

The Nexus between Corporate Financial Ratio and Price Earnings Performance: Evidence from President Election Period in Indonesia

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ABSTRACT

This research aims to obtain an empirical overview of the influence of financial performance on stock prices in situations of political uncertainty in Indonesia. Our sample includes all non-financial public companies listed on the Indonesia Stock Exchange from 2011 to 2019, totalling 1,899 company-years. This study uses fixed-effects regression to test the hypothesis. The researchers found that financial performance positively and negatively affects stock prices. Specifically, we found a negative relationship between financial performance proxied by Return on Equity and Debt to Ratio. In contrast, liquidity, return on Assets, and Net Profit Margin have a negative effect on financial performance. Furthermore, our evidence becomes unique when in conditions of political uncertainty, where more financial performance has a negative impact on stock prices. This study provides practical and theoretical implications to fill gaps in previous literature regarding financial performance and its influence on stock prices.

Keywords: Der; liquidity; npm; pe ratio; political uncertainty; roa; roe.

INTRODUCTION

Uncertainty in the global environment caused by political events impacts some business sectors, including stock trading on the stock exchange [9]. In recent years, the stock exchange market blushing or green phenomenon has been caused by macroeconomic policy factors that impact business activities at the company level [2, 4, 6]. Some studies report that the political uncertainty caused by election contestation has an unusual influence. This shapes people's mindset towards the political parties that occur. Studies conducted by [1] and [9, 13, 15] showed that trading on exchanges resulted in several stocks turning red in unstable global economic conditions. This indicates that the macroeconomic and business environment uncertainty can impact people's investment patterns [16, 18, 19, 34].

The presidential election period in Indonesia can significantly impact business activities in the country [17, 21, 24, 25]. Elections can create uncertainty, leading to a decrease in investment and consumer spending. Additionally, changes in policies or leadership can affect the regulatory environment for businesses, potentially leading to changes in tax laws [45], trade policies [34], and other regulations [28]. During election periods, businesses may delay investment decisions until the election outcome is clear [31, 32]. This can lead to a slowdown in economic activity and lower business

confidence. In addition, political campaigns may focus on issues that are relevant to businesses, such as taxation [40, 41, 42], infrastructure development [46, 48, 49], and trade policies [51, 53, 55]. Candidates may offer different approaches to these issues, and their positions can influence the decisions of businesses. Businesses may also face increased regulatory scrutiny in the lead-up to the presidential election [50, 55]. Government agencies may become more cautious in approving permits or granting licenses, which can delay business activities. This can be particularly true for politically sensitive industries, such as mining or forestry [30, 34, 48]. The presidential election period in Indonesia can create uncertainty and lead to a slowdown in economic activity. However, the impact will depend on the outcome of the election, the policies of the winning candidate, and the response of businesses and investors to the election results [20, 29, 27].

A company's share price directly reflects the data presented in the company's financial statements [9, 18, 19, 23]. The behaviour of the stock market often follows the rises and falls of a company's financial performance. A company with a robust financial standing is more likely to maintain stable market behaviour and consistent stock prices in the long run [10, 11, 12, 19]. However, it is also important to note that a decline in financial performance can lead to potential risks, such as decreased stock prices. As such, companies must

strive for consistent financial performance to ensure long-term stability [22, 32, 37]. Maintaining consistency in a company's financial performance is essential for sustaining stock prices and building a solid reputation in the market [41, 43]. A company that consistently delivers strong financial results and meets or exceeds its financial targets is likely to be viewed positively by investors and analysts [34, 33, 28], which can result in increased stock prices and improved access to capital [43, 34, 32]. In addition to financial performance, factors such as management stability, product innovation, and market share also shape investor perception of a company's long-term prospects [35, 36, 42]. For instance, a company that consistently introduces innovative products that meet evolving customer needs will likely attract investor attention and increase stock prices [41, 42, 43].

During the period leading up to the election, market volatility tends to increase as investors weigh the potential impact of the candidate's policy proposals on the stock market [51, 52, 54]. For example, suppose a candidate proposes policies that are favourable to a particular sector, such as infrastructure spending. In that case, companies in that sector may see their stock prices rise in anticipation of increased demand for their products or services [1, 2, 3, 4, 5]. However, the election's impact on the stock market is often short-lived, as the market tends to adjust quickly to new information and expectations [53, 55]. Research has shown that over the long term, the stock market tends to be influenced more by broader economic trends and corporate earnings than by politics [55]. It is important to note that while the presidential election can influence the stock market, it is just one of many factors that can affect market performance [51, 53, 55]. Other factors, such as interest rates, inflation, geopolitical events, and global economic conditions, can also significantly impact the stock market [34, 33, 32].

The movement of the stock price reflects the issuer's performance; when the issuer has a good performance, the stock price will increase [11, 13, 15]. In addition, the stock price becomes the right measure to show the effectiveness of an issuer, an issuer with a high share price also indicates a high company value. Conversely, issuers with unstable and declining stock prices indicate that the effectiveness or value of the issuer will be low [6, 7, 8]. In addition, the presence of macro factors such as political contestation will have an impact on stock price trends on the stock exchange; some studies show explicitly that the performance of the stock exchange market will experience a downtrend at a time when the economic environment becomes unstable [12, 23, 26, 39].

The studies related to political uncertainty towards company investments have unequal results from one another. The study of [12, 34] reported that in extreme conditions (government policies changed in the run-up to the election), the stock exchange market responded to the global situation by indicating a significant decline [45, 46, 47]. In addition, other evidence states that ROA and ROE contribute to an increase in the value of earnings per share [39, 40]. Further, they also test the condition of economic instability after the crisis and decrease the value of earnings per share [3, 5, 8]. Hence, there are differences in the research results that show the influence of different political uncertainties on the stock market on the stock exchange, which is reflected in the pattern of public investment behaviour [53, 54, 55].

The relationship between earnings per share and the price-to-earnings (PE) ratio reflects the internal condition of a company [27, 28, 29]. It can be influenced by various factors, such as the tenure of the CEO [2, 3, 4]. Previous studies have shown that the impact of liquidity, return on assets (ROA), return on equity (ROE), net profit margin (NPM), and debt-to-equity ratio (DER) on the PE ratio can differ [6, 11, 14]. For example, one study found that NPM has no significant effect on stock prices, while another study concluded that NPM has a positive effect on stock prices [15, 19, 22]. Additionally, another study found that ROE has no significant effect on the share price of companies listed in LQ 45 [13, 34, 55]. Overall, these findings contribute to our understanding of the complex relationship between financial ratios and stock prices and highlight the need for further research to fully understand the impact of these factors on the PE ratio and stock performance.

