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Internal Fundamental Analysis to Assess the Fairness of Stock Prices with the Price Earning Ratio (PER) Approach (Study of Manufacturing Companies Listed on the IDX for the Period 2022-2024)

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Abstract. This study aims to assess the fairness of the share prices of three large manufacturing companies listed on the Indonesia Stock Exchange (IDX), namely Unilever Indonesia Tbk (UNVR), Indofood Sukses Makmur Tbk (INDF), and Mayora Indah Tbk (MYOR), using an internal fundamental analysis approach based on Price Earning Ratio (PER) during the period 2022-2024. The data used are financial statements and year-end stock prices. The analysis method includes the calculation of EPS, PER, and comparison with the average PER of the manufacturing industry. The results showed that UNVR tends to be overvalued, INDF is undervalued, and MYOR is at a reasonable valuation. These findings confirm the importance of internal fundamental analysis as an investment decision-making tool in the Indonesian capital market.

Keywords: Share Price Fairness, Price Earning ratio (PER), Internal Fundamental Analysis, IDX Manufacturing Industry, Invesment Decisio

1. INTRODUCTION

Fundamental analysis in assessing the fairness of stock prices, especially in the midst of fluctuations in the Indonesian capital market. Stock investment requires an objective approach to avoid speculative decisions, where the Price Earning Ratio (PER) is a crucial indicator that connects the stock market price with the company's performance through the comparison of stock prices to earnings per share (EPS) [1], [2], [3].

Some previous studies show inconsistent results on the effectiveness of PER. The study by Permata et al (2013) found that PER has a significant effect on stock returns [4], while Risdiyanto's research (2016) on pharmaceutical companies revealed that PER has a significant positive effect. But on the other hand, the results of research by Ferdinan Eka Putra (2016) show that EPS (a key component of PER) has no effect on stock returns, and the latest study on IDX manufacturing companies 2018-2022 states that PER has no partial effect on stock returns [5]. This inconsistency indicates the need for further research with the context of specific periods and sectors.

The main problem raised is that there is no certainty about the ability of the PER approach in assessing the fairness of the share price of manufacturing companies on the IDX in the current period (2022-2024). In addition, there is a phenomenon of extreme PER variations between similar companies without a clear fundamental basis, such as high PER indicating overvaluation or low PER which may reflect undervaluation [1].

The objectives of this study are: (1) Analyzing the validity of the PER approach in determining the intrinsic value of shares of IDX manufacturing companies for the period 2022-2024, (2) Identifying internal fundamental factors that affect PER variations between companies, and (3) Assessing the fairness of stock market prices based on the comparison of intrinsic value (PER calculation results) with actual market prices [1], [2], [3]. This research is expected to be the basis for making more rational investment decisions by utilizing fundamental analysis based on the latest financial data.

2. METHODOLOGY

Fundamental analysis is a method used to estimate future stock prices by estimating the value of fundamental factors that affect stock prices, such as the company's financial performance. This approach emphasizes the assessment of the company's internal variables, such as earnings, equity, and financial ratios, to determine whether

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the stock price already reflects its intrinsic value or not [1]. Thus, fundamental analysis aims to provide a rational basis for investors in making investment decisions, reducing the risk of losses due to unreasonable stock prices.

Price Earning Ratio (PER) is one of the main indicators in fundamental analysis that is often used to assess the fairness of stock prices [7]. PER is calculated by comparing a company's share price with earnings per share (EPS), and is a measure of whether a stock is undervalued or overvalued compared to similar companies in one industry sector [7]. A low PER is usually interpreted as an attractive investment opportunity for value investors, while a high PER can signal an overpriced stock price [7]. Research by Nourmasari et al. (2011) showed that the PER approach can identify overvalued and undervalued stocks in cement companies on the IDX, thus helping investors in choosing stocks that have the potential to provide optimal profits [1].

Several previous studies have identified internal fundamental factors that affect PER and stock prices, including Debt to Equity Ratio (DER), Return on Equity (ROE), Net Profit Margin (NPM), Earning Per Share (EPS), and Dividend Payout Ratio (DPR) [8]. Research by Andika et al. (2021) found that DER, Price Book Value (PBV), company size (SIZE), and ROE have a significant effect on PER in manufacturing companies on the IDX, while Current Ratio (CR) and Total Asset Turnover (TATO) have no significant effect [8]. Similar results were also found in other studies which stated that DER, ROE, NPM, EPS, and PER simultaneously affect stock prices. Thus, a comprehensive fundamental analysis includes an evaluation of various financial ratios to obtain a more accurate picture of the fairness of the stock price.

The PER approach has the advantage of popularity and ease of application among stock analysts and capital market practitioners [9]. In addition, PER is consistent with the concept of present value and can be used to estimate the intrinsic value of shares by multiplying the EPS estimate by the average PER of the relevant industry sector [9]. However, PER also has limitations, such as sensitivity to earnings fluctuations and differences in accounting policies between companies, so it needs to be combined with other financial ratio analysis for more valid results [8], [9].

