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Liquidity, Profitability, and Market Valuation: The Mediating Effect of Dividend Payout Ratio on Price Earning Ratio

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ABSTRACT

Financial ratios are important indicators for investors in assessing firm performance and market valuation. Price Earning Ratio is often used to evaluate the attractiveness of a company's stock, while liquidity, profitability, and dividend policy may influence investors' perceptions. This study aims to obtain empirical evidence regarding the effect of Cash Ratio, Return on Equity, and Dividend Payout Ratio on Price Earning Ratio, both directly and indirectly through Dividend Payout Ratio as a mediating variable. This research uses a quantitative approach with data obtained from companies listed on the Indonesia Stock Exchange. The data were analyzed using the Structural Equation Modeling method. The empirical findings show that both Cash Ratio and Return on Equity are unable to increase Dividend Payout Ratio. Cash Ratio has a positive effect on Price Earning Ratio, while Return on Equity and Dividend Payout Ratio do not affect Price Earning Ratio. Furthermore, Dividend Payout Ratio does not act as a strong mediating variable in the relationship between Cash Ratio and Price Earning Ratio, nor between Return on Equity and Price Earning Ratio.

INTRODUCTION

Manufacturing companies play a strategic role in the Indonesian economy because this sector is a key driver of production activity, employment, investment, and added value creation (Utiarahman, et al., 2025). However, in the 2019-2025 period, manufacturing companies faced quite complex dynamics. At the beginning of 2019, the manufacturing industry still showed positive growth, but this changed when the Covid-19 pandemic put pressure on production activity, market demand, supply chains, and corporate financial performance (Adri, et al., 2023). Entering the recovery period, the manufacturing sector began to show improvement, as reflected in the Bank Indonesia (BI) PMI for the third quarter of 2025, which reached an expansion level of 51.66% (Bank Indonesia, 2025). However, this recovery has not completely eliminated pressure on profitability, liquidity, dividend policy, and market valuation of manufacturing company shares (Shinhan Sekuritas Indonesia, 2025).

In the context of capital markets, a company's financial performance is one of the important pieces of information investors use to assess stock prospects (Chia, et al., 2020). One widely used market valuation indicator is the Price Earnings Ratio (PER) (Lukwardani, et al., 2025; Fitriani, et al., 2026; Rasdayanti & Febriani, 2026). The PER illustrates how much investors are willing to pay for each unit of profit generated by the company (Dolaeva, et al., 2025). A high PER can indicate

investor optimism about the company's future profit growth (Rasdayanti & Febriani, 2026). However, a PER that is too high can also indicate that the stock is expensive if not accompanied by adequate profit growth (Boquifai, et al., 2025). Therefore, the PER is an important ratio in assessing the fairness of stock prices and market expectations for the company.

One factor that can influence PER is dividend policy, as proxied by the Dividend Payout Ratio (DPR) (Angga & Dermawan, 2023; Chandra & Dermawan, 2025). DPR indicates the proportion of net profit distributed to shareholders in the form of dividends (Haq, et al., 2025). From a Signaling Theory perspective, dividend payments can be a positive signal to investors because they indicate a company's ability to generate profits and stable cash flow (Kawakibi, et al., 2026). Consistent dividend distribution can increase investor confidence in the company's prospects, potentially influencing stock prices and PER (Angga & Dermawan, 2023). However, based on Modigliani and Miller's Dividend Irrelevance Theory, in a perfect capital market, dividend policy does not always affect company value because investors can obtain returns from both dividends and capital gains (Kawakibi, et al., 2019). In addition to dividend policy, the Cash Ratio (CR) is also an important variable because it reflects a company's ability to meet short-term obligations with cash and cash equivalents (Fakhfakh, 2025). In manufacturing companies, liquidity plays a significant role because production activities require relatively high working capital, ranging from raw material purchases and labor payments to distribution costs and other operational needs (Silalahi, et al., 2025). Companies with adequate cash are considered to have greater financial flexibility, including in meeting obligations and distributing dividends (Brigham & Houston, 2019). Brigham & Houston (2019) further explained that excessive cash can also be perceived as less efficient if not utilized for productive investments.