This study aims to examine the effect of LIQUIDITY (Price to Book Value), ROA (Return on Equity), ROE (Return on Equity), NPM (Net Profit Margin), and DER (Debt to Equity Ratio) on the PE Ratio (Price to Earnings Ratio) in companies listed on the Indonesia Stock Exchange for the 2011-2019 period. The analysis was carried out using STATA 17.0 with several tests such as descriptive statistics, Pearson correlation test, independent t-test, moderated regression analysis (MRA) test, and robustness test. The study found that under normal conditions, the PE ratio value was negatively affected by liquidity ratios, return on assets (ROA), and net profit margin (NPM). In contrast, return on equity (ROE) and debt-to-equity ratio (DER) positively affected the PE ratio value. However, the opposite was observed during political uncertainty (abnormal conditions). Liquidity ratios, ROA, ROE, and DER positively affected the increase in the PE ratio value, while NPM negatively affected the PE

ratio value. It is important to note that these findings highlight the impact of different financial ratios on the PE ratio value and how they can be affected by external factors such as political uncertainty. Investors and analysts should consider these factors when evaluating a company's financial performance and making investment decisions.

This research has a practical contribution to investors to analyze the upward trend in stock prices not only in the five financial ratios above but also consider other financial ratios. In the theoretical contribution, our study provides significant knowledge. The study of corporate financial ratios and price-earnings (PE) performance contributes to understanding how financial performance affects stock prices. The findings of this type of study can provide insights into the factors that influence stock prices and how investors value companies. Theoretical contributions from such a study include identifying the key financial ratios that significantly impact stock prices, such as liquidity ratios, return on assets, return on equity, debt-to-equity ratio, and net profit margin. By understanding the relationship between these ratios and stock prices, investors can make more informed investment decisions and assess the financial health of companies. Additionally, this type of study can contribute to the development of financial theory by providing empirical evidence that supports or challenges existing financial models. It can also provide insights into the impact of external factors, such as political uncertainty, on the relationship between financial ratios and stock prices.

In practical contribution, this study is more important in several ways. Understanding the relationship between financial ratios and stock prices can help investors and analysts make better investment decisions. By analyzing a company's financial ratios, investors can assess its financial health and determine whether it is undervalued or overvalued. This knowledge can help them identify potentially profitable investment opportunities and manage risk. For companies, this study can provide insights into how to improve their financial performance and increase their stock prices. By analyzing their financial ratios and identifying areas needing improvement, companies can optimize their financial performance, attract more investors, and increase their stock prices. Additionally, this study provides insights into how external factors, such as political uncertainty, can impact financial performance and stock prices. By understanding the impact of such factors, companies can better prepare for potential risks and adjust their strategies accordingly.

This paper is organized as follows. Section 2 provides signalling theory and hypothesis development. Section 3 presents the research methods and

variables used in the study. Section 4 explains the results and discussion. Section 5 wraps up with the conclusions, suggestions, and limitations.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signalling Theory

Signalling theory is a theory developed by Spence in 1973 by formally modelling signal equilibrium in the context of the job market [14, 23, 27]. The signal theory explains the concept that investors will view information from management performance. In addition, this theory also explains whether companies can have high-performing prospects or not [35, 39, 43]. Signal theory provides information to users of financial information in equal proportions yet obtains different levels of information [8, 45, 38, 43]. Thus, there are differences in the amount of information obtained by each user of information, which can cause information asymmetry [45, 53, 55].

Signalling theory is a concept often applied in the stock market to explain the behaviour of companies and investors [23, 35, 46]. In essence, signalling theory suggests that companies can use specific actions or signals to convey information to investors about their financial strength [34], prospects [23, 26], or other essential factors [36, 43, 46]. For example, a company that consistently pays high dividends or buys back its stock may signal investors that it is financially healthy and has substantial cash reserves [45, 47, 48]. Similarly, a company that invests heavily in research and development may be signalling to investors that it is committed to innovation and long-term growth [23, 25, 26]. On the other hand, investors also use signals to make investment decisions. For instance, if a large institutional investor acquires a significant stake in a company [34, 37], it may signal to other investors that the company is undervalued or has strong growth potential, which could lead to an increase in demand for the company's stock [33, 37, 39]. However, signalling theory also has its limitations. Investors need to interpret signals correctly and avoid being misled by false signals or signals that do not accurately reflect a company's financial situation [45, 48, 49]. Therefore, investors must conduct thorough due diligence and analyze various factors before making investment decisions based on signals.

Information disclosed by the company through financial statements can influence investors to invest their capital in the company [7, 23, 29]. The existence of information disclosed by the company attracts the attention of investors to establish

communication with their various interests in the company [43, 44]. Effective and efficient use of information is reflected in the ratio indicator in the financial statements. Some financial statement indicators that influence investors' decisions are financial ratios, including liquidity, ROA, ROE, NPM, and DER. This theory is used in this study to explain the information linkage of the ratio of finances to stock performance, which is reflected in the value of the PE ratio [45, 49, 53].

Information bias can significantly impact stock market decisions, as investors often rely on a wide range of information to make investment decisions [2, 23, 45]. Information bias occurs when investors focus too heavily on certain types of information or fail to consider all available information [3, 13, 15]. For example, investors may be biased towards information supporting their beliefs or biases, such as only looking at positive news articles or analyzing data confirming their investment thesis [1, 3, 23, 34]. This can lead to overconfidence in their investment decisions and an increased risk of losses. Similarly, investors may be biased towards readily available information [12, 24, 45], such as recent market trends or news headlines, rather than conducting thorough research and analysis [12, 23, 37]. This can lead to overlooking important factors that could impact the stock's performance [34, 50, 45], resulting in suboptimal investment decisions.

Moreover, information bias can also arise due to the overreliance on the opinions and recommendations of others, such as analysts or financial advisors [30, 33, 50]. This can lead to following the herd mentality, where investors may make investment decisions based solely on the advice of others rather than their independent analysis [23, 30, 43]. To overcome information bias, investors should consider all available information and conduct thorough research and analysis before making investment decisions [20, 27, 29]. They should also be aware of their own biases and take steps to mitigate them, such as seeking out alternative viewpoints or feedback from others with different perspectives [30, 33, 40, 45].

Signalling theory suggests that during a presidential election, candidates' behaviour and statements can signal information about their potential policies and future economic conditions [10, 12, 34], which can influence companies' stock market and price-earnings ratio (P/E ratio). During an election, candidates may make promises or announcements about their economic policies that could impact the market [5, 7, 12, 50, 55]. For example, if a candidate promises to increase government spending on infrastructure projects, this could signal a potential increase in demand for

construction materials and labour [10, 14, 19, 29], which could benefit companies in the construction industry. As a result, investors may become more optimistic about these companies' future prospects, increasing their stock prices and P/E ratios [23, 45, 55]. On the other hand, if a candidate's policies are perceived as unfavourable for the economy or the stock market, investors may become more pessimistic about companies' prospects [12, 34, 37, 38], decreasing their stock prices and P/E ratios. It is important to note that the relationship between presidential election periods and the P/E ratio can be more complex and consistent. Global economic conditions, interest rates, and company-specific performance can also influence the P/E ratio.

