

ABSTRACT

PE Ratio is frequently used both in investment practice and in academic research as relative valuation tool. Researchers and investors also use PE as screening tool to form Growth Stock and Value Stock Portfolio, the strategies that then become a debate in investing styles topic for a long time. While the debate still remain unsolved, investment professional started to hold GARP (Growth at Reasonable Price), that is claimed outperform both value and growth strategy. In forming GARP portfolio they mainly use PEG Ratio (PE Ratio divided by expected earning growth) as screening tool. PEG is believed by GARP holder and some researchers can standardize PE ratio. The use of PEG is based on the principle that there is **positive linear relationship between PE and expected growth rate**.

This study examine the existence of this relationship in Indonesian Capital Market, for entire market and industry-specific in year 1996 and 2002. The expected growth for year 1996 and 2002 are estimated/calculated from historical earning data (5 to 7 years series backward) by using time series model. By performing cross sectional regression between PE and expected growth rate, this study found that there is **positive linear relationship between PE ratio and expected earning growth**, and statistically significant for entire market and most of industries, in year 1996. In year **2002 this relationship does not exist** for entire market and most of industries. Only for Banking and Financial Industry the relationship exist and statistically significant. It is worthy note that the number companies can be included in regression in year 2002 is very small since most companies have negative earnings during Indonesian monetary crisis. This condition may explain the result (the in-existence of the relationship).

This research also indicates that the 'form' of relationship (indicated by the slope of linear line) is different across industries and entire market (industry sensitive). The findings of this research suggest that investors has to consider the expected growth and industry-specific in using PE as relative valuation tool. The findings also can be used to predict whether a stock is overpriced or underpriced.

Keywords : relative valuation tool, screening tool, PE ratio, expected earning growth rate, PEG Ratio, GARP, Value and Growth Strategies, Investing Style, positive linear relationship.



Analysis of P/E and Peg ration as a stock valuation tool on the Jakarta Stock Exchange
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INTISARI

PE rasio sering digunakan baik di dunia investasi praktis maupun di penelitian akademik sebagai alat penilai saham relative (*relative valuation tool*). Peneliti dan investor juga menggunakan PE sebagai alat penyeleksi saham (*screening tool*) untuk membentuk portofolio “*Growth*” dan “*Value*”, dua strategi investasi yang kemudian menjadi bahan perdebatan di topik gaya investasi. Sementara perdebatan belum terselesaikan, profesional di bidang investasi mulai menggunakan *GARP* (*Growth at Reasonable Price*) yang diklaim mempunyai performance yang lebih tinggi dari pada *Growth* maupun *Value*. Dalam membentuk portofolio *GARP* mereka terutama menggunakan *PEG* rasio sebagai *screening tool*. *PEG* dipercaya oleh investor dan sebagian peneliti dapat menstandarisasi PE rasio. *PEG* berdasar pada prinsip bahwa ada hubungan yang linier positif antara PE dan tingkat pertumbuhan laba yang diharapkan (*expected earning growth rate*).

Studi ini mempelajari adanya hubungan ini di pasar modal Indonesia, untuk keseluruhan pasar maupun industry pada tahun 1996 dan 2002. *Expected growth rate* diestimasi/dihitung dari *historical earning data* (5 sampai 7 tahun sebelumnya) dengan menggunakan *time series model*. Dengan melakukan *cross sectional regression* antara PE dan *expected growth rate*, studi ini menemukan bahwa ada hubungan linier positif antara PE rasio dan *expected earning growth* dan significant secara statistik untuk keseluruhan pasar dan sebagian besar industry. Hubungan ini tidak ditemukan pada tahun 2002 untuk keseluruhan pasar dan sebagian besar industry. Hanya pada industry perbankan dan keuangan hubungan ini ada dan significant secara statistik. Patut dicatat bahwa jumlah perusahaan yang dapat diregressi pada tahun 2002 sangat kecil karena banyaknya perusahaan yang mempunyai laba negatif selama krisis moneter. Kondisi ini mungkin menjelaskan hasil tersebut.

Studi ini juga menunjukkan bahwa bentuk hubungan (ditandai dengan *slope*) antara PE dan *expected growth rate* berbeda-beda antar industry dan juga keseluruhan pasar. Temuan dan hasil studi menyarankan bahwa investor harus memperhatikan *expected growth rate* dan *industry-specific* dalam menggunakan PE sebagai *relative valuation tool*. Temuan dalam studi ini juga dapat digunakan untuk memprediksi apakah suatu saham *overpriced* atau *underpriced*.

Keywords : relative valuation tool, screening tool, PE ratio, tingkat pertumbuhan laba yang diharapkan, PEG Ratio, GARP, Value and Growth Strategies, Investing Style, positive linear relationship.