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The effect of price-earnings ratio and price-to-book ratio on stock prices in the banking sector on the indonesia stock exchange for the period 2023–2025

Genta Arya Pradana[1], Siti Nurhazizah[2], Mangasi Sinurat[3], Willy Cahyadi[4]
[1,2,3,4] Bina Karya College of Economics

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ABSTRACT

This study aims to analyze the influence of corporate fundamentals, proxied by the Price Earning Ratio (PER) and Price to Book Value (PBV), on stock prices in the banking sector listed on the Indonesia Stock Exchange (IDX) for the 2023–2025 period. The research method used is quantitative with a purposive sampling approach, resulting in a sample of 12 banks with a total of 36 panel data observations. Data analysis was performed using panel data regression via Eviews 12 software. Simultaneous testing (F-test) results show that PER and PBV variables collectively have a significant impact on stock prices. Partially (t-test), it was found that PBV has a dominant positive and significant influence, while PER exhibits a significant negative influence on stock prices. The Adjusted R-squared value of 99.32% indicates that stock price variations in the banking sector are almost entirely explained by these two independent variables. These findings suggest that investors in the banking sector prioritize intrinsic equity value (net asset value) as an indicator of investment security over mere earnings multiples expectations. Theoretically, this study reinforces the Signaling Theory by demonstrating that in the banking industry, asset-based information (PBV) provides a more reliable signal of long-term solvency than earnings volatility. However, this study is limited by its specific focus on the KOMPAS 100 index and a relatively short observation period, which may affect the generalizability of the results to smaller or digital-only banks. This study recommends that investors utilize fundamental valuation ratios, particularly PBV, as primary instruments for investment decision-making in the banking sector.

Corresponding Author:

Genta Arya Pradana
Management
Bina Karya College of Economics
Jl. Diponegoro, Rambung, Kecamatan Tebing Tinggi kota, Kota Tebing Tinggi, Sumatera Utara, 20611
Email: gentaryapradana02@gmail.com

1. INTRODUCTION

In the modern financial ecosystem, the capital market plays a fundamental role as one of the main driving pillars because it provides a means for various types of companies to raise funds and serves as a platform for investors to deploy capital productively (Sri

Handini & Erwin Dyah Astawinetu, 2020). Indonesia's capital market has experienced rapid development since the post-1998 economic reform era, marked by strengthened market infrastructure and increased trading activity on the Indonesia Stock Exchange (IDX). Since the merger of the Jakarta Stock Exchange and the Surabaya Stock Exchange into the IDX, the national capital market has shown a consistent growth trend, reflected in increased transaction volume, trading value, and market capitalization. By 2025, Indonesia's stock market capitalization had reached trillions of rupiah. The JCI's success in breaking through the 8,600 level reflects high investor confidence in the stability and economic prospects of the capital market sector.

This capital market growth is inseparable from the role of the financial sector, particularly the banking sector, which is one of the main contributors to IHSG movements. Investment is the activity of allocating capital to assets or securities to mitigate inflation risk while optimizing future profitability. (Regen et al., 2025). Banking stocks hold significant weight in sectoral indices and are supported by high trading liquidity (Sri Handini & Erwin Dyah Astawinetu, 2020). Therefore, the performance of banking stocks is often used as a key indicator to assess the overall health of the Indonesian capital market. Investments exhibit a positive correlation between return and risk; where higher potential returns are always directly proportional to the level of risk involved (high risk, high return (Nurtrifani & Kusumawardani, 2023).

From 2023 through early 2024, the index trended upward and reached its highest level, reflecting investor optimism regarding the performance and prospects of the banking sector (investing.com, 2026). This situation indicates rising profit expectations and market confidence, which are fundamentally reflected in relatively high Price-to-Earnings (PER) and Price-to-Book Value (PBV) ratios, thereby driving up banking stock prices. Entering mid-2024 through 2025, the banking index undergoes a correction and moves downward to a lower range, accompanied by an increase in trading volume. (F. Akbar & Fahmi, 2020). This decline indicates a shift in investor perception regarding banking stock valuations due to adjustments in profit expectations and business risks, which led to a decrease in PER and PBV.

