia Binti Bukry, Siti Aisyah Panatik	
<b>WORK LIFE BALANCE AND RELATIONSHIP WITH JOB SATISFACTION: A SYSTEMATIC REVIEW .....</b>	<b>239</b>
Noorashikin binti Onn, Siti Aisyah Panatik	
<b>A STUDY ON SCHWARTZ’S BASIC HUMAN VALUES THEORY AND ITS EFFECTS ON MOTIVATION AT WORK: A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>255</b>
Sharveena Pillay Sashideran, Siti Aisyah Panatik, Irmawati Norazman	
<b>TO BE, OR NOT TO BE: THE FREELANCER - A SYSTEMATIC REVIEW.....</b>	<b>265</b>
Soong Wang Seng, Shah Rollah Abdul Wahab	
<b>EMPLOYEE ENGAGEMENT AND ITS IMPACT ON JOB PERFORMANCE: A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>278</b>
Nur Susilla Abdullah, Siti Aisyah Panatik	
<b>EVALUATION OF MOTIVATION FACTORS OF TRAINEE CHARACTERISTICS, TRAINING DESIGN AND WORKPLACE ENVIRONMENT IN AFFECTING TRAINING TRANSFER KNOWLEDGE – A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>287</b>
Mohd Farhan Bin Mhd Yahkup, Irmawati Norazman	
<b>THE RELATIONSHIP BETWEEN ORGANIZATIONAL JUSTICE, READINESS FOR CHANGE, AND WORK ENGAGEMENT: A SYSTEMATIC LITERATURE REVIEW .....</b>	<b>298</b>
Ng Zhe Xian, Siti Aisyah Panatik	

<b>APPLICATION OF STEM – BASED LEARNING MODELS IN THE INDUSTRIAL REVOLUTION 4.0 ERA .....</b>	<b>311</b>
Sri Handayani, Sri Umi Mintarti, Rizza Megasari	
<b>WORKPLACE SPIRITUALITY, ORGANIZATIONAL CITIZENSHIP BEHAVIOR AND TURNOVER INTENTION: EXPERIENCES OF SHARIAH BANKS’ EMPLOYEE IN BANDUNG, INDONESIA.....</b>	<b>319</b>
Meily Margaretha, Aurora Elsa Shafira Frederick	
<b>THE PURPOSES OF CODE-SWITCHING AMONG PRIMARY SCHOOL TEACHERS .....</b>	<b>327</b>
Tawos Mohammadi, Mohammad Yaqoob Seraj	
<b>MODEL OF CARE AUTHORITATIVE CARE PLANNING FOR SEXUAL ORIENTATION IN CHILDREN .....</b>	<b>332</b>
Dyah Siti Septiningsih, Nur’aeni, and Herdian	
<b>THE INFLUENCE OF PRICE EARNING RATIO AND PRICE BOOK VALUE ON STOCK PRICE IN LQ45 COMPANIES.....</b>	<b>339</b>
Sri Zaniarti	
<b>EFFECT OF ECONOMIC GROWTH, ENERGY CONSUMPTION AND INFRASTRUCTURE DECAY ON CO2 EMISSIONS: AN EMPIRICAL TEST OF ENVIRONMENTAL KUZNET HYPOTHESIS FOR ECOWAS LEADING ECONOMY .....</b>	<b>346</b>
Ahmed Malumfashi Halliru, Nanthakumar Loganathan, Asan Ali Golam Hassan	
<b>FACTORS INFLUENCING ENTREPRENEURIAL INTENTION AMONG SECONDARY SCHOOL STUDENTS: A PROPOSED CONCEPTUAL FRAMEWORK.....</b>	<b>356</b>
Idris Adamu Alhaji, Farrah Merlinda Binti Muharram	
<b>BURNOUT IN ACADEMIA .....</b>	<b>363</b>
Rajab, A., Panatik, S. A., Shaari, R., Abdullah, T., Mohamad Nor, F., Saiful Azni, F. N.	