Another relevant variable is Return on Equity (ROE) (Angga & Dermawan, 2023; Fitriani, et al., 2026). ROE measures a company's ability to generate net income based on shareholder equity (Kawakibi & Kurniawan, 2025). Furthermore, Kawakibi & Kurniawan (2025) explain that the higher the ROE, the better the company's ability to generate profits for shareholders. From an investor's perspective, ROE is an important indicator because it demonstrates management's effectiveness in managing capital (Nurisnaini, et al., 2024). A high ROE can theoretically increase investor interest in a company's shares and drive an increase in the PER (Fitriani, et al., 2026). Furthermore, high profitability can also increase a company's ability to distribute dividends (Fitriani, et al., 2022).

However, the relationship between CR, ROE, DPR, and PER does not always show consistent results. Several studies have found that liquidity and profitability influence dividend policy and a company's market value (Chia, et al., 2020; Jariah, et al., 2024; Oktaviana, et al., 2024; Boquifai, et al., 2025; Haq, et al., 2025; Ishak & Selamat, 2025; Lukwardani, et al., 2025; Safitri & Yulianti, 2025; Simanjuntak, et al., 2026; Yulianti, et al., 2026). However, other studies have shown different results, namely that CR or ROE are not always able to increase DPR or PER (Angga & Dermawan, 2023; Abdullah & Hasbi, 2026; Farhana, et al., 2026; Fitriani, et al., 2026; Rasdayanti & Febriani, 2026; Suprayitno & Suryandani, 2026). Similarly, DPR has been shown in some studies to influence company value (Angga & Dermawan, 2023; Chandra & Dermawan, 2025; Haq, et al., 2025), but in other studies it has no significant effect (Oktaviana, et al., 2024). These differing research findings indicate a research gap that requires further study, particularly for manufacturing companies experiencing economic pressure and recovery during the 2019-2025 period.

The urgency of this research is heightened because the 2019-2025 period reflects a phase of change for manufacturing companies, from pre-pandemic conditions through pandemic pressures, the recovery period, and the industry expansion phase. These dynamics can influence

management decisions regarding maintaining liquidity, generating profits, distributing dividends, and maintaining stock attractiveness in the capital market. Therefore, it is crucial to examine whether the Cash Ratio and Return on Equity can directly or indirectly influence the Price-Earnings Ratio through the Dividend Payout Ratio.

LITERATURE REVIEW

Signaling Theory

Signaling Theory is one of the main theories that can be used to explain the relationship between a company's financial information and investor response in the capital market (Kawakibi, et al., 2019). This theory explains that company management has more complete information about the company's internal conditions and prospects than investors (Kawakibi, et al., 2026). This information asymmetry is known as information asymmetry. Therefore, companies need to convey signals to the market through financial reports, dividend policies, profitability performance, liquidity, and other financial decisions. In the capital market context, financial ratios can act as signals for investors in assessing a company's quality (Kawakibi, et al., 2026). The Cash Ratio can signal a company's ability to meet short-term obligations using cash and cash equivalents (Fakhfakh, 2025). Return on Equity reflects a company's ability to generate profits from shareholders' capital (Nurisnaini, et al., 2024). Meanwhile, the Dividend Payout Ratio can signal management's confidence in the stability of the company's future earnings and cash flow (Ullah, et al., 2026). Dividends are often viewed as a positive signal because companies capable of distributing dividends are considered to have relatively good financial condition and stable prospects (Farhana, et al., 2026). Signaling Theory is relevant in explaining the Price Earnings Ratio because the PER is one indicator of the market's assessment of a company's earnings prospects (Dolaeva, et al., 2025). The more positive signals investors receive from financial performance and dividend policy, the more likely they are to assign a higher valuation to the company's shares (Nurisnaini, et al., 2024). Therefore, the Cash Ratio, Return on Equity, and Dividend Payout Ratio can be viewed as signals that influence investors' perceptions of a company's market value, as reflected in the Price Earnings Ratio. In several financial studies, liquidity ratios, profitability, and dividend policy are viewed as information that can influence investment decisions (Nurisnaini, et al., 2024).