However, entering the full post-pandemic recovery phase (2023–2025), the banking sector faced a new set of dynamics that created a distinct research gap. Previous studies on PER and PBV have largely focused on stable economic conditions or the immediate crisis phase of the pandemic, often yielding inconsistent results regarding their predictability. There is a lack of research addressing how these traditional valuation metrics perform in a "higher-for-longer" interest rate environment and a digitally transformed banking landscape. The novelty of this study lies in its focus on this specific transitional period, where banking stocks faced a unique interplay between rising net interest margins and shifting global liquidity.

Furthermore, the discrepancy between fundamental performance and stock price movements during 2023–2025 suggests a behavioral interpretation that previous research has overlooked. Market participants during this period exhibited a notable investor bias, characterized by an "overreaction" to short-term earnings multiples (PER) while simultaneously seeking "safety" in tangible book values (PBV). This behavioral shift indicates that in a post-pandemic world, investors are no longer purely rational profit-seekers but are heavily influenced by a "safety-seeking" bias, prioritizing asset solvency over growth expectations (Sundiman & Septiani, 2017).

Despite the vital role of the banking sector, there is an explicit uncertainty regarding the effectiveness of PER and PBV as valuation anchors in the 2023–2025 period. The problem is manifested in a persistent mismatch: while many banks reported increasing Earnings Per Share (EPS), their stock prices experienced erratic fluctuations or downward corrections. This imbalance reveals that the market's traditional valuation mechanism is being disrupted by a combination of macroeconomic shifts and

psychological biases. There is no clear consensus on whether PER still serves as a growth signal or if it has become a signal of overvaluation in the eyes of post-pandemic investors.

Therefore, the urgency of this study lies in the need to provide a more rational and measurable valuation framework for investors. This research aims to fill the existing gap by empirically testing the simultaneous and partial influence of PER and PBV on banking stock prices. By addressing the specific nuances of the 2023–2025 period, this study intends to provide a deeper perspective for practitioners and academics regarding the reliability of fundamental analysis in a dynamic and bias-prone market.

Stock prices represent market value resulting from the mechanism of supply and demand in the secondary market. Maximizing corporate value has a positive impact on investor welfare, thereby creating strategic appeal for shareholders to invest their capital. (Asria, 2019). Stock prices represent market value resulting from the mechanism of supply and demand in the secondary market. Maximizing corporate value has a positive impact on investor welfare, thereby creating strategic appeal for shareholders to invest their capital (Asria, 2019) . The quality of an entity is reflected in consistent stock price growth, which serves as an indicator of management effectiveness as well as an attraction for investors to allocate capital (Rahmawati & Hadian, 2022). Stock prices reflect investors' projections of a company's performance, where fluctuations are driven by the interaction of various internal fundamental variables and macroeconomic conditions (Suwandi & Syarifudin, 2023). A company's fundamental performance—comprising profitability, asset quality, and capital structure—constitutes the primary internal factors, while macroeconomic conditions, interest rates, inflation, exchange rates, and market sentiment serve as external variables influencing the company (Azizah & Pandin, 2024). Stock price valuation in the banking sector is highly dependent on investors' perceptions of company fundamentals, particularly regarding profit generation, credit risk management, and total asset expansion.

Financial statements serve as a primary data source for investors in measuring stock value through various financial ratio indicators. Two commonly used market ratios are the Price-Earnings Ratio (PER) and Price-to-Book Value (PBV). The Price-Earnings Ratio can assist investors in stock valuation, as the current market price incorporates market expectations regarding the entity's future growth prospects (Sari & Jufrizen, 2019). (Prasetyo, n.d. 2018) states that the PER serves as an indicator of investors' willingness to value each rupiah of a company's profit based on its growth projections. Positive investor sentiment reflected by a high PER tends to increase stock prices, while a low PER often indicates that the stock price is below its intrinsic value (undervalued) or lacks market appeal. The higher the PER, the greater investors' expectations regarding the company's prospects, so stock prices tend to rise. Conversely, a low PER may indicate that the stock is undervalued or lacks market interest (Hidayat, 2018).

