EFFECTS OF PRICE EARNING RATIO, DIVIDEND YIELD, BOOK TO MARKET RATIO AND AUDIT QUALITY RETURN ON SHARES

RETNO WULANDARI
Assistant, Faculty of Accounting and Administration, University of Kanjuruhan Malang, Jawa Timur, Indonesia

ABSTRACT

This study aims to examine and explain the effect of the simultaneous, partial and dominant Price Earning Ratio (PER), Dividend Yield (DY), Book To Market Ratio (BMR), and Audit Quality (AQ) on stock returns in the banking company listed on the Indonesia Stock Exchange (ISE). The analytical method used in this research is quantitative with classical assumption test, as well as statistical analysis of multiple linear regression. The sampling method used is purposive sampling. The variables of this study consisted of PER, DY, BMR, and AQ as independent variables and stock returns as dependent variable with a total sample of 35 banking companies. Analysis results show that PER, DY, BMR and AQ simultaneously affect the stock returns. PER, DY, BMR and AQ partially affect the stock return, and PER has the most dominant influence on stock returns. It is expected to add the variables of the study such as price-book value, dividend payout ratio, and return on equity for further research.

KEYWORDS: Price Earning Ratio (PER); Dividend Yield (DY); Book to Market Ratio (BMR); Audit Quality (AQ) and Stock Returns

INTRODUCTION

Many ways investors can do to make an investment, one of that is by investing in the stock market. Investors who will invest by buying shares in the capital market will analyze the condition of the company in advance so that the investment make profit (return). Return on investment is revenue earned from buying and selling shares, if profit it is called capital gain and if loss it is called capital loss (Samson, 2006: 291).

Noordin, et al (2014) states that any company goes public shall issue a transparent financial statements as a form of responsibility to investors, so that it always can be monitored whether the funds are embedded in the company received appropriate returns they expect. Companies go public also have other obligation, that is to deliver quality financial statements. Halim (2014) states that the quality of financial statements are the financial statements which have been audited by qualified Public Accounting Firm (PAF).

Study of Margaretha and Damayanti (2008) entitled the effect of PER, DY, and BMR on stock returns shows that PER, DY, and BMR have significant effect on stock returns. Other research done by Lestari (2012) entitled the effect of PER and Earning Per Share (EPS) on stock returns shows that PER and EPS have no significant effect on stock returns. Research of Kurniasih and Andriana (2011) entitled the effect of DY and PER on stock returns. The results of this study indicates that DY and PER have no effect on stock returns. Next is a research of Harsalim (2013) which entitled the effect
of market risk, size, BMR, and PER on stock returns. The results of this study indicate that the market risk, size and PER significantly effect the stock returns, contrary, BMR has no significant effect on stock returns.

These whole studies basically do not consider the Audit Quality (AQ) as variable expected influence the stock returns, Davidson and Neu (1993) state that AQ was viewed as one of factors that affect the credibility of financial information and a high AQ can generate more accurate information. In addition, the activity of disclosure in presenting the audited report information which is credible (performed by qualified auditors) affect the current stock price and able to predict future returns (Lundholm and Myers, 2002).

Considering the results of some previous studies and think over the importance of audit quality to produce credible financial information, it is essential to conduct this study in order to test and explain the simultan, partial and dominant effects of PER, DY, BMR and AQ on stock returns.

LITERATURE REVIEW

Capital markets is a market in which long-term funds, in form of debt (bonds) and equity (shares) traded (Martono and Harjito, 2005: 359). Shares (stock or share) are securities as a sign of ownership or possession of a person or entity in a corporation or limited company (Fakhrudin and Darmadji, 2006: 6). Investors (person or entity) who make an investment in a company will get a reward or return. Return is income expressed as a percentage of the initial capital investment (Samson, 2006: 291).