## THE INFLUENCE OF PRICE EARNING RATIO AND PRICE BOOK VALUE ON STOCK PRICE IN LQ45 COMPANIES

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### ABSTRACT

Stock is one type of investment offered to be able to multiply wealth. Despite having a high risk, however the development of stock now is increasing, many people interested in investing are absorbed because they believe that even though the risk is high but the level of profit provided also high. This research was conducted to investigate the factors that influence stock prices. The independent variables used are Price Earning Ratio and Price Book Value and the dependent variable is the stock price. Sample in this study was companies listed in the LQ-45 index for the 2016-2018 study period listed on the Indonesia Stock Exchange. Data collection was looking at the complete company financial statements from 2016-2018. The research method used was multiple linear regressions. The results of the research showed price book value partially affect the stock price with significant equal to 0,000 while PER had no effect on stock prices

### KEY WORDS

price earning ratio, price book value, stock price

## 1. Introduction

Increased inflation makes the prices of necessities increase so that sometimes the income received cannot meet the necessities of life. Investment is one way that can be uses to multiply wealth. Different types of investments are offered with different benefits and risks and with different levels of capital. One type of investment offered is investment in the capital market with traded instruments are stocks. PT Indonesian Central Securities Depository continues to develop the Indonesian capital market with the aim of increasing the number of investors in the capital market and proven at the end of January 2019, the number of investors in the Indonesian capital market has reached 1,676,606. The number increased by 3.53% compared to the end of 2018 which reached 1.61 million investors [1]. The movement of stock prices rises and halls can change every second therefore investors must be careful in choosing stocks to reduce losses. The types of stocks are divided into 2 types, that are: common stock and preferred stock. A common difference between the two types of stocks is the distribution of dividends to be received, preferred stocks will receive a fixed dividend payment while common stocks will receive dividends after the decision of the general shareholders meeting [2].

The Movement of stock price can be influenced by many factors, both external and internal factors from the company. External factors include inflation, interest rates, exchange rates and others and internal factors in the company are generally seen from the ratio of companies such as Return On Assets, Earning Per Share, Debt Equity Ratio and others derived from the company's financial statements because the company's financial statements show the company's condition and company performance from year to year. Many researchs discuss the factors that influence the stock prices both external and internal. Therefore this study wants to see the influence of Price Earning Ratio and Price Book Value on the stock price of the 2016-2018 study period. This year is approaching the general election in Indonesia. General elections that occur have an impact on stock price movements or even general elections do not have an impact on stock prices. The Indonesia Stock Exchange stated, the average daily transaction value become slowed before the general election and it is a natural thing. The general election will not have a significant effect on the pace of the Composite Stock Price Index. "The presidential election has influence but not too much" [3]. Based on the above, description the researcher wants to know the movement of stock prices when approaching the general election. Research using

company ratios namely Price Earning Ratio and Price Book Value. The study was conducted by taking companies that were included in the LQ45 valuation.

## 2. Materials and Methods

The sample in this study was 118 employees from several Shariah Banks in Bandung in Indonesia. Data was collected through questionnaires distributed through direct surveys. Workplace spirituality was measured by instruments developed by Tischler et al. (29) and Milliman et al. (15). Organizational Citizenship Behavior (OCB) was measured by instruments developed by Badruzaman (30). Turnover Intention was measured with the items adopted by Robbins and Judge (31) and Mobley (2011 in 32). The collected data were analyzed by testing the validity and reliability and the hypotheses were tested with regression analysis that used to test the relationship and influence between independents, and dependent variables.

### 2.1 Stock Price

Price is one of a clue to buy and sell transaction. Prices can increase or decrease depending on a condition. Stock price is the value of a stock that reflects the wealth of the company that issued the stock, where changes or fluctuations are determined by the strength of demand and supply that occur in the stock market (secondary market) [4]. Stock prices will increase or change up if many investors will buy stocks of a company and if many investors sell their stocks, the stock price of a company will decline, therefore the movement of stock prices or changes in stock prices depends on investor demand.

There are three types of information that can affect stock prices, namely past stock price movements, information available to the public, and all information available to the public and company as follows (Harahap, S.S. 2002, in [4]):

a) Weak Form

Its stock price fully reflects past information

b) Half Strong Form

The stocks price reflects not only the price trend of the previous period but also other information that has been published.

c) Strong Form

The stocks price reflects the tendency of changes in the price of the previous period, information that has been published and privately informed. Every investor who invests in stocks will often monitor the latest developments in the issuer's condition where they invest money and observe the movement of stocks in the stock market as a whole.