The Modigliani-Miller Theorem

The Modigliani-Miller Theorem, introduced by Modigliani and Miller in 1958, is one of the fundamental theories in corporate finance. The theorem states that, under perfect capital market assumptions, firm value is independent of capital structure. In other words, financing decisions do not affect firm value when there are no taxes, transaction costs, bankruptcy costs, agency costs, or information asymmetry. Under these assumptions, firm value is determined by the earning power and cash-generating ability of the firm’s assets rather than by how those assets are financed. Although the original Modigliani-Miller proposition focuses on capital structure, its logic is also relevant to the discussion of firm value, market valuation, and dividend policy. In relation to this study, Price Earning Ratio can be understood as a market-based valuation indicator that reflects investor expectations toward the firm’s earnings. According to the perfect market assumption, dividend policy should not directly affect firm value because investors are indifferent between receiving dividends and capital gains. However, in real-world capital markets, the assumptions of perfect markets are rarely fully met. Taxes, transaction costs, agency conflicts, information asymmetry, and investor preferences may cause dividend policy and financial performance indicators to influence market valuation. Therefore, the Modigliani-Miller framework provides a theoretical basis for examining whether Dividend Payout Ratio plays a role

in linking liquidity and profitability to Price Earning Ratio. If dividend policy does not affect PER or does not mediate the relationship between financial ratios and PER, the finding may support the view that dividend policy is not always a dominant determinant of market valuation.

Cash Ratio

The Cash Ratio is a liquidity ratio used to measure a company's ability to meet short-term obligations using cash and cash equivalents (Fakhfakh, 2025). This ratio is more conservative than other liquidity ratios because it only considers the most liquid assets. The higher the Cash Ratio, the greater the company's ability to pay short-term obligations without having to sell inventory or collect receivables first (Fakhfakh, 2025). From a Signaling Theory perspective, the Cash Ratio can signal a company's financial security (Fakhfakh, 2025). Companies with adequate cash levels are considered to have greater financial flexibility, especially in the face of economic uncertainty and short-term operational needs (Jariah, et al., 2024). Investors may interpret a high Cash Ratio as an indication of low liquidity risk. In the capital market context, good liquidity conditions can increase investor confidence and potentially affect the Price Earnings Ratio (Chia, et al., 2020). However, a Cash Ratio that is too high can also be interpreted differently. Excessive cash may indicate that a company is unable to allocate its funds productively for profit-generating investments (Fakhfakh, 2025). Therefore, the effect of the Cash Ratio on the Price Earnings Ratio can be positive or insignificant, depending on how investors assess the company's cash utilization efficiency. Regarding the Dividend Payout Ratio, companies with sufficient cash theoretically have a greater ability to distribute dividends (Angga & Dermawan, 2023). However, dividend distribution decisions are also influenced by management policy, investment needs, profit stability, and the company's growth prospects.

$$\text{Cash Ratio} = \frac{\text{Total Cash + Marketable Securities}}{\text{Total Current Liabilities}}$$

(Fakhfakh, 2025)

Return on Equity

Return on Equity is a profitability ratio that measures a company's ability to generate net profit from shareholder equity (Kawakibi & Kurniawan, 2025). Furthermore, Kawakibi & Kurniawan (2025) explain that ROE indicates the rate of return shareholders receive on their invested capital. The higher the ROE, the better the company's ability to generate profits for its shareholders. In Signaling Theory, a high ROE can be a positive signal to investors because it indicates the company's ability to manage its equity efficiently (Nurisnaini, et al., 2024). Investors generally view companies with high profitability as having good growth prospects and profit-generating capabilities (Kristanto & Yanto, 2022). Therefore, ROE is often associated with increased investor interest in the company's stock (Oktaviantri, et al., 2025). This increased investor interest can be reflected in increases in share prices and market ratios, including the Price-Earnings Ratio (Fitriani, et al., 2026). ROE also has a theoretical relationship with the Dividend Payout Ratio (Yulianti, et al., 2026). Companies generating high profits have a greater potential to distribute dividends to shareholders. However, not all companies with a high ROE will distribute large dividends. Companies in a growth phase tend to retain profits to fund expansion, while companies that are stable tend to distribute larger dividends. Therefore, the relationship between ROE and the Dividend Payout Ratio can be influenced by the company's life cycle, investment needs, and management policies.

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total Equity}}$$

(Nurisnaini, et al., 2024)