Hypothesis Development

Several studies have shown that liquidity influences the value of the PE ratio, which, according to [2, 4, 7, 9, 51], proves that liquidity positively affects the value of the PE ratio. This shows that the performance of stocks reflected in earnings per share compared to the book market value of shares is a factor in the company's liquidity level. Companies with a high level of liquidity will produce a high PE ratio value. However, the study developed by [14, 41, 44] explains the negative influence of liquidity, ROA, and NPM on the value of the PE ratio. This is because ROA and NPM do not provide enough evidence that investors feel confident that their investment assets have sufficient long-term prospects in the company [21, 33, 38, 27].

Studies by [15, 31, 46, 52] document that ROE and DER positively affect the pe ratio value reflected in several periods. This shows that ROE is a profit ratio reflected in the value of shareholders' equity, so investment decisions will depend on the turnover of shareholders' equity in generating profits [50, 53]. In addition, DER shows that the level of the company's ability to repay short-term debt is also a factor that determines the value of the PE ratio because investors will like companies with a high level of ability to pay dividends in addition to paying off their short-term obligations [23, 26, 39]. Thus, the hypothesis of this study is as follows:

- H_{1a}: Ceteris paribus, Liquidity negatively affects the value of price-earnings ratio
- H_{1b}: Ceteris paribus, ROA negatively affects price-earnings ratio
- H_{1c}: Ceteris paribus, ROE positively affects price-earnings ratio
- H_{1d}: Ceteris paribus, NPM negatively affects price-earnings ratio
- H_{1e}: Ceteris paribus, DER positively affects price-earnings ratio

The political uncertainty caused by the presidential election impacts the company's operational pressures. The studies show that political uncertainty will threaten changes in economic policy that will lead to the company's business processes [9, 10, 19]. Other studies have shown that financial ratios under normal conditions will show the actual value of a company's performance. However, some financial ratios show instability when the economic ecosystem becomes unstable [6, 34, 33, 27].

The indications of instability of financial performance in the company are reflected through the value of the PE ratio [11, 19, 16]. When under normal conditions, the value of the PE ratio will indicate its effectiveness in producing current and future performance. However, some indications show that when the company is in an abnormal condition (the event of the presidential election), the financial ratio negatively influences the increase in the value of the PE ratio [23, 26, 29, 40].

In addition to the direct relationship between presidential election periods and the price-earnings ratio (P/E ratio), as described in the previous answer, signalling theory also suggests that there may be moderating factors that can influence this relationship [12, 13, 18, 45]. For example, the strength and credibility of a candidate's signals can mediate the relationship between presidential election periods and the P/E ratio [7, 9; 13]. If a candidate is seen as credible and has a strong track record of delivering on their promises, their signals may be more influential in the market, leading to greater effects on the P/E ratio [23, 27, 24]. On the other hand, if a candidate is seen as unreliable or untrustworthy, their signals may be discounted or ignored by investors, leading to weaker effects on the P/E ratio [34, 39, 43, 55]. Additionally, the timing of a candidate's signals can also play a moderating role. Suppose a candidate makes a signal early in the election period. In that case, it may have a more substantial effect on the market as investors have more time to react and adjust their investments accordingly [12, 18, 19, 32, 45]. However, if a candidate makes a signal later in the election, investors may have already priced in the potential effects, leading to a weaker effect on the P/E ratio [23, 28, 34, 42].

Furthermore, the broader economic and political environment can also mediate the relationship between presidential election periods and the P/E ratio [23, 28]. For example, suppose the economy is in a recession or political instability. In that case, the signals made by candidates may be less influential in the market as investors may be more focused on broader economic and political factors [34, 38, 43]. Hence, the second hypothesis proposed is as follows:

H_{2a}: Ceteris paribus, Political uncertainty weakens the negative influence of liquidity on the value of pe ratio

H_{2b}: Ceteris paribus, Political uncertainty weakens the negative influence of ROA on the value of PE ratio

H_{2c}: Ceteris paribus, Political uncertainty weakens the positive influence of ROE on the value of PE ratio

H_{2d}: Ceteris paribus, Political uncertainty weakens the positive influence of ROE on the value of PE ratio

H_{2e}: Ceteris paribus, Political uncertainty weakens the positive influence of ROE on the value of PE ratio

RESEARCH METHOD

Data and Sample

The quantitative approach was used in this study using data from companies listed on the Indonesia Stock Exchange for the 2011-2019 period, which revealed an annual report using the purposive sampling approach. The sample selection criteria from the study are presented in Table 1 of panel A as follows. Panel B displays the distillates of research samples based on their industry classifications ranging from SIC 1 to SIC 6. From that table, the companies in election conditions are 489, with the highest number in SIC 6 being Banking and Financial Institutions, and the least in SIC 7, with 41 in Service Industries. On the other hand, in non-election conditions, there were 1410 spread across SIC 5 (Wholesale and Retail Trade) of 256 companies and at least SIC 4 (Transportation, Communication, and Utilities) of 96 companies.

Operational Variable Definitions and Measurements

The dependent variable of this study is the PE ratio which shows the stock's market performance compared to the stock's book value. PE ratio measurement is measured by comparing the share price to the book value of that stock; the moderation variable is ELECTION which captures political uncertainty. Election measurement uses a dummy variable of 1 if the company is in a presidential election situation and 0 vice versa. In contrast, the independent variable consists of liquidity, ROA, ROE, NPM, and DER. ROA measurement uses the ratio between total profit to total assets of the company, ROE is measured based on the ratio of total profit to total equity, NPM is measured by the ratio between the company's total profit to total sales in the current year, and finally, DER is measured using the ratio of total forests in the current year to total equity. The control variables used in this study consisted of BODSIZE, TENURE, FIRM-SIZE, FIRMAGE, DPR, BIG4, RMC, and MTB

Table 1. Sample Selection and Distribution by Industry**Panel A: The sample selection criteria**

Criteria	Total
All companies listed on the IDX for the period 2011-2019	3.590
Less:	
Missing data PER	(150)
Missing data LIQUIDITY	(80)
Missing data ROA	(71)
Missing data ROE	(450)
Missing data NPM	(350)
Missing data DER	(280)
Missing data Election	(430)
The number of observation	1.899

Panel B: Distribution by Industry

SIC	Industry	Election		Non-Election		Total	
		N	%	N	%	N	%
0	Agriculture, Forestry, and Fishing	58	11.86	206	14.61	264	13.90
1	Mining	64	13.08	146	10.35	210	11.06
2	Construction Industry	51	10.43	226	16.03	277	14.59
3	Manufacturing	71	14.52	127	25.97	198	10.43
4	Transportation, Communication, and Utilities	48	9.81	96	6.81	144	7.58
5	Wholesale and Retail Trade	74	15.13	256	18.16	330	17.37
6	Banking and Financial Institutions	82	16.77	106	7.51	188	9.89
7	Service Industries	41	8.38	247	17.52	288	15.17
Total		489	25.75	1410	74.25	1899	100

This table reports on the selection of samples for the period 2011-2018 and industry details from sample companies. Panel A reported on the selection of company year observations for regression analysis in the study. Panel B reported on the distribution of a sample of companies-years comprising six industrial scales.