EFFECT OF PER, DY, BMR AND AQ ON STOCK RETURNS

Margaretha and Damayanti (2008) state that the variable of PER, DY, and BMR have significant effect on stock returns. Next, Davidson and Neu (1993) see AQ as one of the factors affect the credibility of financial information, and a high AQ can produce more accurate information. In addition, disclosure effort in order to present a credible audited report information (performed by qualified auditors) affect the current stock price and can predict the future returns (Lundholm and Myers, 2002). Thus, the first hypothesis is:

H₁: PER, DY, BMR and AQ effect on stock returns

EFFECT OF PRICE EARNING RATIO ON STOCK RETURNS

According to Gulter and Yilmas (2008) price earning ratio is considered by investors as a standard of ability to predict future earnings of a company. Investors consider the ratio of stocks to determine which stocks provide greater benefits in the future, with consideration that high growth companies typically have a higher PER and vice versa. This was confirmed in a study done by Raharjo (2004), Margaretha, Damayanti (2008) and Harsalim (2013) which state that PER has significant influence on stock returns. On the other hand, the result statement of study done by Lestari (2012) showed contrast to the statement. Lestari states that PER has not significant effect on stock returns. Thus, the second hypothesis is:

H₂: Price Earning Ratio effect on stock returns

EFFECT OF DIVIDEND YIELD ON STOCK RETURNS

According to Hirt (2006) DY is the percentage of profit per share divided by the price per share that received by the company. A high DY shows that a stock market is in undervalued condition, that is if the stock market price is less than
it’s normal value, so that the shares are to be purchased or held temporarily, in order to obtain capital gains if then the price started to rise. The potencyDY able to predict comes from the role of dividend policy in sharing the benefits obtained by the company to shareholders. It was confirmed by the study of Margaretha and Damayanti (2008), and Puspitasari and Purnamasari (2013) which suggest that the DY has significant effect on stock returns, while research by Kurniasih and Andriana (2011) is contrast to the statement. Kurniasih and Andriana state that DY has not significant effect on stock returns. Thus, the third hypothesis is:

$$H_3: \text{Dividend yield effect on stock returns}$$

EFFECT OF BOOK TO MARKET RATIO ON STOCK RETURNS

Gitman (2009) suggests that the BMR able to estimate the impact of book value to the stock returns, as well as determining whether the investors would get a capital gain or capital loss on equity investments have been chosen. This was confirmed in a study of Margaretha and Damayanti (2008) which suggests that BMR positively and significantly impact the company's shares of stock returns. Research done by Arlian (2009) contradicted the statement of Margaretha and Damayanti (2008). It states that BMR has not significant effect on stock returns. Thus, the fourth hypothesis is:

$$H_4: \text{Book to market ratio effect on stock returns}$$

EFFECT OF DOMINANT VARIABLES ON STOCK RETURNS

Hussainey (2009) states that larger accounting firms provide higher quality of audit report than the smaller ones. Audit quality is every possibility that the auditor during the audit client's financial statements found violations that occur in the client's accounting system and report it in the form of audited financial statements (Agusti and Earth, 2013). KAP the big four is a group of four professional service firms and the largest international accounting, which handles the majority of audit work for a public company or a private company. This means that the audit quality of KAP is higher in order to generate qualified audited reports. Thus, the financial statements quality audited by the big four accounting firmsis trustworthy, and relevant. In addition, the activity of disclosure or disclosure efforts in presenting the audited and credible reports (performed by qualified auditors) affect the current stock price and can predict future returns (Lundholm and Myers, 2002). Thus, the fifth hypothesis is:

$$H_5: \text{Audit Quality effect on stock returns}$$

VARIABLES WITH DOMINANT EFFECT TO STOCK RETURNS

Harsalim (2013) states that the PER as an indicator which demonstrated high earnings growth, means investors expect high returns and certain satisfaction. In this state, stocks have a lower risk because the issuers can still survive. In that study, Harsalim stated that PER partially affect the return saham. This result is strengthened by a study done by Margaretha and Damayanti (2008) which states that the PER is the most influential variable among others (DY, BMR) of the company's stock return. Thus, the sixth hypothesis is:

$$H_6: \text{PER dominantly effects the stock returns}$$
METHOD

The data used in this research are secondary data from the banking company's financial statements in 2014 and the stock price data in 2013-2014, obtained from the IDX sites accessed via www.idx.co.id. IDX is a stock exchange belong to Indonesia government which managed by. IDX is official website which noted and showed all the market activities in those country, stock, exchange and obligation include. The IDX website has ISO:20002 which very useful for global investor. Not only noted in Indonesian language, this page also have English pages so the global investors would easily understand the rules and terms of this exchange with no exception. It will reduce the misunderstandings an increase the opportunities of investors to have transactions here. IDX also have a special page named IDXnet which is an electronic report system of noted company which been listed in IDX before as an open sources companies. The IDXnet pages contains data and report of the Bank companies which became sample in this research. The data collection methods used by the technical documentation that is based on the annual financial statements of companies Banking period of 2014 and the stock price data in 2013-2014, published by the BEI that can be accessed through www.idx.co.id.