Dividend Payout Ratio

The Dividend Payout Ratio is a ratio that indicates the proportion of net profit distributed to shareholders in the form of dividends (Yulianti, et al., 2026). This ratio reflects a company's policy in determining how much profit will be distributed and how much will be retained for investment or operational needs (Jariah, et al., 2024). From a Signaling Theory perspective, the Dividend Payout Ratio can signal management's confidence in the company's prospects (Ullah, et al., 2026). Companies that consistently distribute dividends are often perceived as having stable cash flow and strong profitability. Investors may view dividend distribution as a positive signal because the company is perceived as capable of meeting internal needs while providing returns to shareholders. However, from a Dividend Irrelevance Theory perspective, the Dividend Payout Ratio does not always impact company value (Ullah, et al., 2026). If investors are more concerned with a company's profit and growth prospects, then dividend size is not always the primary factor in determining stock valuation. Under certain conditions, investors may actually prefer companies that retain earnings for expansion if these investments are expected to generate higher returns in the future. In this study, the Dividend Payout Ratio is used as an intervening variable. This means that the DPR is tested to determine whether it can bridge the influence of the Cash Ratio and Return on Equity on the Price Earnings Ratio. Theoretically, liquidity and profitability can influence a company's ability to pay dividends, while dividends can influence investors' perceptions of stock value. However, if the DPR is unable to mediate this relationship, it suggests that investors may be paying more attention to other financial information than dividend policy.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per Share}}{\text{Earning per Share}}$$

(Ullah, et al., 2026)

Price Earning Ratio

The Price-Earnings Ratio is a market ratio that compares stock price to earnings per share. The PER is used to measure how much investors are willing to pay for each unit of profit generated by a company (Dolaeva, et al., 2025). This ratio is an important indicator in fundamental analysis because it reflects investors' expectations of the company's future earnings growth prospects (Nurisnaini, et al., 2024). The PER is widely used as a stock valuation tool because it can help investors assess whether a stock is relatively expensive or cheap compared to the company's earnings. A high PER can indicate that investors have high expectations for the company's future earnings growth. However, a PER that is too high can also indicate that the stock price has reached an expensive level. Conversely, a low PER can indicate that the stock has not been appreciated by the market or that the company faces limited growth prospects. In the context of this research, the PER is used as the dependent variable because it reflects the market response to a company's financial information. The Cash Ratio, Return on Equity, and Dividend Payout Ratio can influence the PER through investor perceptions of the company's liquidity, profitability, and dividend policy. According to Signaling Theory, positive financial information can increase investor confidence, thus increasing market valuation. However, based on Dividend Irrelevance Theory, dividend policy is not always the primary factor in determining company value (Ullah, et al., 2026), so the effect of DPR on PER needs to be empirically tested.

$$\text{Price Earning Ratio} = \frac{\text{Price of Stock}}{\text{Earning per Share}}$$

(Dolaeva, et al., 2025)

RESEARCH METHODS

This research is an explanatory research with a quantitative approach. In this study, the independent variables consist of Cash Ratio and Return on Equity, while the intervening (mediating) variable is the Dividend Payout Ratio, and the dependent variable is the Price Earning Ratio. Data collection in this study uses the documentation method. Classical assumption tests, hypothesis tests and analysis use panel data regression. The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange in seven periods (2019-2025). The sampling technique used in this study is the purposive sampling method, namely a method of selecting samples based on certain considerations tailored to the objectives and problems of the study (Ferdinand, 2014). The criteria for determining the sample in this study are as follows: (a) It is a manufacturing company listed on the IDX during the 2019-2025 period. (b) The company has never been delisted since 2019-2025. (c) Publish complete annual financial reports for the period 31 December 2019-2025 presented in Rupiah (IDR).