Table 2. Variables Definition and Measurements

Variables	Measurement	Source
Dependent Variable		
PER	The ratio of earnings per share to its share price	Annual Report/OSIRIS
Independent Variable		
LIQUIDITY	The ratio of the difference between assets and inventories to current liabilities	Annual Report/OSIRIS
ROA	The ratio of net profit to total assets	Annual Report/OSIRIS
ROE	The ratio of net income to equity value	Annual Report/OSIRIS
NPM	The ratio of the difference between total revenue and cost to total revenue	Annual Report/OSIRIS
DER	The ratio of total debt to total shareholders' equity	Annual Report/OSIRIS
Moderating Variable		
ELECTION	Dummy variables, namely 1 if the company is in a situation of contesting the presidential election (2014 and 2019), and 0 if it is the other way around	KPU (General Election Commission) Website
Control Variable		
BODSIZE	The ratio between independent directors and total directors	Annual Report/OSIRIS
TENURE	Dummy variable, which takes value 1 if the board tenure at least has a minimum of ten years, and 0 otherwise	Annual Report/OSIRIS
FIRM SIZE	Natural logarithm of total assets	Annual Report/OSIRIS
FIRMAGE	Natural logarithm of the age of the company	Annual Report/OSIRIS
DPR	The ratio of total dividends to net profit	Annual Report/OSIRIS
BIG4	Dummy variable, which is 1 if BIG4 KAP audits the company, and 0 vice versa	Annual Report/OSIRIS
RMC	Dummy variable, which is 1 if there is at least 1 Remuneration and Nomination committee	Annual Report/OSIRIS
MTB	The ratio of the share price in the market to the book value of the shares	Annual Report/OSIRIS

Table 3. Descriptive statistics

	Mean	Median	Minimum	Maximum
<i>PER</i>	41.079	15.820	0.480	981.510
<i>LIQUIDITY</i>	0.526	1.000	0.000	1.000
<i>ROA</i>	0.255	0.000	0.000	1.000
<i>ROE</i>	1.591	1.090	0.140	28.190
<i>NPM</i>	2.192	2.197	0.693	4.605
<i>DER</i>	53.448	53.690	-94.750	93.620
<i>TENURE</i>	1.726	1.000	0.000	1.000
<i>ELECTION</i>	2.435	1.000	0.000	1.000
<i>FIRM SIZE</i>	1.591	1.090	0.140	28.190
<i>BODSIZE</i>	2.192	2.197	0.693	4.605
<i>FIRMAGE</i>	21.759	21.701	17.242	26.587
<i>DPR</i>	3.398	3.497	1.099	4.779
<i>BIG4</i>	0.439	0.000	0.000	1.000
<i>RMC</i>	0.124	0.000	0.000	1.000
<i>MTB</i>	1.265	0.863	-4.759	17.211

Table 4. Pearson Correlation

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	
[1] <i>PER</i>	1.000							
[2] <i>LIQUIDITY</i>	-0.050** (0.028)	1.000						
[3] <i>ROA</i>	0.800*** (0.000)	0.162*** (0.000)	1.000					
[4] <i>ROE</i>	-0.083*** (0.000)	-0.070*** (0.002)	-0.080*** (0.001)	1.000				
[5] <i>NPM</i>	-0.060*** (0.008)	-0.030 (0.183)	-0.055** (0.016)	0.863*** (0.000)	1.000			
[6] <i>DER</i>	0.041* (0.072)	-0.022 (0.333)	0.014 (0.554)	0.032 (0.163)	0.075*** (0.001)	1.000		
[7] <i>TENURE</i>	-0.121*** (0.000)	-0.025 (0.280)	-0.106*** (0.000)	0.180*** (0.000)	0.030 (0.193)	-0.132*** (0.000)	1.000	
[8] <i>ELECTION</i>	-0.218*** (0.000)	-0.084*** (0.000)	-0.198*** (0.000)	0.313*** (0.000)	0.098*** (0.000)	0.179** (0.000)	0.595*** (0.000)	
[9] <i>FIRM SIZE</i>	-0.020 (0.374)	0.011 (0.643)	-0.021 (0.364)	-0.014 (0.539)	-0.010 (0.664)	0.511*** (0.000)	-0.040* (0.079)	
[10] <i>BODSIZE</i>	-0.103*** (0.000)	-0.083*** (0.000)	-0.105*** (0.000)	0.347*** (0.000)	0.322*** (0.000)	-0.033 (0.143)	0.099*** (0.000)	
[11] <i>FIRMAGE</i>	-0.101*** (0.000)	-0.076*** (0.001)	-0.084*** (0.000)	0.527*** (0.000)	0.507*** (0.000)	-0.134*** (0.000)	0.061*** (0.007)	
[12] <i>DPR</i>	-0.180*** (0.000)	0.043* (0.058)	-0.120*** (0.000)	0.106*** (0.000)	0.099*** (0.000)	0.015 (0.511)	0.079*** (0.001)	
[13] <i>BIG4</i>	-0.088*** (0.000)	-0.102*** (0.000)	-0.069*** (0.003)	0.217*** (0.000)	0.198*** (0.000)	0.028 (0.224)	0.155*** (0.000)	
[14] <i>RMC</i>	-0.027 (0.235)	-0.130*** (0.000)	-0.066*** (0.004)	0.142*** (0.000)	0.122*** (0.000)	-0.025 (0.277)	0.042* (0.064)	
[15] <i>MTB</i>	-0.011 (0.635)	0.007 (0.758)	0.002 (0.923)	-0.055** (0.016)	-0.095*** (0.000)	-0.628*** (0.000)	0.320*** (0.000)	
	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]
[8] <i>ELECTION</i>	1.000							
[9] <i>FIRM SIZE</i>	0.139*** (0.000)	1.000						
[10] <i>BODSIZE</i>	0.155*** (0.000)	-0.061*** (0.007)	1.000					
[11] <i>FIRMAGE</i>	0.079*** (0.001)	-0.140*** (0.000)	0.585*** (0.000)	1.000				
[12] <i>DPR</i>	0.113*** (0.000)	-0.017 (0.446)	0.134*** (0.000)	0.053** (0.020)	1.000			
[13] <i>BIG4</i>	0.256*** (0.000)	-0.043* (0.062)	0.326*** (0.000)	0.352*** (0.000)	0.047** (0.038)	1.000		
[14] <i>RMC</i>	0.120*** (0.000)	-0.009 (0.704)	0.142*** (0.000)	0.230*** (0.000)	0.072*** (0.002)	0.173*** (0.000)	1.000	
[15] <i>MTB</i>	-0.161*** (0.000)	-0.264*** (0.000)	-0.007 (0.755)	0.040* (0.081)	-0.035 (0.126)	-0.042* (0.068)	-0.038* (0.093)	1.000

This table reports the results of the Pearson Correlation test in 1899 observations with variable financial ratios and price-earnings ratios. The test was performed after winsorizing data by 1 and 99 per cent. p-values in parentheses * p < 0.1, ** p < 0.05, *** p < 0.01