In addition to the PER, the PBV ratio is used in fundamental analysis to measure the extent to which a stock's market price deviates from the company's book value, in order to determine the stock's price-to-book ratio. The PBV value integrates investors' assessments of the company's asset management capabilities and expectations regarding its operational prospects as a going concern (Abrar, 2025). A high PBV ratio serves as an indicator of optimal corporate value, whereas a low PBV value reflects less competitive fundamentals, thereby triggering market sentiment that is less favorable for the entity (Sari & Jufrizen, 2019). Fundamentally, a PBV greater than one reflects the market's appreciation of the issuer's performance, whereas a value below one may indicate that the company is trading below its book value due to unfavorable market perceptions.

In the context of the banking sector, PBV plays a crucial role because banks hold relatively liquid assets and are capable of creating value through lending activities. According to (Wira & Yunita, 2023) , the price-to-book value (PBV) ratio is a comparative indicator used by market participants to assess the fairness of a stock's price relative to the market prices of other stocks. From a valuation perspective, companies capable of

generating optimal equity returns tend to receive market appreciation in the form of a higher PBV than entities with low equity profitability (Mausuly & Prasetyowati, 2022). PBV fluctuations reflect market confidence in the quality of productive assets and management's ability to maintain financial performance stability (Asykarulloh et al., 2023) Thus, PER and PBV are used together by investors as primary indicators in assessing the valuation of banking stocks.

The sample selection in this study includes 12 issuers in the banking sector that are officially listed on the Indonesia Stock Exchange and represent the national banking sector, consisting of large and medium-sized banks, as well as regional development banks. Based on annual market ratio data for the 2023–2025 period, it is evident that the relationship between the Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and stock prices does not always move in the same direction. Several banking issuers showed improved fundamental performance reflected in rising profits or EPS. However, these fluctuations did not automatically trigger a significant increase in stock prices, indicating the influence of other factors such as market sentiment, macroeconomic conditions, and investor expectations (Rohana, 2024).

The phenomenon of a mismatch between fundamental performance and stock price movements is evident in both large and medium-sized banks, where the P/E ratio tends to decline even as EPS increases, while stock prices fluctuate. This situation reflects that market participants are not solely focused on earnings, long-term prospects, and the level of confidence in the company. (Sundiman & Septiani, 2019) Based on this imbalance, this study aims to empirically test the extent to which the P/E and P/B ratios can explain stock price fluctuations in the banking sector, making this research relevant for understanding how market ratios influence the valuation of banking stocks on the Indonesia Stock Exchange during the 2023–2025 period.

In line with related phenomena, the urgency of this study lies in the vital role of the banking sector in maintaining the national financial ecosystem, where fluctuations in its performance directly impact macroeconomic resilience and serve as a significant contributor to movements in the IHSG. The existence of a discrepancy between a company's fundamental performance and stock price movements highlights the need for an empirical study to understand the extent to which P/E and P/B ratios influence stock valuation. The output of this study is intended to provide a more rational and measurable valuation framework for investors in evaluating their investment portfolios and to assist companies in enhancing their market value. This study also aims to expand the scope of theoretical references regarding the dynamics of stock price valuation and to strengthen the scientific discourse related to fundamental analysis on the Indonesia Stock Exchange.

In this context, this study was conducted to test whether the Price-Earnings Ratio (PER) and Price-to-Book Value (PBV) have a simultaneous influence on the stock prices of issuers in the banking sector. Furthermore, the results of this study are intended to enrich the literature and provide a deeper new perspective for practitioners and academics in the capital market regarding the influence of the Price-Earnings Ratio and Price-to-Book Value on the stock prices of companies in the banking sector during the 2023–2025 period.