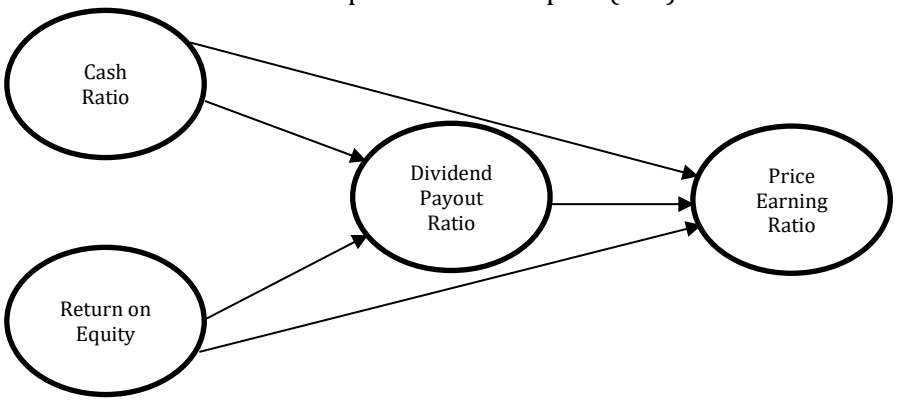

Figure 1. Conceptual Framework

RESULTS AND DISCUSSION

Classical Assumption Test

Normality Test

This normality test aims to determine whether the standardized residual values in the regression model are normally distributed. This test is performed by examining the Jarque-Bera value and the probability value. The assessment criteria are: if the Jarque-Bera value is less than the Chi-Square value and the probability value is greater than 0.05, the data can be considered normally distributed (Ghozali, 2024). The test results show that the Jarque-Bera value for all variables is less than the Chi-Square value (df2, 0.05) = 5.991, and the probability value is greater than 0.05. The Jarque-Bera cash ratio value is (2.833837 < 5.991) with a probability value (0.242460 > 0.05). Return on equity (3.731620 < 5.991) with a probability value of (0.154771 > 0.05). Dividend payout ratio (0.559945 < 5.991) with a probability value of (0.755804 > 0.05). And price earning ratio (0.336785 < 5.991) with a probability value of (0.845022 > 0.05). Thus, it can be said that the cash ratio, return on equity, dividend payout ratio, and price earning ratio data in this study are normally distributed.

Multicollinearity Test

This test is useful for determining whether a regression model exhibits correlation between independent variables. A good model is one in which there is no correlation between the independent variables. According to Ghozali (2024), if the correlation coefficient between independent variables is > 0.8, it can be concluded that the model experiences multicollinearity. Conversely, if the correlation coefficient is < 0.8, the model is free from multicollinearity. Based

on the test results, none of the correlations between the independent variables exceeds 0.8. This means that this regression model does not exhibit multicollinearity, meaning there is no correlation between the independent variables.

Heteroscedasticity Test Results

This test is used to determine whether the residuals have a homogeneous (constant) variance. The heteroscedasticity test is expected to ensure that the residuals have a homogeneous variance. The test is performed using actual, fitted, and residual diagrams.

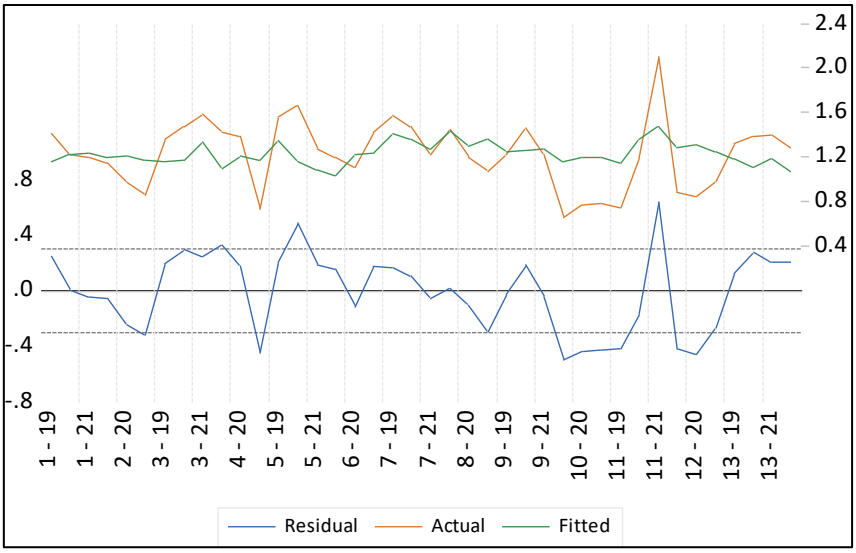

Figure 2. Heteroscedasticity Test Results

Source: Data processed, 2026

The results in Figure 2 above indicate that there is no heteroscedasticity problem, as the residuals do not form a specific pattern; in other words, the residuals tend to be constant.

Autocorrelation Test Results

Autocorrelation testing is the relationship between members of a series of observations ordered by time (time series data) or location (cross-section data) (Ghozali, 2024). A good regression model is one that is free from autocorrelation. This study used the Durbin-Watson test to determine the presence or absence of autocorrelation.

Table 1. Autocorrelation Test Results

Regression Model	Regression Equation	DW Value	Detection
1	Cash Ratio and Return on Equity to Dividend Payout Ratio	1.737715	dU < DW< (4-dU) 1.6000 < 1.737715 < 2.4
2	Cash Ratio, Return on Equity, and Dividend Payout Ratio to Price Earning Ratio	1.531619	dL< DW < dU 1.3908 < 1.531619 < 1.600

Source: Data processed, 2026

Based on the results in Table 1 above, it can be seen that regression equation model 1 does not exhibit autocorrelation, while regression equation model 2 does not produce definitive conclusions.

