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Fundamental Analysis Using the Price Earning Ratio (PER) Approach in Stock Valuation and Investment Decision-Making: A Systematic Literature Review Study

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Abstract

Introduction: The capital market plays a crucial role in supporting economic growth by serving as a platform for fund mobilization and investment. Among the instruments offered, stocks are among the most popular, though they involve significant risk. Accurate valuation is essential to guide rational investment decisions. **Objective:**This study aims to systematically review literature discussing the use of the Price Earning Ratio (PER) as a fundamental analysis tool for stock valuation and investment decision-making across different industries and economic conditions. **Method:**A Systematic Literature Review (SLR) approach was used to analyze eleven relevant journal articles retrieved from SINTA and Google Scholar. The inclusion criteria focused on studies applying PER in stock valuation. Each study was reviewed to identify valuation outcomes (undervalued, fairvalued, overvalued) and recommended investment decisions.**Result:**The review found that PER is widely used to evaluate intrinsic stock value. Most studies concluded that undervalued stocks are recommended for purchase due to their long-term profit potential, while overvalued stocks are often suggested for sale to avoid losses. Several articles also combined PER with other financial indicators such as Price to Book Value (PBV), Return on Equity (ROE), and Dividend Yield (DY) to enhance analytical accuracy.
Conclusion:PER is an effective tool in stock valuation and investment decision-making. However, its interpretation should consider sectoral differences, macroeconomic conditions, and should be complemented by other financial ratios for a more comprehensive assessment. **Community Implication:**This study provides valuable insights for both institutional and retail investors. By applying PER analysis alongside other financial metrics, investors can make more informed and strategic decisions in stock market investment, especially in the banking, mining, and consumer goods sectors.
Keywords: Fundamental Analysis, Price Earning Ratio, Stock Valuation, Investment Decision, Financial Indicators

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Introduction

The capital market plays a vital role in supporting economic growth through its dual function as a funding platform and investment vehicle. Among the various financial instruments available, stocks are one of the most attractive options due to their potential to generate long-term profits through capital gains and dividends. However, stock investments also involve significant risks, making it essential to apply appropriate analytical approaches to support rational investment decision-making.

Generally, two main approaches are used in stock analysis: technical and fundamental analysis. While technical analysis focuses on historical price and volume trends to predict future market movements, fundamental analysis evaluates the financial performance of a company and the economic factors that influence its intrinsic value. In long-term investment contexts, fundamental analysis is often preferred because it provides deeper insights into a company's prospects.

One of the most widely used tools in fundamental analysis is the Price Earning Ratio (PER), which represents the ratio between a company's stock price and its earnings per share (EPS). This ratio is utilized to assess whether a stock is fairly valued in comparison to the profit it generates. Investors often use PER as a benchmark to determine whether a stock is undervalued or overvalued, thereby guiding their investment strategies.

Numerous previous studies have explored the effectiveness of using PER in stock valuation and investment decisions. However, the findings vary significantly depending on industry sectors, economic conditions, and analysis periods. These inconsistencies highlight the need for a more structured and comprehensive literature review.

Therefore, this study aims to systematically analyze existing literature that discusses the use of Price Earning Ratio (PER) in the context of stock valuation and investment decision-making. This research is expected to contribute both theoretically and practically by providing a more integrated understanding of the effectiveness of PER in capital market practices.

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Objective

This study aims to examine the application of the Price Earning Ratio (PER) as a fundamental analysis tool for stock valuation and to explore how PER influences investment decision-making based on previous research findings.

Method

Design and setting

This research employed a Systematic Literature Review (SLR) approach to analyze secondary data obtained from various academic sources. A total of 11 journal articles were selected based on their relevance to the application of PER in stock valuation and investment decisions. The study design was descriptive and qualitative in nature, utilizing published research as the primary data source. Articles were retrieved from databases such as SINTA and Google Scholar, with a focus on financial studies conducted in Indonesia and other emerging markets.

Population and sampling

The population consisted of journal articles related to fundamental stock analysis using PER. Sampling was conducted purposively by selecting articles published between 2018 and 2023 that specifically discussed PER as the main valuation metric.