The Specification of Empirical Model

This study tested the hypothesis using fixed effect regression with a standard error estimate. The empirical model proposed in this study is as follows:

Model 1:

$$PER_{i,t} = \beta_1 LIQUIDITY_{i,t} + \beta_2 ROA_{i,t} + \beta_3 ROE_{i,t} + \beta_4 NPM_{i,t} + \beta_5 DER_{i,t} + \beta_6 ELECTION_{i,t} + \beta_7 LIQUIDITY * ELECTION_{i,t} + \beta_8 ROA * ELECTION_{i,t} + \beta_9 ROE * ELECTION_{i,t} + \beta_{10} NPM * ELECTION_{i,t} + \beta_{11} DER * ELECTION_{i,t} + \beta_{12} BODSIZE_{i,t} + \beta_{13} TENURE_{i,t} + \beta_{14} FIRMSIZE_{i,t} + \beta_{15} FIRMAGE_{i,t} + \beta_{16} DPR_{i,t} + \varepsilon$$

PER is a dependent variable, LIQUIDITY, ROA, ROE, NPM, and DER are independent variables, ELECTION is a moderation variable, while the rest are control variables. Winsorizing analysis was performed to prevent the occurrence of outliers or outliers of data from the observations obtained. Winsorizing test performed in the 1% to 99% range on STATA 17.0 features.

RESULTS AND DISCUSSION

Descriptive statistics

Table 3 shows the results of each variable where the average dependent variable, namely the PE ratio, is 41.08, while the independent variables include LIQUIDITY (0.526), ROA (0.255), ROE (1,591), NPM (2,192), and DER (53,448). While the minimum value is the lowest, the variables LIQUIDITY, ROA, BIG4, and RMC are obtained. Furthermore, the variables PER, TENURE, and ELECTION are obtained for the highest maximum value.

Pearson Correlation

Table 4 shows the results of Pearson correlation testing. Based on these results, it can be concluded that the relationship between independent variables (LIQUIDITY, ROA, ROE, NPM, & DER) and dependent (PER) is as follows. First, the relationship between LIQUIDITY, ROE, and NPM to PER has a significant negative relationship, where LIQUIDITY is significant at a rate of 5%, ROE is significant at a level of 1%, and NPM is significant at a rate of 1%. Second, the relationship between ROA and DER to PER has a significant positive relationship, where ROA is significant at 1% and DER is significant at 10%. In addition, the results of this Pearson correlation explain the relationship between one variable and another.

Test of Main Difference

Table 5 shows the independent t-test results between companies during the presidential election and not. The test results show that PER, ROA, ROE, NPM, DER, and ELECTION differ between conditions during the presidential election and when there is no presidential election, as evidenced by the significance level in the t-statistics.

Table 5. Test of Main Difference

	ELECTION		t-statistics
	No	Yes	
PER	36.700	45.931	2.206**
ROA	25.224	25.577	3.664***
ROE	0.000	0.002	1.490**
NPM	2.660e+12	3.241e+12	1.331***
DER	53.019	53.924	0.967***
ELECTION	13.209	14.511	1.080**

This table reports the results of independent t-tests on the observations of the year of the 1899 enterprise. The test was performed after winsorizing data by 1 per cent and 99 per cent * p < 0.1, ** p < 0.05, *** p < 0.01.

Test of Multicollinearity

Table 6 presents the multicollinearity test for all variables used in this study. We provide the Variation of Inflation Factor (VIF) mean of 4.51. Based on this result, our models indicate a moderate correlation between a given explanatory variable and other explanatory variables in the model. However, this needs to be more severe to require attention. In addition, our VIF is less than 10 (<10), which indicates that our model is free from multicollinearity issues.

Table 6. Multicollinearity Test

Variable	VIF	1/VIF
PER	7.65	0.130719
ROA	6.67	0.149925
ROE	6.23	0.160514
NPM	5.43	0.184162
DER	3.45	0.289855
ELECTION	2.67	0.374532
TENURE	3.54	0.282486
FIRM SIZE	4.43	0.225734
BODSIZE	3.43	0.291545
FIRMAGE	2.45	0.408163
DPR	6.43	0.155521
BIG4	2.12	0.471698
RMC	2.98	0.335570
MTB	5.67	0.176367
VIF Mean	4.51	

Interaction Analysis: Election on Corporate Financial Ratio and PE Ratio

Table 7 below shows the test results of moderation regression analysis between LIQUIDITY, ROA, ROE, NPM, & DER to PE Ratio. The initial test results are shown in model 1, where the effect of Liquidity on the PE value of the company has a significant negative effect with a significance level of 5%, ROA has a significant negative effect with a significance level of 5%, ROE has a significant positive effect with a significance level of 1%, NPM has a significant effect with a significance level of 1%, and DER has a significant effect with a

significance level of 1%. This shows that there are different influences between one variable and another.

In the 2nd model, (2), (3), (4), (5), and (6) a moderation test of the ELECTION against each variable. Under condition (2), test the effect of LIQUIDITY*ELECTION moderation on pe ratio values. The test results showed a significant favourable influence on the value of the PE ratio with a significance level of 5%. This proves that in unstable conditions (the existence of presidential election contestation), a company's liquidity ratio can increase its PE ratio's value. This result explains that the instability of the business climate