Panel Data Regression Models

According to Ghozali (2024), regression model estimation using panel data can be conducted using three approaches: the common effect model, the fixed effect model, and the random effect model. However, in this study, only two models were used: the fixed effect model and the random effect model. The common effect model was not used because it does not consider the time dimension. Therefore, because two models were used (fixed effect and random effect), this study

only conducted the Hausman test to determine the best model. This study used two regression equation models:

Model 1: DPR = α + β1CR + β2ROE + ε

Model 2: PER = α + β1CR + β2ROE + β3DPR + ε

Regression Equation Model 1

The panel data regression estimation method for the fixed effect model uses the Least Squares Dummy Variable (LSDV) technique. The test results show that the R-squared value is 0.749736. The F-statistic probability value is 0.000342, indicating that the fixed effects model for regression equation 1 is significant. The random effects model accommodates error. The panel data regression estimation method for the random effects model uses the Generalized Least Squares (GLS) method. The test results show that the R-squared value is 0.039802. The F-statistic probability value is 0.471714, indicating that the random effects model for regression equation 1 is significant. The Hausman test aims to compare fixed effects models with random effects models. The results of this test determine whether the panel data regression technique using the Least Squares Dummy Variable method (fixed effects model) is superior to the panel data regression technique using the Generalized Least Squares Dummy Variable method (random effects model). The criteria for selecting this model can be seen from the probability values. If the random cross-section probability value is > 0.05, then the selected model is a random effects model. Conversely, if the random cross-section probability value is < 0.05, then the selected model is a fixed effects model. The random cross-section probability value is known to be 0.0621. This value is the p-value of the Hausman test. The p-value of 0.0621 is greater than 0.05 (0.0621 > 0.05), so H_0 is accepted, meaning the best regression model in equation 1 should be random effects rather than fixed effects.

Regression Equation Model 2

The test for regression equation model 2 shows an R-squared value of 0.714085. The probability value of the F-statistic of 0.002698 indicates that the model is significant. In testing regression equation model 2, the t-statistic showed that three variables showed significance (α = 5%). Furthermore, the Adjusted R-squared value was 0.180756. The F-statistic probability value of 0.000101 indicates that the model is significant. The random cross-section probability value was found to be 0.1699. This value is the p-value of the Hausman test. The p-value of 0.1699 is greater than 0.05 (0.1699 > 0.05), so H_0 is accepted, meaning the best regression model in equation 2 should be random effects rather than fixed effects.

The Effect of Cash Ratio on Dividend Payout Ratio

Based on the hypothesis testing results, CR was found to have no significant effect on DPR among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that liquidity is not a primary consideration in determining dividend payments. Although Signaling Theory suggests that firms with higher cash holdings should have greater capacity to distribute dividends, manufacturing companies generally require substantial working capital and continuous investment in production facilities, technology, inventory, and business expansion, causing available cash to be allocated primarily to operational and strategic needs rather than dividend distributions. This condition was further reinforced by the Covid-19 pandemic and the subsequent recovery period, during which many firms adopted conservative financial policies by maintaining higher cash reserves to manage uncertainty and ensure business continuity. The insignificant relationship is also consistent with Residual Dividend Theory, which argues that dividends are distributed only after profitable investment opportunities have been financed, implying that dividend decisions are driven more by investment needs and growth opportunities than by liquidity levels. Furthermore, the negative regression coefficient suggests

that firms with higher liquidity tend to retain cash rather than increase dividend payouts, as management may consider reinvestment in productive assets, technological innovation, and operational improvements more beneficial for long-term value creation. These findings also support Dividend Irrelevance Theory, indicating that dividend policy is not solely determined by liquidity and that dividend distributions in manufacturing firms are influenced more by profitability, investment opportunities, growth strategies, and financial flexibility than by cash availability alone.

The Effect of Return on Equity on Dividend Payout Ratio

Based on the hypothesis testing results, ROE was found to have no significant effect on DPR among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that profitability does not necessarily determine the proportion of earnings distributed as dividends. Although Signaling Theory suggests that highly profitable firms are expected to distribute higher dividends as a signal of financial strength and positive future prospects, the findings indicate that profitability alone is insufficient to explain dividend policy decisions. Manufacturing companies operate in capital-intensive industries that require substantial investments in machinery, technology, research and development, and business expansion, leading firms to retain earnings to finance future growth opportunities rather than distribute them to shareholders. This finding is consistent with the Residual Dividend Theory, which argues that dividends are paid only after all profitable investment opportunities have been financed. Furthermore, during the 2019-2025 period, which included the Covid-19 pandemic and the subsequent recovery phase, many firms adopted conservative financial strategies by retaining profits to strengthen financial resilience, support future operations, and maintain flexibility. Dividend policy is also often influenced by earnings stability and long-term financial planning rather than short-term profitability fluctuations, resulting in relatively stable dividend payments despite changes in ROE. These findings support the Dividend Irrelevance Theory of Modigliani and Miller, suggesting that profitability and dividend policy are separate decisions and that dividend distributions in manufacturing companies are influenced more by investment opportunities, growth strategies, financial flexibility, and long-term corporate objectives than by profitability alone.