Instrument and measurement

The main instrument was a literature matrix used to extract and categorize key information from each article, including industry sector, PER values, valuation outcomes (undervalued, fairly valued, or overvalued), and investment recommendations.

Data collection and analysis

Data collection involved identifying, reviewing, and summarizing relevant articles. Analysis was conducted qualitatively by comparing findings across studies, interpreting how PER was used in stock valuation, and synthesizing the investment strategies recommended. The analysis also considered the integration of PER with other financial indicators such as PBV, ROE, and DY to assess analytical robustness.

Result

The systematic literature review found that the Price Earning Ratio (PER) is consistently used as a key indicator in stock valuation. Out of 11 reviewed articles, the majority concluded that stocks with low PER values were classified as undervalued and recommended for purchase, while those with high PER values were considered overvalued and advised for sale. The studies analyzed stocks across different sectors, including banking, mining, consumer goods, and telecommunications.

Discussion

The findings confirm that PER is a practical and widely accepted tool for assessing stock value. Its simplicity and accessibility make it a favored metric among investors. However, the effectiveness of PER varies depending on industry standards, market conditions, and the company's financial structure. Several studies recommend using PER in conjunction with other financial indicators to improve accuracy and minimize risk in investment decisions.

Restate the Key Findings

Most of the reviewed studies utilized the Price Earning Ratio (PER) as the primary indicator to determine whether a stock was undervalued, fairly valued, or overvalued. Stocks identified as undervalued—typically characterized by a low PER—were generally recommended for purchase due to their perceived long-term profit potential. Furthermore, the analytical outcomes were significantly enhanced when PER was combined with other financial ratios such as Price to Book Value (PBV), Return on Equity (ROE), and Dividend Yield (DY), providing a more comprehensive assessment of stock performance and investment viability.

Interpret the Results

The results show that PER can serve as a reliable benchmark for stock valuation, particularly when interpreted relative to industry averages. Investors who rely solely on PER, however, may overlook important contextual factors such as earnings volatility or sectoral growth trends..

Compare with Previous Studies

These findings align with prior research suggesting that PER is a strong predictor of stock performance when used correctly. Studies by Apriyatmoko & Aini (2020) and Putra et al. (2023) also highlighted that PER, when supported by other metrics, could improve investment decisions in the Indonesian capital market.

Highlight the Implications

This review emphasizes the importance of educating investors—especially retail investors—on using fundamental tools like PER. Financial advisors and academic institutions can incorporate PER-based analysis into training programs to help investors make more informed and rational decisions.

Discuss the Limitations

This study was limited by the number of articles analyzed (n=11), potentially restricting the comprehensiveness of the findings. In addition, the review focused only on studies using PER, without deeply exploring the interplay with broader economic variables or behavioral factors influencing investment decisions.

Suggest Future Research

Future research should explore a multi-metric approach by combining PER with other valuation tools in dynamic market scenarios. Further studies may also incorporate macroeconomic indicators and behavioral finance perspectives to enrich the valuation framework.

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Conclusion

The Price Earning Ratio (PER) remains a valuable tool in stock valuation and investment decision-making. While PER alone provides useful insights, its effectiveness is maximized when combined with other financial indicators and applied with consideration of industry context.

Community Implication

This study offers practical benefits to both new and experienced investors. By understanding how PER functions within stock valuation, communities—especially those engaged in small-scale investing—can reduce investment risk and make more informed choices in capital markets.

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Author Contribution

- Ni Wayan Dista Anggreni: Conceptualization, literature review, data analysis, and drafting of the manuscript.
- I Gede Bayu Wijaya, M.M: Supervision, critical revision of the manuscript, and final approval of the version to be published.

Conflict of Interest

The authors declare no conflict of interest regarding the preparation and publication of this manuscript.`

Ethical Clearance

As this study is a systematic review of published literature, it did not involve human participants or require formal ethical approval. Nonetheless, all referenced studies were reviewed in accordance with academic and ethical standards..

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