Table 7. Moderating Regression Result

	(1) PER	(2) PER	(3) PER	(4) PER	(5) PER	(6) PER
<i>LIQUIDITY</i>	-10.333** (-2.41)	-10.289** (-2.40)	-35.643*** (-12.71)	-10.292** (-2.40)	-10.305** (-2.41)	-10.168** (-2.38)
<i>ROA</i>	-18.963** (-2.08)	-0.000*** (-3.87)	0.000*** (4.25)	0.000*** (4.09)	0.000*** (4.09)	0.000*** (3.99)
<i>ROE</i>	0.000*** (4.09)	0.000*** (4.09)	0.000*** (4.09)	-0.000*** (-3.87)	0.000*** (4.25)	0.000*** (4.09)
<i>NPM</i>	-0.000*** (-3.81)	0.010** (2.22)	-0.000*** (2.95)	0.000** (2.94)	-0.000*** (2.97)	-0.000*** (3.01)
<i>DER</i>	0.649*** (2.95)	0.082*** (3.84)	-3.568*** (-7.78)	-3.566*** (-7.78)	-3.568*** (-7.85)	-4.500*** (-6.31)
<i>LIQUIDITY* ELECTION</i>		17.588** (2.06)				
<i>ROA*ELECTION</i>			0.489** (19.64)			
<i>ROE*ELECTION</i>				0.000** (2.42)		
<i>NPM*ELECTION</i>					-0.000*** (-3.80)	
<i>DER*ELECTION</i>						0.212** (2.48)
<i>TENURE</i>	0.208** (2.34)	0.208** (2.34)	0.074*** (2.85)	0.210** (2.41)	0.803*** (2.62)	0.210** (2.35)
<i>ELECTION</i>	-3.573*** (-7.79)	-3.572*** (-7.79)	-1.076*** (-4.86)	-3.568*** (-7.85)	-4.500*** (-6.31)	-3.568*** (-7.78)
<i>FIRM SIZE</i>	-3.390** (-2.23)	-3.381** (-2.22)	-1.107 (-1.36)	-3.414** (-2.22)	-3.288** (-2.19)	-3.420** (-2.24)
<i>BODSIZE</i>	-2.107 (-0.22)	-2.152 (-0.22)	-6.428 (-1.40)	-1.814 (-0.19)	-2.507 (-0.26)	-2.115 (-0.22)
<i>FIRMAGE</i>	-5.075** (-2.42)	-5.092** (-2.43)	-1.242 (-1.12)	-5.122** (-2.44)	-4.808** (-2.30)	-5.105** (-2.44)
<i>DPR</i>	-24.708*** (-4.68)	-24.742*** (-4.69)	-6.846*** (-3.48)	-24.717*** (-4.69)	-24.839*** (-4.72)	-24.686*** (-4.68)
<i>BIG4</i>	-0.191 (-0.04)	-0.143 (-0.03)	0.000 ()	-0.177 (-0.04)	-0.346 (-0.07)	-0.612 (-0.13)
<i>RMC</i>	4.947 (0.74)	4.998 (0.75)	1.096 (0.28)	4.877 (0.73)	4.694 (0.71)	-0.346 (-0.07)
<i>MTB</i>	0.131 (0.05)	0.127 (0.05)	2.235 (0.51)	0.196 (0.07)	-1.217 (-0.42)	4.694 (0.71)
<i>INDUSTRY Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>YEAR Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>CONSTANT</i>	227.836*** (4.72)	228.382*** (4.74)	226.456*** (4.67)	228.403*** (4.73)	229.887*** (4.73)	220.185*** (4.57)
<i>r²</i>	0.102	0.102	0.102	0.102	0.102	0.106
<i>r²_a</i>	0.088	0.089	0.089	0.088	0.089	0.093
<i>N</i>	1899	1899	1899	1899	1899	1899

This table reports the result of OLS regression for hypothesis testing of this study. This test was done after winsorizing the data for 1 per cent and 99 per cent. t statistics in parentheses * p < 0.1, ** p < 0.05, *** p < 0.01

during the presidential election does not have a dominant influence on the company's performance to meet its short-term obligations, which is reflected in the increasingly positive PE value in these conditions.

Model (3) is a moderation test performed on the variable of ROA*ELECTION to the PE ratio value. The results of the moderation test showed a positive and significant influence on the pe ratio value. This proves that in uncertain conditions (the presence of presidential election contestation), the company has good or stable financial performance; this is indicated by a positive influence on the significance level of 1%. Based on these results, it is explained that in conditions of political uncertainty, the company can still manage its investment assets effectively, which is reflected in the value of the PE ratio.

Model (4) is a ROE*ELECTION moderation test model against the PE ratio value, which shows a positive and significant influence on the PE ratio value at a significance level of 5%. These results indicate that the company's ability to manage shareholders' equity in generating profits against an increase in the value of the PE ratio is not affected by conditions of political uncertainty as a result of contesting the presidential election. It is also underlying that the company is quite effective in managing its operating activities in making a profit and shows an increase in the value of the PE ratio.

In another situation, we estimated the moderating variable like on the model (5) are displayed the results of the NPM*ELECTION moderation regression test to the PE ratio value. The test results above show a negative and significant influence on the PE ratio value at a significance level of 1%. These results show that the net profit ratio in companies experiencing political uncertainty caused by the presidential election will tend to lower the value of the PE ratio. This indicates that in unstable conditions, companies with a high net profit ratio will decrease the performance of stocks in the stock exchange market. This analogy of results explains that the behaviour of investors under abnormal conditions will seek to secure their assets and wait for the moment when market conditions and the economic climate stabilize, so even if the company produces a high NPM value, it will not directly improve the performance of its shares reflected in the fair value of the stock market.

Finally, model (6) is a moderation test for DER*ELECTION, which shows a positive and significant influence on the PE ratio value with a significance level of 5%. These results show that the company's effectiveness in managing its liabilities to shareholder assets will impact the value of the PE ratio in the future. This proves that in uncertain conditions (the existence of presidential election

contestation), companies that successfully manage their obligations to the PE ratio value indicate a positive signal to the upward trend in stock performance in the future. Investors will respond to the opportunity even in the company's unstable business operational environment.

ROBUSTNESS TEST

The liquidity, ROA, ROE, NPM, and DER variables may be endogenous, leading to an endogenous relationship. It is feared that the endogenous relationship in these variables will be correlated with one another where the treatment variables (LIQUIDITY, ROA, ROE, NPM, and DER) have a relationship with the observed variables (observable). Thus, an analysis of resilience is needed to overcome the relationship between endogenous variables that are endogenous between free variables and other variables carried out in this observation. Resistance analysis was performed using the CEM (Coarsened Exact Matching) method (Blackwell et al., 2009). The CEM analysis is an additional sensitivity analysis composed of five of the same strata and four covariates modelled in the CEM analysis.

Table 8 is the summary result of the CEM matching for the LIQUIDITY variable, where based on the total observers obtained liquidity values of 1144 out of a total of 1157 observations that had LIQUIDITY above the average value matched with LIQUIDITY which was below average values with a total of 713 out of a total of 742 observations so that the final number of observations was obtained as many as 1857 observations.

Table 8. CEM-Matching Summary

	LIQUIDITY=0	LIQUIDITY=1
<i>All</i>	742	1157
<i>Matched</i>	713	1144
<i>Unmatched</i>	29	13

Table 9 shows the results of the analysis of CEM sensitivity for LIQUIDITY, ROA, ROE, NPM, and DER to the pe ratio value. The test results showed that in model 1 regression, the variables LIQUIDITY, ROA, ROE, NPM, and DER were significantly positively related at significance levels of 5% and 10%. As for the CEM moderation liquidity*ELECTION, ROA*ELECTION, ROE*ELECTION, NPM*ELECTION, and DER*ELECTION showed a significant positive relationship for LIQUIDITY*ELECTION at a significance level of 1%, while for ROA*ELECTION, ROE*ELECTION, NPM*ELECTION, and DER*ELECTION showed a significant negative relationship to the PE ratio value at the significance level of 1% and 5%.