The Effect of Cash Ratio on Price Earning Ratio

Based on the hypothesis testing results, CR was found to have no significant effect on PER among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that liquidity is not a primary factor considered by investors when assessing market valuation. Although Signaling Theory suggests that a strong liquidity position reflects financial stability and lower risk, investors appear to place greater emphasis on a company's ability to generate earnings and sustain future growth. Since PER represents market expectations regarding future profitability, factors such as earnings growth, operational efficiency, innovation, and business prospects are considered more important than cash holdings alone. Moreover, the capital-intensive nature of manufacturing firms requires substantial investments in production facilities, technology, working capital, and expansion projects, causing available cash to be viewed as a necessary operational resource rather than a direct indicator of firm value. During the 2019-2025 period, which included the Covid-19 pandemic and the subsequent recovery phase, many companies increased cash reserves as a precautionary measure to manage uncertainty and maintain financial flexibility. Consequently, higher liquidity was often interpreted as a risk-management strategy rather than a signal of stronger growth potential. Furthermore, excessive cash holdings may generate opportunity costs if resources are not utilized productively. Consistent with the Modigliani-Miller Framework, firm value is determined primarily by future

cash flows and profitability rather than liquidity itself. Therefore, investors tend to focus more on profitability, growth opportunities, earnings sustainability, and long-term business prospects when evaluating PER, suggesting that high liquidity alone is insufficient to enhance market valuation without effective resource utilization and sustainable earnings growth.

The Effect of Return on Equity on Price Earning Ratio

Based on the hypothesis testing results, ROE was found to have a significant positive effect on PER among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that profitability is an important determinant of market valuation. According to Signaling Theory, a high ROE serves as a positive signal of management's ability to utilize shareholders' funds efficiently and generate sustainable earnings, thereby reducing information asymmetry and strengthening investor confidence. As profitability increases, investors tend to perceive the company as having stronger operational performance, greater efficiency, and more favorable growth prospects, leading to higher demand for its shares and ultimately increasing its PER. This finding is also consistent with Fundamental Analysis, Growth Expectations Theory, and the Modigliani-Miller Framework, which emphasize that firm value is closely related to a company's ability to generate earnings and create future growth opportunities. During the 2019-2025 period, which included the Covid-19 pandemic and the subsequent recovery phase, investors generally favored firms with strong financial fundamentals and resilient profitability. Companies that maintained high ROE despite economic challenges were viewed as having superior management quality, stronger competitive advantages, and greater long-term growth potential, resulting in higher market valuations. Overall, the results confirm that profitability remains one of the most influential factors affecting market valuation and that improving earnings performance and efficiently utilizing shareholders' equity can enhance investor confidence, shareholder value, and Price Earning Ratio.

The Effect of Dividend Payout Ratio on Price Earning Ratio

Based on the hypothesis testing results, DPR was found to have a significant positive effect on PER among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that dividend policy plays an important role in shaping investor perceptions and market valuation. According to Signaling Theory, dividend payments serve as a positive signal of management's confidence in the firm's future earnings and cash flow sustainability, reducing information asymmetry and strengthening investor confidence. Companies that distribute a higher proportion of earnings as dividends are generally perceived as financially stable, operationally efficient, and capable of generating sustainable returns, which encourages greater investor demand and increases stock valuation. This finding is also consistent with the Bird-in-the-Hand Theory, which suggests that investors prefer certain current dividend income over uncertain future capital gains, making firms with higher dividend payouts more attractive to investors. Furthermore, dividend payments are often viewed as indicators of earnings quality, financial credibility, and lower business risk, particularly during periods of economic uncertainty such as the Covid-19 pandemic and the subsequent recovery phase. From the perspective of Agency Theory, dividend distributions may also reduce agency conflicts by limiting excess free cash flow and promoting more efficient resource allocation. Although these findings differ from the Dividend Irrelevance Theory proposed by Modigliani and Miller, they support the view that dividend policy remains relevant in imperfect capital markets where information asymmetry and agency issues exist. Overall, the results suggest that investors regard dividend policy as an important source of information regarding corporate performance and future prospects, leading companies with higher and more sustainable dividend payouts to achieve higher market valuations as reflected in increased Price Earning Ratios.