The method used to draw a sample in this research is purposive sampling, ie sampling based on certain criteria, namely :

- Banking companies that have gone public or listed on the IDX period 2014
- Banking companies publish annual financial reports (annual report) complete the study period in 2014 on the Stock Exchange

Based on these criteria was obtained by thirty-five banking companies into the sample.

OPERATIONAL DEFINITIONS AND MEASUREMENT VARIABLES

The dependent variable in this study is the stock return, denoted by “Y”. Jogiyanto (2009) theorized that stock returns can be measured as follows :

\[ R = \frac{P_{it} - P_{it-1}}{P_{it-1}} \]

Information :

R = return for the realization of the stock i in the period 2014

Pit = the closing price of the stock i in the period 2014

Pit-1 = closing price of stock i in the period 2013
Independent variables used in this study is the Price-earnings ratio, dividend yield, book to market ratio and audit quality. Symbolized by (X1) = PER, (X2) = DY, (X3) = BMR and (X4) = AQ.

Price Earning Ratio

PER is one indicator that is often used security analysis to assess the price of a stock to be traded on the capital market. With the following formula:

\[ PER = \frac{\text{Market price per share of common stock}}{\text{Earning per share (EPS)}} \]  

Source: Gitman (2009)

Dividend Yield

DY is one indicator that is often used to measure the performance of security analysis in the company's share of profits on revenue of shares traded in the capital market with the following formula:

\[ DY = \frac{\text{Dividend per share} \times 30\%}{\text{Market price per share}} \]  

Source: Hirt (2006)

\[ \text{Dividend per share} = \frac{\text{Profit} \times 30\%}{\text{Number of shares}} \]  

Source: Aras and Warsono (2003: 275)

Book to Market Ratio

BMR is a ratio that is used as an indicator to measure the performance of the company through its market price. Before calculating the ratio Book to Market Ratio, first calculate book value per share (book value) in the following manner:

\[ BMR = \frac{\text{Market price per share of common stock}}{\text{Book value per share of common stock}} \]  

Source: Gitman (2009)

\[ \text{Book Value} = \frac{\text{Common stock equity}}{\text{Number of shares of c/s outstanding}} \]  

Source: Gitman (2009)

Audit Quality

AQ measurements in this study refers to research conducted by Hussainey (2009), using dummy variables. Dummy variable is a variable-sized category by giving the code 0 (zero) to a group called the excluded group and code 1 (one) for a group called the group included (Ghozali, 2005). Excluded group is a group that is not included in categories such as public accounting firms of non Big Four, while the group included a group that included in the categories: Big Four public accounting firms. Based on the book Public Directory quoted the Indonesian Accountants Association of Nurrohman (2013), which includes the Big Four public accounting firms in Indonesia are:

- KAP Prasetio Utomo & Co. which in 2003 merged with Hanadi, Sarwoko, & Sandjaja (affiliated with Ernst & Young).
- KAP Hans Tuanakotta & Mustafa (affiliated with Deloitte), on August 4, 2005 formed the new name of KAP Osman Ramli Satrio & Partners.
- KAP Sidharta Sidharta & Harsono (affiliated with KPMG / Peat Marwick Goerdeler Klynveld).
DATA ANALYSIS TECHNIQUE

Data analysis techniques in this study using multiple regression analysis to obtain an overall picture of the relationship between the variables and the other variables. In this case, for the dependent variable is stock return (Y) and the independent variables are PER (X1), DY (X2), BMR (X3) and AQ (X4). To find out if there is a significant influence of the independent variable on the dependent variable, can be used multiple linear regression model was formulated by Riduwan (2007: 152) into the regression equation as follows:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \]

Information:

- \( Y \) = Return stock
- \( \beta_0 \) = Constant
- \( e \) = Error nuisance (error term)
- \( \beta_1 - \beta_4 \) = regression coefficient of each independent variable
- \( X_1 \) = Price Earning Ratio (PER)
- \( X_2 \) = Dividend yield (DY)
- \( X_3 \) = Book to Market Ratio (BMR)
- \( X_4 \) = Audit Quality (AQ).