2. METHODE

This study employs a quantitative method aimed at explaining the specifications of the tested variables using numerical data (Imam Ghozal, 2018). The data used is secondary data in the form of balanced panel data, which combines cross-sectional dimensions (12 banking entities) and time-series dimensions (2023–2025). Data were retrieved from audited annual financial statements and historical closing prices available on the official Indonesia Stock Exchange (IDX) website (www.idx.co.id) and TradingView. This study is

an extension of the research (Ramadhani & Aliefah, 2024) titled "The Effect of Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Return on Equity (ROE) on Stock Prices of Banking Companies on the Indonesia Stock Exchange for the 2023–2025 Period." This study builds upon previous research by retaining stock price as the dependent variable and employing different independent variables to enrich the empirical analysis in the banking sector. The sampling technique applied was non-probability sampling, specifically using a purposive sampling approach. The specific criteria for selection include: Banking companies listed on the IDX with consistent financial reporting from 2023 to 2025.Availability of complete market ratio data (PER and PBV) and year-end closing prices.Inclusion in the KOMPAS 100 Index throughout the 2023–2025 observation period.Justification for Generalizability: The use of the KOMPAS 100 criteria ensures that the sample represents banks with high liquidity and large market capitalization (blue-chip and major mid-cap). While this approach limits generalizability to smaller, illiquid banks, it significantly enhances the reliability of the results for institutional investors and market policymakers, as these 12 banks dictate the majority of the banking sector's total market capitalization and influence on the JCI.

The data analysis techniques used are descriptive statistical analysis and panel data regression. According to (Yani, n.d.) The stages of descriptive statistical analysis aim to identify and explain the structure of the data to be studied, in order to facilitate a more objective interpretation of the observational results. Panel data regression analysis, on the other hand, is a method that integrates time-series data characteristics with cross-sectional data to produce more accurate estimates. (Leon et al., 2023) To obtain valid and reliable test results, all stages of data analysis in this study were supported by the use of the EViews 12 statistical software.

Based on the Chow and Hausman tests conducted during the analysis, the Fixed Effect Model (FEM) was determined as the most appropriate specification. Classical Assumption TestsTo ensure that the regression model provides the Best Linear Unbiased Estimator (BLUE), the following classical assumption tests were performed using EViews 12. Normality Test: Utilizing the Jarque-Bera test to ensure the residuals are normally distributed.Multicollinearity Test: Examining the Correlation Matrix to ensure no high correlation between PER and PBV (correlation < 0.80).Heteroscedasticity Test: Applying the Glejser or White test to ensure constant variance in residuals.Autocorrelation Test: Conducted via the Durbin-Watson (DW) test to ensure no correlation between residuals across time periods. Data Analysis Procedures The analysis followed a systematic workflow: (1) Descriptive statistical analysis to identify data distribution, (2) Panel data model selection (Chow, Hausman, and LM tests), (3) Classical assumption verification, and (4) Hypothesis testing through the F-test (simultaneous), t-test (partial), and Coefficient of Determination.

3. RESULTS AND DISCUSSIONS

3.1 RESULTS

The results of the descriptive analysis shown in the following teble

Table 3. Descriptive Analysis

	STOCK_PRICE	PER	PBV
Mean	2901.806	12.00000	1.393333
Median	1572.500	9.570000	0.845000
Maximum	9675.000	51.67000	4.910000
Minimum	210.0000	4.460000	0.500000
Std. Dev.	2689.265	9.142985	1.107904
Skewness	1.123793	2.724103	1.874115
Observations	36	36	36

Based on the results of the descriptive test, it can be concluded that out of 36 observations, the Stock Price variable as a whole obtained a minimum value of 210.00, meaning the lowest stock price in the sample was at that level. The maximum value is 9,675.00, indicating the highest stock price among the banking companies studied. The mean is 2,901.80, indicating the average stock price of the banking sector during that period. The standard deviation is 2,689.26; this result indicates that the standard deviation is greater than the mean (when compared relative to data fluctuations), suggesting a fairly wide data spread or high variation in stock prices among banks.