The Mediating Effect of Dividend Payout Ratio on the Relationship Between Cash Ratio and Price Earning Ratio

Based on the mediation analysis results, DPR was found to be unable to mediate the relationship between CR and PER among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that dividend policy does not function as an effective mechanism through which liquidity influences market valuation. Although Dividend Payout Ratio significantly affects Price Earning Ratio, Cash Ratio does not significantly affect Dividend Payout Ratio, causing the indirect effect to become insignificant. According to Signaling Theory, firms with stronger liquidity are expected to have greater flexibility in distributing dividends, which could enhance investor perceptions and firm valuation. However, manufacturing companies generally require substantial working capital and continuous investment in production facilities, technology, inventory, and operational activities, causing available cash to be allocated primarily to operational and strategic needs rather than dividend payments. This condition is further supported by Residual Dividend Theory, which suggests that dividends are distributed only after profitable investment opportunities have been financed. During the 2019-2025 period, marked by the Covid-19 pandemic, supply chain disruptions, inflationary pressures, and global economic uncertainty, many firms prioritized liquidity preservation and financial flexibility over dividend distributions. As a result, investors appeared to focus more on profitability, earnings growth, operational efficiency, and future business prospects than on liquidity levels when assessing firm value. Consistent with Dividend Irrelevance Theory, these findings indicate that dividend policy does not serve as an effective channel through which liquidity affects market valuation, and therefore the indirect relationship between Cash Ratio and Price Earning Ratio through Dividend Payout Ratio is not supported in this study.

The Mediating Effect of Dividend Payout Ratio on the Relationship Between Return on Equity and Price Earning Ratio

Based on the mediation analysis results, DPR was found to be unable to mediate the relationship between ROE and PER among manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period, indicating that profitability influences market valuation directly rather than indirectly through dividend policy. Although Dividend Payout Ratio significantly affects Price Earning Ratio, Return on Equity does not significantly affect Dividend Payout Ratio, causing the indirect effect to become insignificant. According to Signaling Theory, profitability is a strong indicator of corporate performance because it reflects management's ability to generate returns from shareholders' investments. While highly profitable firms are theoretically expected to distribute higher dividends, the results suggest that profitability does not necessarily translate into increased dividend payouts in manufacturing companies. This condition can be explained by the characteristics of the manufacturing sector, which requires substantial capital expenditures, continuous technological upgrades, and significant working capital, leading firms to retain earnings for future investments, expansion, and operational improvements rather than distribute them as dividends. Consistent with Residual Dividend Theory, dividend payments are determined after profitable investment opportunities have been financed, meaning that profitability alone does not dictate dividend policy. Furthermore, during the 2019-2025 period, many firms prioritized financial resilience, modernization, and post-pandemic business recovery, making retained earnings more valuable than dividend distributions. Investors also appear to place greater emphasis on profitability, growth opportunities, and future earnings potential than on dividend payments when assessing firm value. These findings are consistent with Dividend Irrelevance Theory, suggesting that market

valuation is driven more by a firm's earnings-generating ability and investment prospects than by how profits are distributed, resulting in Dividend Payout Ratio being unable to serve as an effective intermediary mechanism linking profitability to Price Earning Ratio.

CONCLUSION

This study examined the effect of CR and ROE on PER, with DPR as an intervening variable, in manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2025 period. The results show that CR does not significantly affect DPR or PER, indicating that liquidity is not a key factor in determining dividend policy or market valuation. Meanwhile, ROE has a significant positive effect on PER, suggesting that profitability is an important factor influencing investor perceptions and firm value. DPR also has a significant positive effect on PER, indicating that investors still consider dividend policy when valuing firms. However, DPR is unable to mediate the effects of CR and ROE on PER. Overall, the findings suggest that investors place greater emphasis on profitability and dividend policy than on liquidity when assessing firm value. Therefore, companies should focus on improving profitability and maintaining a sustainable dividend policy to enhance market valuation and investor confidence. Future research is recommended to include additional variables and broader industry sectors to obtain more comprehensive results.

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