In using regression analysis, necessary to test the classical assumption that the results of this regression analysis shows valid relationships.

Multicollinearity Test

According to Ghozali (2011: 105) this test is performed to determine whether the regression model found a correlation between independent variables. Good model should not present a correlation between the independent variables. To determine whether there is multicollinearity is to look at VIF (Variance Inflation Factor). If the tolerance values > 0.10 or equal to the value of VIF <10, means there is not multikolinieritas.

Autocorrelation Test

According to Ghozali (20011: 120) this test is performed to determine whether the regression model performs a correlation between confounding error in period t with confounding error in period t-1 (previous). The criteria, according to Firdaus (2010: 101), if the value of Durbin Watson = 1.55 - 2.46, it indicates no autocorrelation.

Heteroskedasticity Test

According to Ghozali (2011: 139) this test is performed to determine whether the regression model occurred inequality of residual variance from one observation to another observation. Good model should not shows heteroskedasticity, the variance of the residuals of the observations to other observations is different. To determine the presence of heteroscedasticity can be viewed through an approach of scatter plot between the predicted value of dependent variable with the residual. Heteroskedasticity is known from the results of analysis with the following criteria:

- If there is a specific pattern, such as dots are formed regular patterns (wavy, widened and then narrowed), it indicates that heteroscedasticity is occured.
• If there is no clear pattern, as well as the dots spread out above and below zero (0) on the Y axis, then there is no heteroscedasticity.

Normality Test

According to Ghozali (2011: 160), the normality test aims to test whether the regression model, confounding variables or residual have a normal distribution, if this assumption is violated, the statistical test to be invalid for a number of small samples. Normality test of data is done by Kolmogorov-Smirnov test. To facilitate the statistical calculation, the analysis undertaken in this study will be processed with statistical software of SPSS 23 for Windows. The data has normal distribution if the value of Asymp Sig (2-tailed) Kolmogorov-Smirnov calculation result is greater than 0.05 or 5%.

Hypothesis testing of this study is using multiple linear regression. This test aims to test whether the independent variable which is the stock return partially and simultaneously affect the dependent variables like PER, DY, BMR, and AQ. To test this hypothesis, test followed is used:

Simultaneous Regression Test (F Test)

According to Sunyoto (2011: 16), F test is a test for regression equation which is performed to determine whether all the independent variables affect simultaneously on the dependent variable. If the probability value of F test showed less than 5% alpha, the first hypothesis proposed accepted. Conversely, if the value of F test shows the probability value is greater than alpha 5%, then the first hypothesis was rejected.

Regression Test Persia (T test)

To test the second, third, fourth, and fifth hypothesis, T test is used, namely the partial test by comparing the significance value of the T-test to alpha 5% (Ghozali, 2011: 87). If the Significance of T-test shows less than alpha 5%, then the hypothesis is accepted. Conversely, if the probability value of T-test indicates greater than alpha 5%, then the hypothesis is rejected.

If variable of Price Earning Ratio (PER) has a value of beta ($\beta$) / regression coefficients greater than other independent variables, the sixth hypothesis proposed on this study is accepted.

RESULTS AND DISCUSSIONS

Classical Assumption Test

Multicolinearity Test

The results of classical assumption test of multicolinearity with VIF (Variance Inflation Factor) approach and tolerance for all variables show a tolerance value is greater than 0.10 or the value of VIF is less than 10. It indicates that multicolinearity is not occurred.

Autocorrelation Test

The results of classical assumption test of autocorrelation signify that the value of Durbin Watson 1.851 lies between 1.55 to 2.46 (Firdaus, 2010: 101). It indicates that autocorrelation is not occurred.

Heteroskidastity Test
The results of classical assumption test of heteroskedasticity present that dots lied at the scatter plot graph is in irregular form or is not formed a particular pattern. It indicates that heteroscedasticity is not occurred.