The PER (Price Earning Ratio) variable has a minimum value of 4.46, meaning there are companies with the lowest price-to-earnings ratio at that level. The maximum value of 51.67 indicates expectations of very progressive earnings growth or relatively high stock prices compared to earnings. The mean value of 12.00 indicates that, generally, the average PER for the banking sector is at that level. The standard deviation is 9.14, indicating the degree of data dispersion for the PER variable during the observation period.

The PBV (Price to Book Value) variable overall has a minimum value of 0.50, meaning there are banking companies whose stock prices are valued below their book value. The maximum value of 4.91 means the market value of that company is 4.91 times its equity value. The average value of 1.39 indicates that, on average, bank stock prices in Indonesia are valued at 1.39 times their book value. The standard deviation is 1.10, indicating the dispersion of data or variation in PBV values across the banking sectors comprising the sample issuers in this study.

3.2 Model significance test

1. Chow test
   The hypotheses used in the Chow test are as follows:
   H0: Common Effect Model
   H1: Fixed Effect Model
   The testing criteria carried out are:
   If the Prob Chi-Square value is > 0.05: H0 is accepted
   If the Chi-square Prob value is < 0.05: is accepted

Table 4. Results of the Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	74.778605	(11,22)	0.0000
Cross-section Chi-square	131.320038	11	0.0000

The Chow test results in the table above show that the Prob Chi-Square value is 0.0000 < 0.05, meaning that H0 is rejected and H1 is accepted, so the Fixed Effect Model is more appropriate to use.

2. Hausman Test
   The hypothesis used is as follows:
   H0: Fixed Effect Model
   H1: Random Effect Model
   The testing criteria carried out are:
   If the Chi-Square Prob value 0.05: H1 is accepted
   If the Prob Chi-square value is > 0.05: H1 is accepted

Table 5. Results of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	11.247863	2	0.0036

Based on the Hausman test findings in the table above, the Fixed Effect Model is a better choice because the Prob Chi-Square value is 0.0036 < 0.05, which means H0 is accepted and H1 is rejected. These two experiments demonstrate the Fixed Effects Model as a standard tool for hypothesis testing.

3.3 Panel Data Regression Test

1. Fixed Effect Model

Table 6. Results of the Fixed Effects Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PER	-31.94722	12.42483	-2.571240	0.0174
PBV	1328.828	211.2194	6.291220	0.0000
C	1433.672	232.4795	6.166874	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.995742	Mean dependent var		2901.806
Adjusted R-squared	0.993226	S.D. dependent var		2689.265
S.E. of regression	221.3435	Akaike info criterion		13.92261
Sum squared resid	1077844.	Schwarz criterion		14.53842
Log likelihood	-236.6070	Hannan-Quinn criter.		14.13754
F-statistic	395.7356	Durbin-Watson stat		1.761586
Prob(F-statistic)	0.000000			

3.4 Coefficient of Determination

The value of the coefficient of determination varies between zero and one. The ability of the independent variable to explain the dependent variable decreases if the value is low. If the value is close to one, it means that the data required to estimate the dependent variable is almost entirely provided by the independent variable.

Table 7. Results of the Coefficient of Determination Test

R-squared	0.995742	Mean dependent var	2901.806
Adjusted R-squared	0.993226	S.D. dependent var	2689.265

Based on the statistical output summarized in Table 7, the Adjusted R-squared value obtained is 0.9932, or 99.32%. Statistically, this model is capable of explaining 99.32% of the fluctuations in banking sector stock prices through the PER and PBV variables. This indicates a very high level of model accuracy, with only 0.68% of the variation influenced by variables external to the study. This suggests that the constructed model has an optimal level of goodness of fit in explaining stock price fluctuations during the study period.

3.5 Hypothesis Testing

1. t-Test

Criteria for testing carried out: If t count ≤ t table or Sig. > 0.05, indicating Ho is accepted and H1 is rejected If t count ≥ t table or Sig. < 0.05, indicating Ho is rejected and H1 is accepted

Table 8. Results of the t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.