Table 9. Coarsened Exact Matching

	(1) PER	(2) PER	(3) PER	(4) PER	(5) PER	(6) PER
<i>LIQUIDITY</i>	0.080** (2.12)	-0.001** (-2.68)	0.074*** (2.85)	0.210** (2.41)	0.803*** (2.62)	0.210** (2.35)
<i>ROA</i>	-0.281*** (-2.62)	-0.307*** (-2.64)	-1.076*** (-4.86)	-3.568*** (-7.85)	-4.500*** (-6.31)	-3.568*** (-7.78)
<i>ROE</i>	-1.109*** (-4.36)	-5.122** (-2.44)	-1.107 (-1.36)	-3.414** (-2.22)	-3.288** (-2.19)	-3.420** (-2.24)
<i>NPM</i>	-0.000*** (-3.90)	-0.000*** (-3.87)	-0.000*** (-3.81)	-0.000*** (-3.80)	0.801*** (4.36)	0.845*** (4.50)
<i>DER</i>	0.000** (2.31)	0.000** (2.32)	-1.242 (-1.12)	-5.122** (-2.44)	-4.808** (-2.30)	-5.105** (-2.44)
<i>LIQUIDITY*ELECTION</i>		0.000*** (4.09)				
<i>ROA*ELECTION</i>			-3.572*** (-7.79)			
<i>ROE*ELECTION</i>				-5.122** (-2.44)		
<i>NPM*ELECTION</i>					-24.839*** (-4.72)	
<i>DER*ELECTION</i>						-24.686*** (-4.68)
<i>TENURE</i>	0.009** (2.13)	0.010** (2.22)	0.074*** (2.85)	0.210** (2.41)	0.803*** (2.62)	0.210** (2.35)
<i>ELECTION</i>	0.004 (0.41)	0.005 (0.50)	-1.076*** (-4.86)	-3.568*** (-7.85)	-4.500*** (-6.31)	-3.568*** (-7.78)
<i>FIRM SIZE</i>	0.085*** (3.88)	0.082*** (3.84)	-1.107 (-1.36)	-3.414** (-2.22)	-3.288** (-2.19)	-3.420** (-2.24)
<i>BODSIZE</i>	-0.153*** (-3.71)	-0.154*** (-3.67)	-6.428 (-1.40)	-1.814 (-0.19)	-2.507 (-0.26)	-2.115 (-0.22)
<i>FIRMAGE</i>	0.801*** (4.36)	0.845*** (4.50)	-1.242 (-1.12)	-5.122** (-2.44)	-4.808** (-2.30)	-5.105** (-2.44)
<i>DPR</i>	0.486*** (9.27)	0.467*** (8.83)	-6.846*** (-3.48)	-24.717*** (-4.69)	-24.839*** (-4.72)	-24.686*** (-4.68)
<i>BIG4</i>	-0.037 (-0.35)	-0.053 (-0.51)	0.085*** (3.88)	0.082*** (3.84)	-1.107 (-1.36)	-3.414** (-2.22)
<i>RMC</i>	-0.281*** (-2.62)	-0.307*** (-2.64)	-0.153*** (-3.71)	-0.154** (-3.67)	-6.428 (-1.40)	-1.814 (-0.19)
<i>MTB</i>	-0.000*** (-3.81)	-0.000*** (-3.80)	0.801*** (4.36)	0.845*** (4.50)	-1.242 (-1.12)	-5.122** (-2.44)
<i>INDUSTRY FE</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>YEAR FE</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>CONSTANT</i>	-13.074*** (-11.12)	-12.733*** (-10.77)	229.363*** (4.77)	-12.733*** (-10.77)	228.100*** (4.73)	228.403*** (4.73)
<i>r²_p</i>	0.187	0.186	0.088	0.089	0.093	0.186
<i>N</i>	1857	1857	1857	1857	1857	1857

This table reports the results of the Coarsened Exact Matching regression test using 1857 company year observations. The CEM test uses five strata as the basis for endurance testing. The reduction in the number of observations is due to some requirements in the CEM for observations to be classified as matching the CEM. The test was performed after winsorizing data by 1 per cent and 99 per cent. t statistics in parentheses. * p < 0.1, ** p < 0.05, *** p < 0.01

DISCUSSION

This study examines the effect of financial performance on the price-earnings ratio during a period of political uncertainty, namely a presidential election. We found that financial performance affects stock prices. Specifically, a company's financial performance can significantly impact its price-earnings ratio (P/E ratio) [34, 38, 39]. The P/E ratio is calculated by dividing a company's stock price by its earnings per share (EPS), and it is commonly used to measure how much investors are

willing to pay for each dollar of a company's earnings. Generally, companies with strong financial performance, such as high revenue growth [34, 39], increasing profits [23, 28], and strong balance sheets [12, 19], are more likely to have higher P/E ratios. This is because investors are willing to pay a premium for companies that are expected to have strong earnings growth in the future. Conversely, companies with weak financial performance, such as declining revenue [8, 9, 12], decreasing profits [9, 13, 18], and high debt levels [6, 8, 13], are more likely to have lower P/E ratios. This is because

investors are less willing to pay a premium for companies that are not expected to have strong earnings growth in the future [34, 38, 43]. It is important to note that the relationship between financial performance and the P/E ratio can be more complex and consistent [34, 38, 52]. Market conditions, industry trends, and company-specific risks can influence the P/E ratio. Additionally, financial performance can impact the P/E ratio in both the short and long term, depending on investors' expectations.

The impact of financial performance on a company's price-earnings ratio (P/E ratio) can be influenced by various factors, including exogenous factors such as presidential elections [1, 2, 34, 53]. During a presidential election, the signals and policies put forth by candidates can influence investors' expectations about future economic conditions and the performance of companies [2, 4, 7]. For example, suppose a candidate proposes policies favourable to a specific industry or sector. In that case, investors may anticipate increased demand and profitability for companies in that industry, leading to higher P/E ratios [3, 7, 12, 37]. On the other hand, if a candidate's policies are perceived as unfavourable to the economy or specific industries, investors may anticipate lower profitability [12, 23, 45] and weaker financial performance for companies in those industries [34, 38, 32], leading to lower P/E ratios [31, 33, 34]. Furthermore, the impact of financial performance on the P/E ratio can also be influenced by investor sentiment and market conditions during a presidential election period [12, 23, 48]. Suppose investors are optimistic about the prospects of a particular industry or the economy as a whole. In that case, they may be willing to pay a higher premium for companies with strong financial performance [12, 34, 52], leading to higher P/E ratios. Conversely, suppose investors are pessimistic or uncertain about the prospects of the economy or specific industries. In that case, they may be less willing to pay a premium for companies with weak financial performance, leading to lower P/E ratios [10, 16, 23].

The joint effect of financial performance and economic uncertainty on the price-earnings ratio (P/E ratio) can be complex and dynamic [9, 17, 23]. Generally, companies with strong financial performance are more likely to have higher P/E ratios [6, 8, 16], while companies with weak financial performance are more likely to have lower P/E ratios [12, 45, 28]. However, the impact of economic uncertainty on the P/E ratio can depend on several factors, including the perceived risk of investing in the market, the expected future performance of the company, and investor sentiment [12, 15, 19]. When economic uncertainty is high, investors may be more

risk-averse and less willing to pay a company premium, regardless of their financial performance [23, 26, 33]. In this case, companies with strong financial performance may still have higher P/E ratios than companies with weak financial performance. However, the difference between the two may be smaller than in a more stable economic environment [6, 8, 12, 16]. On the other hand, if economic uncertainty is low, investors may be more optimistic about the prospects of the economy and specific industries, leading to higher P/E ratios for companies with strong financial performance [12, 14, 34, 39]. However, even in a stable economic environment, specific industry or company-level risks may impact the P/E ratio [23, 29, 32], such as changes in market demand, competitive pressures, or regulatory changes. Additionally, the impact of economic uncertainty on the P/E ratio can depend on investor sentiment and market conditions [23, 27, 33, 38]. Suppose investors are generally optimistic about the prospects of the market. In that case, they may be more willing to pay a premium for companies with strong financial performance [22, 25, 33, 46], even in the face of economic uncertainty. Conversely, suppose investors are generally pessimistic or uncertain about the prospects of the market. In that case, they may be less willing to pay a premium for companies, regardless of their financial performance [23, 29, 33, 46].