**Normality Test**

The results of classical assumption test of normality show that the significance value of Kolmogorof-Smirnov with the Asymp Sig for 0967 exceeds 0.05 (5%). It means that the data of confounding variables have a normal distribution.

**Linear Multiple Regression Analysis**

The results of multiple linear regression analysis can be formed regression equation as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \]

\[ Y = 0.014 + 0.185 X_1 + 0.137 X_2 + 0.125 X_3 + 0.157 X_4 \]

Furthermore, it is summarized in Table 1 as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Standardized Regression Coefficients</th>
<th>Significant Value</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1 (PER)</td>
<td>.185</td>
<td>.000</td>
<td>Influential</td>
</tr>
<tr>
<td>X2 (DY)</td>
<td>.137</td>
<td>.039</td>
<td>Influential</td>
</tr>
<tr>
<td>X3 (BMR)</td>
<td>.125</td>
<td>.012</td>
<td>Influential</td>
</tr>
<tr>
<td>X4 (AQ)</td>
<td>.157</td>
<td>.024</td>
<td>Influential</td>
</tr>
</tbody>
</table>

Significant value = 0.000
Rated R-square = 0.629

**Source:** Secondary data processed by the researcher in 2016

Based on the equation and Table 1, it can be explained as follows:

- A standardized regression coefficient on the variable PER is positive 0.185. It indicates that variable PER positively related to stock returns. If PER positive variable is increased 1 percent, then the stock return will increase 0.185 percent. If PER is negative, when this variable is increased 1 percent, then the stock returns will decrease 0.185 percent.

- A standardized regression coefficient on the variable DY is positive 0.137. It indicates that variable DY positively correlated to stock returns. If DY positive variable is increased 1 percent, then the stock return will increase 0.137 percent. If DY variable is negative, when it is increased 1 percent, then stock returns will decrease 0.137 percent.

- A standardized regression coefficient on the variable BMR is positive 0.125. It indicates that the variable BMR is positively related to stock return variable. If BMR positive variable is increased 1 percent, then the stock return will increase 0.125 percent. If BMR is negative, when this variable is increased 1 percent, then stock returns will decrease 0.125 percent.

- A standardized regression coefficient on the variable AQ is positive 0.157. It indicates that variable AQ is positively related to stock return variable. If AQ positive variable is increased 1 percent, then the stock return will increase 0.157 percent. If AQ is negative, when this variable is increased 1 percent, the stock returns will decrease 0.157 percent.

- R-square value 0.629 indicates that the changes or the rise and fall of 62.9 percent stock returns is affected by...
Effects of Price Earning Ratio, Dividend Yield, Book to Market Ratio and Audit Quality Return on Shares

PER, DY, BMR and AQ. The remaining portion of 37.1 percent is influenced by other variables not studied, such as price-book value, dividend payout ratio, return on equity.

- Constant 0.014 indicates that if the PER, DY, BMR and AQ is zero, then the RS is worth 0.014 and the value is not influential to management decision making because the value is classified as other variables not studied or confounding variables.

First Hypothesis Test Results

The first hypothesis test results are summarized in Table 1, these results show that the F-test significance value = 0.000 less than alpha 5%. It indicates that the variable of PER, DY, BMR, and AQ simultaneously affect the stock return variable. Thus, the first hypothesis which states that the variable PER, DY, BMR, and AQ simultaneously affect the stock return is accepted.

Second Hypothesis Test Results

The second hypothesis test results are summarized in Table 1, these results show that the significance value of t-test PER variable is 0.000 smaller than alpha 5%. It means that PER variable affect partially on stock return variable. Thus, the second hypothesis which states that the PER variable partially affect the stock return is accepted.

Third Hypothesis Test Results

The third hypothesis test results are summarized in Table 1. The results show that T-test significant value of DY variable is 0.039 smaller than alpha 5%. It means DY variables partially affects the stock return. Thus, the third hypothesis which states that the DY variable partially affect the stock return is accepted.

Fourth Hypothesis Test Results

The fourth hypothesis test results are summarized in Table 1. These results show that T-test significance value of BMR variable is 0.012 smaller than alpha 5%. It means that BMR variable partially affect on stock return variable. Thus, the fourth hypothesis which states that the BMR variable partially affect the stock return is accepted

Fifth Hypothesis Test Results

The fifth hypothesis test results are summarized in Table 1. These results show that the T-test significance value of AQ variable is 0.024 smaller than alpha 5%. It means that AQ variable partially affect on stock return variable. Thus, the fifth hypothesis which states that the AQ variable partially affect the stock return is accepted.