### 2.2 The Influence of Price Earning Ratio on Stocks Prices

Price Earning Ratio is the ratio of market price per share to earning per share. This Price to Earning Ratio is the company's current price-per-share valuation ratio compared to net profit per share [5]. Price Earning Ratio (PER) is the ratio used to calculate the rate of return on capital invested in a stock (Tryfino, 2009 in [4]). The PER ratio is an important and useful ratio for investors in deciding to buy company stocks. The PER ratio is the best indicator for investors to estimate the company's performance in the future (market prices indicate the shareholders' estimation of future returns) [6]. Zuliarni (2012) [6] said in her research, a company with high PER showed that the company had a high growth rate, because the company does not distribute all profits to shareholders. If the company makes profit, the profit can be used to invest in the company or distribute it to shareholders in the form of dividends. Stocks with a low PER are assumed that all profits are distributed in the form of dividends. Investors believe that a company will have a promising future if it has a high price earning ratio (PER) (Sharif et al. 2015, in [7]). Therefore, a high price earning ratio (PER) is a positive signal that can attract investors to buy stocks so that they can affect the stock price. Based on the description above, the hypothesis can be drawn as follows:

H1: Price Earning Ratio has a positive effect on stock prices in companies listed in LQ45.

### 2.3 The Influence of Price Book Value on Stock Prices

According to Tandelilin (2001, in [8]), Price to Book Value (PBV) is the relationship between stock market price and book value per share can also be used as an alternative approach to determine the value of a stock, because theoretically, the market value of a shares must reflect the book value. PBV ratio to find out how much the stock price is in the market compared to the book value of its stocks. (Sutrisno, 2000, in [9]). The higher this ratio, the greater the additional wealth owned by the company owner [9]. Linda & Syam (2005, in [10]) states that companies that can operate well, generally have a PBV ratio above one, which shows a stock market value higher than the book value. The higher the PBV ratio, the higher the company is valued by investors which has a positive impact on company return (Pancawati & Chariri, 2002, in [10]). Research conducted by Permana (2009, in [11]) tests whether Price to Book Value (PBV) affects stock prices. The results of this study found that Price to Book Value (PBV) had a significant effect on stock prices. PBV reflects the level of success of the company's management in running the company, managing resources which is reflected in the stocks price at the end of the year. The higher PBV rasio certainly gives investors hope to get greater profits [12]. Companies that get profit will be an attraction for investors to transact the stock of the company so that it will affect the company's stock price. Based on the description above, the hypothesis can be drawn as follows:

H2: Price Book Value has a positive effect on the stock price of companies listed in LQ45.

## 2.4 Methods

This type of research used in this research is quantitative research with data used are stock prices and financial ratio data. This study wants to see the influence of the independent variable, Price Earning Ratio and Price Book Value, on the dependent variable, namely stock prices. The population in this study are companies registered in LQ-45 so that there are 45 companies that are the study population. The selection of the LQ-45 company population is because in the LQ-45 index there are various types of company sectors. Sampling technique in this study using purposive sampling. Jogiyanto (2007) [13] stated that purposive sampling is done by taking a sample from the population based on a certain criteria with certain consideration criteria (Judgment Sampling). Judgment Sampling is purposive sampling with criteria in the form of certain considerations. The sample selection in this study use the criteria of companies listed in LQ-45 publish financial reports every year from 2016-2018 and there are stock prices from 2016-2018. Based on these criteria, there are 45 companies that have financial statement proficiency and stock prices. Data processing in this study uses multiple linear regression by conducting a classical assumption test. The research data were carried out normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The next test is to test the hypothesis by conducting a partial test (T test) and simultan test (F test).

**Table 1**  
Definition of Operations Variable

Variable	Definition	Indicator	Scale
Price Earning Ratio (PER)	Describing the market's appreciation of the company's ability to generate profits (Darmadji and Fakhruhin, 2012 in [14])	$\text{Price Earning ratio} = \frac{\text{Price per share}}{\text{Earning per share}}$	Ratio
Price Book Value (PER)	The relationship between stock market prices and book value per share can also be used as an alternative approach to determining the value of a stock, because theoretically,  the market value of a stock must reflect the book value. (Tandelilin, 2001 in [8])	$\text{Price Book Value} = \frac{\text{market value}}{\text{book value}}$	Ratio

Stock Prices (Closing)	Rating measurement of a company	Closing Price	Interval
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### 3. Findings

Based on the results of research using SPSS, the following research results are obtained.