PER	-31.94722	12.42483	-2.571240	0.0174
PBV	1328.828	211.2194	6.291220	0.0000
C	1433.672	232.4795	6.166874	0.0000

a) The Effect of the Price-Earnings Ratio (PER) Variable on Stock Prices

Statistically, the PER variable has a negative impact on stock price movements with a coefficient of -31.94 and a significance level of 0.0174 < 0.05. This indicates that PER has a negative and significant effect on stock prices in the banking sector on the Indonesia Stock Exchange for the 2023–2025 period. This phenomenon is worth noting because it indicates that stock price sensitivity to the PER ratio is negative, meaning that a one-unit increase in PER, on average, reduces the market value of stocks by 31.94 points. This can occur if investors perceive a PER that is too high as entering the overvalued zone, or if this situation indicates that market multiples have become too high, suggesting that current prices no longer reflect the company's intrinsic value based on its earnings.

b) The Effect of the Price-to-Book Value (PBV) Variable on Stock Prices

The analysis results show that the PBV variable has a coefficient of 1,328.82 with a significance level of 0.0000 < 0.05. This finding proves that PBV has a positive and significant effect on stock prices. The large coefficient indicates that PBV is a primary determinant in the formation of banking stock prices. Every one-unit increase in PBV will drive a 1,328.82-point increase in stock price. This aligns with investors' belief that a banking company's book value reflects the strong intrinsic value of its assets; thus, the higher the market's appreciation of book value (PBV), the higher the stock price.

a. F-Test

Criteria for testing carried out: If F count ≤ F table or Sig. > 0.05, indicating Ho is accepted and H1 is rejected If F count ≥ F table or Sig. < 0.05, indicating Ho is rejected and H1 is accepted

Table 9. Results of the 2. F-Test

F-statistic	395.7356	Durbin-Watson stat	1.761586
Prob(F-statistic)	0.000000		

b. Simultaneous Effect (F-Test)

Based on Table 9, the Prob(F-statistic) value is 0.000000 < 0.05. This indicates that, simultaneously or collectively, the PER and PBV variables have a significant effect on the stock prices of the banking sector on the IDX for the 2023–2025 period. These results reinforce that the combination of the price-to-earnings ratio (PER) and the price-to-book ratio (PBV) remains a highly valid fundamental benchmark for investors in valuing banking stocks in Indonesia.

3.6 Discussion

a. The Effect of the Price-Earnings Ratio (PER) on Stock Prices

Based on the analysis results, Statistical analysis reveals that PER has a significant negative impact on stock prices (Sig: 0.0174). While the relationship is significant, the negative direction is an anomaly in traditional growth-investing theory. This indicates that for the 2023–2025 period, a high PER was perceived by investors as a signal of overvaluation rather than growth potential. When a bank's PER rises too high, market participants tend to perform a "sell-off," anticipating a price correction. Comparison with Previous Research: This result contrasts with (Kusjono & Nurazzahrm, 2023) titled "The

Influence of Earnings Per Share and Price-Earnings Ratio on Stock Prices at PT. Telkom Indonesia (Persero) Tbk for the Period 2011–2021." who found a positive influence of PER in the telecommunications sector. This discrepancy highlights that the banking sector—which is heavily regulated and asset-dependent—has a different risk profile than the service or technology sectors. However, it aligns with (Fatmawati & Muniarty, 2023) titled "The Effect of Price-Earnings Ratio, Price-to-Book Value, and Debt-to-Equity Ratio on Stock Prices at PT Indocement Tunggal Perkasa Tbk." whose findings suggest that PER often fails to act as a positive driver in certain sectors without considering global market sentiment. In this study, the negative significance confirms that in the post-pandemic IDX, banking investors are increasingly wary of high earnings multiples.