Sixth Hypothesis Test Results

The sixth hypothesis test results is presented in Table 1 in the column of standardized regression coefficient. This column presents that PER has a value of beta (β) / regression coefficients are greater than other independent variables that is equal to 0.185. It means that PER is the most influential or dominant variable towards stock return. Thus, the sixth hypothesis which states that PER variable is the most influential or dominant towards stock returns is accepted.

DISCUSSIONS

The results of this study demonstrate that the significant value of t-test variable PER is 0.000 smaller than alpha of
0.05 and the regression coefficient that has been standardized for 0.185 is positive. It indicates that the PER variable is positively related. If PER variable is increased one percent, then the variable of stock returns will also increase by 18.5 percent. The results of the study support the research done by Raharjo (2004), Margaretha and Damayanti (2008) and Harsalim (2013). Companies with an increasing PER indicate that it able to obtain higher net income. Companies with higher net income certainly will attract investors to invest in it. So investors should be keen to make decision regarding in which companies they are investing, the higher this ratio indicates that investors have a good expectation forthe future development of the company. So that, in order to gain stock with higher PER value, investors would be willing to pay costly (Desiana & Hartini, 2014). Thus, it can be stated that any shares of companies that have a high PER value, then the share price offered is high, and vice versa, if the company's shares have a low value of PER then the share price offered is low.

The study results show that the significant value of T-test for 0.039 DY variable is smaller than alpha of 0.05 and the regression coefficient which has been standardized by 0.137 is positive. It indicates that the DY variablesare positively related. If the DY variable is increased one percent, then the variable of return stock will increase by 13.7 percent. The results of this study support the research done by Margaretha and Damayanti (2008) and Puspitasari and Purnamasari (2013). A high DY indicates that a stock market in a state of undervalued, if the stock market price is less than the fair value, those shares are to be purchased and detained with the aim to make a profit if the price goes up in the future. The higher the value of DY, the better the company's financial condition and shows a stable cash flow. Thus, DY is one of important ratio of current stock analysis when investors will make an investment. Investors who invest in a company which has a high value of DY mean these investors invest in companies with good financial condition and stable. So the possibility to get a stock return is also stable.

The results show that the T-test significant value of BMR variables is 0.12 smaller than alpha 0.05 and the standardized regression coefficient of 0.125 is positive. It indicates that the BMR variables are positively related. If the BMR variable is increased one percent, then the variable of stock returns will also increase by 12.5 percent. The results of the study support the research done by Margaretha and Damayanti (2008) and Gulter and Yilmaz (2008) which found significant relationship of BMR on stock returns, it occurs since the companies in Indonesia fundamentally have a good performance, so if the companies’ book value is less than the market price per share then it is called overprice and it is time to sell, whereas if the book value is higher than the market price per share, it is called undervalued and it is time to buy. According Fakhrudin and Darmaji (2012) it is said undervalued if the stock price in the stock market is smaller than the fair price or the value should be, whereas it is called overprice if the share prices in the stock market is greater than the reasonable price. Furthermore, when investors find that the stock is undervalued, they are more likely to purchase the shares. As a result, the demand for these shares will raise up. In accordance with the law of supply and demand, this condition then will drive up the share price. Meanwhile, the stock returns will be drop to the return required or minimum expected rate by investors as compensation for their investment risk. BMR has a strong role in explaining returns and is a valid way to identify the stock values (Auret and Sinclaire, 2006; and Davis, 2001).

The results show that the T-test significance value of 0.024 AQ variable is smaller than alpha of 0.05 and the regression coefficient which has been standardized by 0.157 is positive. It indicates that the AQ variable is positively and significantly related to stock return. If the AQ variable is increased by one percent, then the variable of return stock will increase by 15.7 percent. The audit process conducted by the Big Four accounting firms as external auditor assist investors
to convince them predict stock returns to be obtained. The audit opinion expressed by the external auditor affects the way investors view the company's management. Therefore, the more qualified external auditors, the more investors will trust to invest in the company. It occurs since the level of fairness of an audited financial statements will affect the level of investment and investor confidence toward the company's management.