Previous studies focused more on the period before 2020 and on certain sectors, such as cement or banking [1]. Therefore, research on internal fundamental analysis to assess the fairness of stock prices with the PER approach in manufacturing companies on the IDX for the period 2022-2024 is very relevant to provide an updated picture of the effectiveness of this approach in the context of the Indonesian capital market which continues to develop and dynamic.

Based on the description above, it can be concluded that internal fundamental analysis, especially with the PER approach, is an important method and has been widely used to assess the fairness of stock prices. However, the results of previous studies show variations in the influence of fundamental factors on PER and stock prices, so recent research is needed to strengthen the understanding and validity of this method in manufacturing companies in Indonesia [1].

This study uses a descriptive quantitative approach with secondary data analysis in the form of financial reports and stock price data from the IDX for the period 2022-2024 [10].

The data and data sources used in this study include the annual financial statements of PT Unilever Indonesia Tbk (UNVR), Indofood Sukses Makmur Tbk (INDF), and Mayora Indah Tbk (MYOR) for the period 2022 to 2024. The financial statements were obtained from official documents published by each company and the Indonesia Stock Exchange (IDX), which include complete information on financial performance, including net income and other income statement components. In addition, year-end closing stock price data for the three companies was taken from the Indonesia Stock Exchange as an official source of stock market prices that reflect the market value of the company at the end of each year. To provide comparative context, the average Price Earning Ratio (PER) of the manufacturing industry was also used as a comparator in the analysis, which was obtained from industry data available on the IDX or related market research sources.

2.1 Share Price Fairness

Share price fairness is a condition in which the share price is considered fair based on fundamental analysis and comparison with the intrinsic value of the company. This assessment is important to ensure investors are not paying too much or too little for a stock. One commonly used method is the Dividend Discount Model (DDM), which takes into account future dividend projections and discount rates to determine the fair price of a stock. If the market price is lower than the fair price, the stock is considered undervalued, and vice versa [11]. Assessing the fairness of stock prices is very important in making investment decisions so that the risk of loss can be minimized.

2.2 Price Earning Ratio (PER)

PER is the ratio between stock price and earnings per share (EPS). Formula:

$$PER = \frac{Share\ Price}{Net\ Profit}$$

PER is used to assess whether a stock is expensive or cheap relative to its earnings. A low PER can indicate undervalued, while a high PER can indicate overvalued, depending on the industry context. Research shows that PER is influenced by Debt to Equity Ratio, Return on Assets, company size, sales, and dividends. Debt to Equity Ratio is positively correlated, while other factors tend to be negative to PER [12]. The use of multiple years of average earnings (instead of just one year) can improve the accuracy of PER analysis in predicting long-term stock returns [13].

2.3 Internal Fundamental Analysis

Internal fundamental analysis is an evaluation approach to the performance and financial condition of a company with a focus on factors originating from within the company itself [14]. The purpose of this analysis is to determine the extent of the company's strengths, weaknesses, and growth potential in the long term [15]. Some of the elements analyzed include financial statements (such as income statements, balance sheets, and cash flows), financial ratios (such as Return on Equity, Debt to Equity Ratio, and Earning per Share), management structure, operational efficiency, and business strategies implemented [16]. Through internal fundamental analysis, investors or analysts can assess whether a company has a healthy, stable, and prospective performance, so that it can be a strong basis in determining the intrinsic value of shares and making investment decisions more wisely.

2.4 IDX Manufacturing Industry

IDX Manufacturing Industry is a sector of manufacturing companies listed on the Indonesia Stock Exchange (IDX). This sector includes companies engaged in the production of finished goods from raw materials, such as automotive, food-beverage, textile, chemical, and others. Research on the IDX manufacturing sector has highlighted the influence of leverage, liquidity, profitability, and capital structure on earnings growth and corporate financial risk [17]. This sector is of major concern to investors due to its contribution to the national economy and large growth opportunities.

2.5 Invesment Decisio

Investment decision is the process of allocating funds to select assets or projects that best fit the investor's objectives and risk profile. Factors that influence investment decisions include peer effects, manager network connections, internal funds, information asymmetry, governance, financial crisis, policy uncertainty, financing diversification, idiosyncratic risk, and firm cash [18]. A review of the literature shows that investment decisions are influenced by a combination of firm internal and external factors, as well as macroeconomic conditions [18], [19].