The impact of presidential elections and corporate economic growth on the price-earnings ratio (P/E ratio) can be significant and interdependent [9, 23, 33]. During a presidential election, the policies and signals put forth by candidates can influence investors' expectations about [7, 13, 34] future economic conditions and the performance of companies. If a candidate proposes policies favourable to the economy or specific industries, investors may anticipate increased demand and profitability for companies in those industries, leading to higher P/E ratios [23, 36, 43]. Conversely, if a candidate's policies are unfavourable, investors may anticipate lower profitability and weaker financial performance for companies in those industries, leading to lower P/E ratios [8, 13, 37]. Corporate economic growth, on the other hand, can also impact the P/E ratio of a company. If a company is experiencing strong economic growth, it is more likely to have strong financial performance and, therefore, a higher P/E ratio [35, 43, 50]. Companies with weak economic growth are likelier to have weaker financial performance, which may result in a lower P/E ratio [12, 34, 48]. The interdependence between presidential elections and corporate economic growth can further impact the P/E ratio [34, 39, 42]. For example, suppose a candidate's policies are perceived as unfavourable to a specific industry or

sector [23, 43, 50]. In that case, companies in that industry may experience weaker economic growth, leading to lower financial performance and a lower P/E ratio. On the other hand, if a candidate's policies are perceived as favourable to a specific industry or sector, companies in that industry may experience more vigorous economic growth, leading to higher financial performance and a higher P/E ratio [10, 17, 47]. Moreover, investor sentiment and market conditions during a presidential election can also influence corporate economic growth's impact on the P/E ratio [33, 46, 52]. Suppose investors are optimistic about the prospects of a particular industry or the economy as a whole. In that case, they may be willing to pay a higher premium for companies with strong economic growth and financial performance, leading to higher P/E ratios [6, 12, 37]. Conversely, suppose investors are pessimistic or uncertain about the prospects of the economy or specific industries [33, 38, 47]. In that case, they may be less willing to pay a premium for companies with weak economic growth and financial performance [43, 50, 55], leading to lower P/E ratios. In summary, the impact of presidential elections and corporate economic growth on the P/E ratio can be interdependent and influenced by various factors, including investor sentiment and market conditions [1, 4, 48, 51]. Companies with strong economic growth and financial performance are more likely to have higher P/E ratios. However, the impact of economic growth can be influenced by presidential elections, policies, and investor sentiment [3, 6, 23, 43].

CONCLUSION

This study aims to investigate the impacts of LIQUIDITY, ROA, ROE, NPM, and DER on the value of pe ratio in conditions of political uncertainty in all companies listed on the Indonesia Stock Exchange from 2011 to 2019. The test results show that in LIQUIDITY, in unstable conditions (the existence of presidential election contestation), a company's liquidity ratio could increase the value of its PE ratio. This result explains that the instability of the business climate during the presidential election does not have a dominant influence on the company's performance to meet its short-term obligations, which is reflected in the increasingly positive PE value in these conditions. Next, ROA in uncertain conditions (the contest of the presidential election), the company has good or stable financial performance; the increase in the value of the PE ratio indicates this. Based on these results, it is explained that in conditions of political uncertainty, the company can still manage its investment assets effectively, which is reflected in the value of the PE ratio.

Examining financial ratios, such as ROE, in conditions of political uncertainty can shed light on a company's ability to manage shareholder equity and generate profits. In the case of a contested presidential election, it is noteworthy that the company's ability to manage its operations and generate profits is not affected by the uncertain political climate. This suggests that the company is effective in managing its operations and is showing an increase in the value of the PE ratio. Similarly, the DER ratio can provide evidence that a company's ability to manage its liabilities to shareholder assets can impact the value of the PE ratio in the future. Therefore, in uncertain conditions, companies that successfully manage their obligations to the PE ratio value are more likely to see an upward trend in stock performance, signalling a positive opportunity for investors even in an unstable business operational environment. Analyzing financial ratios in conditions of political uncertainty can provide valuable insights into a company's performance and help investors make informed decisions.

Interestingly, the financial ratio for NPM provides evidence of an inverse comparison with the four previous financial ratios, which explains that in unstable conditions, companies with high net profit ratios will reduce stock performance in the stock exchange market. This analogy of results explains that the behaviour of investors under abnormal conditions will seek to secure their assets and wait for the moment when market conditions and the economic climate stabilize, so even if the company produces a high NPM value, it will not directly improve the performance of its shares reflected in the fair value of the stock market. Thus, political uncertainty due to the presidential election has no small impact on the company's financial and stock market performance; this shows the behaviour of investors in responding to capital market uncertainty.

This study provides significant contributions, both theoretical and practical. For investors, the study provides valuable insights into analyzing the upward trend in stock prices by considering the five financial ratios mentioned and other important financial ratios. Theoretical contributions include advancing the understanding of how financial performance affects stock prices through the study of corporate financial ratios and price-earnings (PE) performance. This type of research can provide insights into the factors that influence stock prices and how investors value companies. It can identify the key financial ratios that significantly impact stock prices, such as liquidity ratios, return on assets, return on equity, debt-to-equity ratio, and net profit margin. By understanding the relationship between these ratios and stock prices, investors

can make more informed investment decisions and evaluate the financial health of companies.

This research can also contribute to the development of financial theory by providing empirical evidence that either supports or challenges existing financial models. Moreover, it can provide insights into the impact of external factors, such as political uncertainty, on the relationship between financial ratios and stock prices. Overall, this research provides practical and theoretical benefits that can help investors and researchers gain a deeper understanding of the relationship between financial ratios and stock prices, ultimately leading to better investment decisions and financial models.

Although this study offers valuable insights, it is essential to acknowledge its limitations. Firstly, the research only focuses on financial ratios and their impact on the performance of stocks identified through the P/E ratio. Future studies could explore additional variables beyond financial ratios, such as management or company characteristics, to gain a more comprehensive understanding of stock performance. Secondly, to test the influence of political uncertainty, future research should consider conducting quasi-experimental studies using different treatments to ensure the validity of conclusions. Finally, future research could incorporate macroeconomic and microeconomic variables, including fiscal and monetary policies, to capture opportunities for political uncertainty. By addressing these limitations, future studies can provide a more robust analysis of stock performance under conditions of political uncertainty.

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