CONCLUSIONS

Based on testing and discussion have been done, it can be deduced that the variables PER, DY, BMR and AQ are simultaneously effect on stock returns. This is performed by the significant value of F-test is 0.000 smaller than alpha of 0.05 or 5 percent. Furthermore PER variable partialy effect on stock returns. This is performed by the significant value of 0.000 T-test is smaller than alpha 0.05. Further, DY variable partially influences to stock return. This is performed by the significant value of 0.039 T-test is smaller than alpha 0.05. Next, BMR variable partially effects on stock returns. This is demonstrated by the significant value of 0.012 t-test is smaller than alpha 0.05. AQ variable partially effect on stock returns. This is demonstrated by the significant value of 0.024 t-test is smaller than alpha 0.05. The last, the variable of price ratio earning is dominantly influences on stock return, this is indicated by beta coefficient which has the highest value among other variables, reach 0.185.

ACKNOWLEDGMENTS

I would love to say thank you to my family for all supports which they’ve give to me and all the hard times we’ve passed by.

REFERENCES


BIOGRAPHY

Retno Wulandari was born in September 13th, 1979 at Malang, East Java, Indonesia. She was graduate from Bachelor Degree in University of Widya Gama Malang and Master Degree in University of Brawijaya Malang which is one of the most reputable university in Indonesia. She is an experience assistant in Faculty of Accounting and Administration in University of Kanjuruhan Malang, a private university. Productive and love to learn, she made at least one research per year and involved in social science responsibilities among communities.
Earnings yield does not equal dividend yield. Dividend yield is \( \frac{DPS}{P} \), which equals \( \frac{E}{P} \times \text{Payout Ratio} \). Payout ratio is the percentage of earnings you pay out as dividends. If payout is 100% then dividend yield equals earnings yield.

Views · View upvotes. Formula wise, it is calculated by dividing the current market price of the stock by its earnings per share (EPS). We'll apply the logic to a day-to-day example. Suppose you went to the market and brought 1 kg of onions for Rs. 100 only to realize that they were available for Rs. 80 somewhere else and that too, of the same quality. Obviously, you would be disappointed as you had to pay 25% more for the same quality. The price-earnings ratio, also known as P/E ratio, P/E, or PER, is the ratio of a company's share (stock) price to the company's earnings per share. The ratio is used for valuing companies and to find out whether they are overvalued or undervalued. As an example, if share A is trading at $24 and the earnings per share for the most recent 12-month period is $3, then share A has a P/E ratio of $24/($3 per year) = 8. Put another way, the purchaser of the share is investing $8 for every dollar of annual spread between log book-to-market ratio and log dividend yield. The LLCI model shows that a linear combination of the log book-to-market ratio and log dividend yield can be written as a present value of all expected future returns and returns on equity (accounting returns or profitability).

Third, the LLCI model incorporates both dividend yield and book-to-market ratio into a closed form present value relation that explains expected future profitability and stock returns. For stock return forecasts, some studies find that dividend yields have predictive power while others find that book-to-market ratio is informative. The price-to-earnings ratio (P/E ratio) is defined as a ratio for valuing a company that measures its current share price relative to its per-share earnings. Earnings yields can be useful when concerned about the rate of return on investment. For equity investors, however, earning periodic investment income may be secondary to growing their investments' values over time. Another important limitation of price-to-earnings ratios is one that lies within the formula for calculating P/E itself. Accurate and unbiased presentations of P/E ratios rely on accurate inputs of the market value of shares and of accurate earnings per share estimates. The market determines the prices of shares through its continuous auction. Price earnings ratios (P/E ratio) measures how many times the earnings per share (EPS) has been covered by current market price of an ordinary share. It is computed by dividing the current market price of an ordinary share by earnings per share. Formula: The formula of price earnings ratio is given below: Example: The market price of an ordinary share of a company is $50. The earnings per share is $5. Compute price earnings ratio. Solution: \( \frac{50}{5} = 10 \). The firm is expected to maintain its rate of return on new investment also find out what should be the EP ratio at which the dividend policy will have no effect on the value of the shares will your decision change if the PE ratio is 7.25 and interest of 10%? Reply. ABC.