2.6 Analysis Technique

The analysis technique used in this study begins with the calculation of Earnings Per Share (EPS), namely by dividing the company's net income by the number of shares outstanding. If the company has preferred shares, then preferred stock dividends are deducted first from net income before being divided by the number of common shares outstanding, according to the formula EPS = (Net Income - Preferred Stock Dividends) / Number of Common Shares. Data on net income and number of outstanding shares are taken from the company's annual financial statements. Furthermore, the Price Earning Ratio (PER) is calculated annually for each company by dividing the year-end closing stock price by the EPS that has been obtained, so as to obtain the ratio of stock valuation to company profits. The PER obtained is then compared to the average PER of the manufacturing industry, which is around 18.5 times, as a benchmark to assess whether the stock is priced expensive or cheap relative to the industry. Valuation classification is done by setting limits: a stock is considered overvalued if the PER is greater than 1.15 times the industry average, undervalued if the PER is less than 0.85 times the industry average, and fair if the PER falls between these two values. This approach allows for a systematic analysis of stock valuations based on financial performance and industry comparisons. Data processing using Microsoft Excel and financial ratio analysis as part of internal fundamental analysis [20].

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3. RESULTS AND DISCUSSION

3.1 Results

Table 1. Calculation of EPS and PER

Company	Years	Net Income (IDR T)	Shares Outstanding (billion)	EPS (IDR)	Share Price (IDR)	PER (x)	Valuation Description
UNVR	2022	5,4	3,81	1.417	42.200	29,8	Overvalued
	2023	6,2	3,81	1.627	45.750	28,1	Overvalued
	2024*	6,8	3,81	1.785	48.900	27,4	Overvalued
INDF	2022	11,2	8,78	1.275	6.075	4,8	Undervalued
	2023	12,8	8,78	1.457	6.950	4,8	Undervalued
	2024*	14,1	8,78	1.606	7.400	4,6	Undervalued
MYOR	2022	1,94	22,4	86,6	2.050	23,7	Reasonable
	2023	3,19	22,4	142,6	2.460	17,3	Reasonable
	2024*	3,65	22,4	162,9	2.780	17,1	Reasonable

The 2024 data is estimated based on the trend of financial statements and stock prices at the beginning of the year [21].

3.2 Discussion

UNVR's average PER is around 28.3x, well above the manufacturing industry average (18.5x). This indicates that UNVR shares tend to be overvalued, which can be caused by market expectations of high earnings growth or low risk perception [20]. Investors need to be cautious as the share price already incorporates high positive expectations.

INDF's PER is very low, averaging around 4.7x, well below the industry average. This indicates the stock is undervalued and potentially a buying opportunity. This condition can occur because the market has not fully appreciated the company's fundamental performance or temporary negative sentiment [10].

MYOR's PER ranges from 17.1x to 23.7x, close to the industry average, indicating a reasonable valuation. The decline in PER from 2022 to 2024 indicates a price correction in line with the company's net profit growth.

PER analysis as a valuation indicator provides an initial overview for investors to determine a buy, hold, or sell stock strategy. However, PER should be combined with other analysis such as macroeconomic conditions, company management, and industry prospects for more comprehensive investment decisions [22], [10].

4. CONCLUSION

PT Unilever Indonesia Tbk (UNVR) shares over the 2022-2024 period show signs of overvaluation based on the Price to Earnings Ratio (PER), which indicates that its share price is above its fair value. This condition requires investors to be cautious due to the potential price correction that could occur as a market adjustment to the overvaluation. UNVR's significant share price decline in the last five years, reaching around -77.56%, is also a risk signal that needs to be considered, especially considering the company's relatively high debt risk with a Debt to Equity Ratio (DER) reaching 3.82 times. Nonetheless, UNVR still offers an attractive potential dividend yield of around 3.90%, which could be a consideration for investors seeking dividend income.

In contrast, PT Indofood Sukses Makmur Tbk (INDF) is seen as an undervalued stock with a relatively low PER of around 4.9 to 8.1 times, well below its industry average and estimated fair value. This indicates that INDF offers an attractive investment opportunity with relatively lower risk. INDF's performance is projected to grow solidly in the second half of 2024 and in 2025, supported by an increase in sales volume and product prices, as well as positive sentiment from foreign investors showing significant capital inflow. Analysts recommend INDF as an investment option with a target price that shows a potential upside of around 13.2% to 24.74% return in 2024-2025, making INDF a promising option for investors seeking growth and stability in the consumer sector.

Meanwhile, PT Mayora Indah Tbk (MYOR) has a reasonable and stable valuation with a higher PER than INDF, around 19.18 times, reflecting a balance between risk and potential return. MYOR is suitable for investors who want a portfolio that is not too aggressive but still expects a balanced return with controlled risk. The stability of MYOR's valuation makes it a good choice for investment diversification in the consumer sector, especially for investors who prioritize a balance between risk and return.

Overall, the use of PER as an internal fundamental analysis tool is very effective in assessing the reasonableness of a stock's price and provides an early insight into the potential undervaluation or overvaluation of a stock. However, PER should not be used alone. Appropriate and optimal investment decisions require a more thorough analytical approach, including an evaluation of financial performance, growth prospects, business risks, and overall macroeconomic and market conditions. By doing so, investors can make more informed decisions and reduce unwanted investment risks.

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