**Table 2**  
Demographic Description

Description	Classical Assumption Test					
	Normality	Multicollinearity		Heterocedasticity		Autocorrelation
		Inper	Inpbv	Inper	Inpbv	
Asymp.sig. (2-tailed)	0.294					0.053
Tolerance		0.824	0.824			
VIF		1.214	1.214			
Sig				0.414	0.66	

Source: SPSS result processing

Based on the results of the processed data in table 1.2 shows that all data are free from problems. Normality test produces an Asymp.sig of 0.294 greater than alpha ( $\alpha$ ) 0.05 which means the data are normally distributed, then the results of the multicollinearity test produced PER and PBV tolerance values of 0.824 which were greater than 0.1 and the VIF PER and PBV values of 1.214 were smaller than 10 which meant that the data were free from multicollinearity. Heterocedasticity test which produces a significant value of PER and PBV of 0.414 and 0.66 are greater than  $\alpha$  0.05 which means that the data is free from Heterocedasticity while the autocorrelation test that produces an asymp.sig value of 0.053 which is greater than  $\alpha$  0.05 means that the data is free from autocorrelation.

#### 3.1 Hypothesis Test Results

The Partial Test (t test)

Based on the results of the hypothesis test that has been done by researchers obtain the following results:

**Table 3**  
the results partial test (t test)

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.526	.398		18.891	.000
	Inper	.095	.148	.055	.643	.521
	Inpbv	.562	.106	.453	5.284	.000

a. Dependent Variable: Inhargasaham

Based on the partial test in table 1.3, the results obtained a significant PER value of 0.521, which is greater than  $\alpha$  0.05, which means that there is no influence between the PER variable on stock prices, while for a significant PBV result, 0.000 results are smaller than  $\alpha$  0.05, which means that there is an influence between PBV variables on stock prices.

Simultan Test ( F test)

**Table 4**  
The results simultan test (F test)

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47.793	2	23.896	18.929	.000 <sup>a</sup>
	Residual	160.326	127	1.262		
	Total	208.119	129			

a. Predictors: (Constant), Inpbv, Inper

b. Dependent Variable: Inhargasaham

Based on the simultan test results in table 1.4 obtained a significance value of 0.000 which is smaller than  $\alpha$  0.05, which means that together PER and PBV variables affect the stock price.

## 4. Discussion

### 4.1 The Influence of Price Earning Ratio on Stock Prices

Based on the first hypothesis which states that Price Earning Ratio has a positive effect on stock prices, the results of the hypothesis test are not in line with the results of research conducted by researchers. The results showed a significance value of 0.521 greater than  $\alpha$  0.05, which means there was no effect of the price earning ratio on stock prices at companies listed in LQ45. Therefore large or small PER values will not affect the high or low stock prices. The general, the PER ratio is one of the ratios that are often seen by investors and makes a reference in buying stock, but some investors no longer see PER as a ratio that helps in making decisions to buy stock of a company. When someone becomes an investor and conducts buying and selling stock there will be a lot of analysis that they will do both technical analysis and fundamental analysis and there are even investors who make the decision to buy stock with their feelings meaning when they see a company and their feelings are good then will immediately buy these stock. This study is in line with research conducted by [4] and [9] which states that Price Earning Ratio (PER) has no effect on stock prices but this study is not in line with research conducted by [15], [7], [6] and [16] which stated that Price Earning Ratio (PER) affects stock prices.

### 4.2 The Influence of Price Book Value on Stock Prices

Based on the second hypothesis which states that Price Book Value has a positive effect on stock prices then the second hypothesis is in line with research conducted by researchers which proves the results of the significance of a price book value of 0,000 is smaller than  $\alpha$  0.05, which means that the variable price book value has a positive effect on stock prices in companies listed on LQ45. This is because the sample in this study is a company registered in LQ45. Companies that are included in LQ45 must meet the requirements one of which is to have the largest rank based on the average market capitalization over the past 12 months [17]. Therefore, shares included in LQ 45 have high company value so that it becomes a reference for investors in choosing and investing their capital in the company.

This research is in line with research conducted by [18], [19], [8], [12], [4], [20] who found the results of research stating that price book value has a positive effect on stock prices. This study is not in line with research conducted by [11] and [9] who found research results that price book value has no effect on stock prices.

#### 4.3 The influence of Price Earning Ratio and Price Book Value on Stock Prices

Based on the results of the study simultaneously between the variable Price Earning Ratio and Price Book Value to the stock price gives the result that PER and PBV simultaneously affect the stock price with a significance value of 0.000 less than  $\alpha$  0.05. This study is not in line with research conducted by [21] which suggests the results that PER and PBV simultaneously have no effect on stock prices.

### 5. Conclusion

Research conducted by researchers with research samples are companies listed in LQ45 with the 2016-2018 research period with independent variables used are Price Earning Ratio and Price Book Value and the dependent variable is stock prices provide partial research results only variables Price Book Value has a positive effect on stock prices while Price Earning Ratio variable has no effect on stock prices while the test results simultaneously PER and PBV affect the stock price.

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