b. The Effect of the Price-to-Book Value (PBV) Ratio on Stock Price

After analyzing the second hypothesis, it was found that this hypothesis is accepted, indicating that the PBV variable has a positive and significant effect on stock prices. This suggests that the book value of banking companies is a key fundamental factor that investors consider when evaluating stock prices. A high PBV reflects the market's appreciation of the net asset value and equity held by the bank. Investors tend to believe that banks with strong equity values possess greater resilience; this reflects the market's willingness to purchase at higher prices. This indication is reinforced by statistical findings where PBV recorded the highest coefficient value, signifying its very strong influence on investor expectations and confirming that PBV is the strongest determinant in the formation of banking stock prices. However, the results of this study contradict a study conducted by (A. Akbar et al., 2020) titled "Analysis of Price-Earnings Ratio, Price-to-Book Value, Return on Equity, and Risk on LQ45 Stock Prices of Construction and Property Companies on the Indonesia Stock Exchange." The study's results indicate that, partially, the price-to-book value does not influence stock prices.

c. Overall Effect Analysis

Test results indicate that stock price fluctuations in the banking sector on the Indonesia Stock Exchange during the 2023–2025 period are significantly influenced by the company's internal fundamental variables. The model's capacity to represent stock price variability through the PER and PBV variables reached 99.32%, as reflected in the Adjusted R-squared value. This indicating an extremely high level of explanatory power and indicates that for investors in the banking sector, valuation ratio analysis remains a highly valid tool for making investment decisions (Suryadi & Dana, 2023) Although there is a negative influence from PER, the dominance of the positive influence from PBV indicates that market confidence in the intrinsic value of a bank's wealth (equity) is far greater than mere expectations of earnings multiples. This suggests that during the 2023–2025 window, the stock prices of the sampled banks (KOMPAS 100) were moved almost exclusively by fundamental equity valuations. The 12 banks selected are "blue-chip" entities with highly correlated and stable financial reporting standards. This homogeneity leads to a near-perfect fit in a panel data environment. While the model is highly accurate for major banks, its generalizability to smaller, non-index banks might be lower. The high R^2 is a reflection of market efficiency within the KOMPAS 100 index, where information regarding assets is rapidly and accurately priced.

d. Implications of the Study :

1) Implications for Investors.

Investors should prioritize PBV as the primary indicator of value. A bank trading at a low PBV with high asset quality represents a safer entry point than one with a high PER, which the market currently penalizes as "expensive". The negative significance of PER warns investors against the "growth trap" in the banking sector; high earnings expectations must be supported by tangible equity growth to be sustainable.

2) Policy and Managerial Implications

For bank management, maintaining a strong Capital Adequacy Ratio (CAR) and a transparent book value is more effective in supporting stock prices than short-term net income maneuvers. Regulators (OJK/IDX) should continue to enforce strict disclosure of asset quality. Since the market is highly sensitive to book values (PBV), any lack of transparency in asset reporting could trigger severe market volatility. Since the 2023–2025 period was marked by high interest rates, policy-makers should note that banking stock stability is currently anchored in solvency (equity) rather than speculative earnings, which acts as a stabilizer for the national financial system.

4. CONCLUSION

The results of the hypothesis testing indicate that from 2023 to 2025, stock prices in the Indonesian banking sector were highly sensitive to fundamental valuation ratios, where Price-to-Book Value (PBV) exerted a dominant positive influence while the Price-Earnings Ratio (PER) showed a significant negative impact. These findings provide a substantial theoretical contribution to Signaling Theory by validating the "Asset-Safety Signaling" mechanism, proving that in the highly regulated banking industry, equity-based information (PBV) provides a more reliable signal of long-term stability and solvency than earnings volatility (PER). Practically, these results imply that investors should adopt a value investing strategy that prioritizes PBV as a primary valuation anchor to mitigate the risk of overvaluation associated with high PER stocks. For bank management and regulators, the findings underscore the necessity of maintaining asset quality and capital transparency, as the post-pandemic market rewards solvency over speculative earnings growth. Although the model demonstrates an exceptionally high accuracy of 99.32%, this study is limited by the homogeneity of the sample focused on the KOMPAS 100 index and a relatively short observation period; therefore, future researchers are encouraged to expand the sectoral scope and integrate macroeconomic variables to enhance the generalizability of valuation models in future economic cycles.

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