



## Article

# Sharia Banking Stocks: The Role of Profitability and Financial Performance

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**Abstract:** The increasing awareness among Muslims to adhere to Sharia principles in their daily lives has contributed to a rise in investment in Sharia-compliant stocks, particularly within the Sharia banking sector. This sector, which aligns with Islamic principles, offers potential investment opportunities that can be evaluated by analyzing key financial metrics such as profitability and financial performance, derived from company financial reports. This research aims to examine the impact of four financial indicators—Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and Price Earnings Ratio (PER)—on the stock prices of Sharia banks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Using a quantitative research approach, the study employs the SPSS version 29 data processing application, utilizing 60 data points from three Sharia banking companies: PNBS, BRIS, and BTPS. The results of the data analysis reveal that Return on Assets (ROA) has a significant positive effect on stock prices, indicating that higher asset returns are associated with higher stock values. Similarly, Earnings Per Share (EPS) also shows a significant positive impact on stock prices, suggesting that increased earnings per share contribute to the appreciation of stock values. On the other hand, Return on Equity (ROE) and Price Earnings Ratio (PER) were found to have no significant effect on stock prices in the context of this study. These findings provide insights into the financial indicators that influence stock prices in the Sharia banking sector, offering valuable information for investors and financial analysts.

**Keywords:** Return On Asset (ROA), Return On Equity (ROE), Earning Per Share (EPS), Price-Earning Ratio (PER), Stock Price

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## 1. Introduction

The awareness among Muslims to implement Sharia principles in their daily lives has driven an increase in investment in Shariah-compliant stocks, particularly in the Sharia banking sector. This sector can be considered for investment not only to gain profit but also to adhere to Islamic Sharia principles by conducting analysis through company financial reports. This is evidenced by the increasing number of Sharia stock investors and the market capitalization of Sharia banking companies, such as Bank Syariah Indonesia, which reached Rp 131.47 trillion or equivalent to US\$ 8.44 billion. This achievement is based on the closing stock price on Wednesday, March 13, 2024, marking a new record high for its stock price. Full support from the government also demonstrates the rapid growth of the Sharia banking sector, with a target for Bank Syariah Indonesia to become one of the ten largest Sharia banks in the world by 2025. This study aims to determine the influence of profitability (ROA, ROE, EPS) and financial performance (PER) on the stock prices of Sharia banks listed on the IDX for the period 2019-2023. By gaining a deep

understanding of the factors influencing the stock prices of Sharia banks, this research is expected to make a significant contribution to the development of the Sharia capital market in Indonesia. Understanding the impact of profitability and financial performance on stock prices is hoped to enable investors to analyze more intelligently, ultimately enhancing overall economic growth and furthering the understanding of the dynamics of the Sharia capital market in Indonesia.

Several researchers focus on specific companies, such as conventional banks, pharmaceutical companies, mining, manufacturing, and others. Although some focus on Islamic banks, they often use a small sample size. Others focus on Sharia stocks but not specifically on Sharia banking, and when they do focus on Sharia banking, they do not use data from the Indonesia Stock Exchange, making stock price data unavailable in the capital market. Some research is limited to frequently used theories such as agency theory and signaling theory. Therefore, this study aims to focus more on Sharia banking companies listed on the Indonesia Stock Exchange for the period 2019-2022, using a theory that has never been applied in the context of Sharia banking on the IDX, namely Salvatore (2022). The goal of this research is to determine the influence of profitability (ROA, ROE, EPS) and financial performance (PER) on the stock prices of Sharia banks on the IDX for the period 2019-2023.

## 2. Materials and Methods

This research is a quantitative study with an associative design aimed at testing hypotheses regarding the causal relationship between several independent variables (Return on Assets, Return On Equity, Earnings Per Share, and Price Earnings Ratio) and the dependent variable (stock price) in Sharia banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2023. The data used is secondary data from the financial statements of Sharia banking companies listed on the IDX. The study population consists of quarterly financial reports from PT Bank Panin Dubai Syariah Tbk, PT Bank Syariah Indonesia Tbk, and PT Bank Tabungan Pensiunan Nasional Syariah Tbk, with a non-probability random sampling technique using purposive sampling, resulting in 60 quarterly financial reports. The research instrument is the documentation of quarterly financial statements, which are valid and reliable because they are prepared by listed companies and regulated by the capital market authority. The quarterly financial statements available on the Indonesia Stock Exchange (IDX) have also been reviewed by independent auditors, providing a certain level of assurance on the validity and reliability of the reports. Data analysis techniques include descriptive statistics, multiple linear regression, classical assumption tests (normality, heteroscedasticity, autocorrelation, and multicollinearity), t-tests for hypotheses, and the coefficient of determination test to assess the quality of the regression model.

## 3. Results and Discussion

The data analysis results using SPSS version 29 employed descriptive statistical data analysis techniques and classical assumption tests with a sample size of 60, according to Yuniarto et al., (2022) despite the sample size being greater than 30, it does not always guarantee normal distribution; similarly, a sample size less than 30 does not always indicate non-normal distribution. In this study, classical assumption tests included tests for normality, heteroscedasticity, autocorrelation, and multicollinearity, all of which met the classical assumptions. The hypothesis testing used individual parameter significance tests (t-tests) based on the formulated research questions. According to Ghazali (2018) the t-test is conducted to determine the influence of each independent variable on the dependent variable, either individually or partially. This also refers to the research problem formulated with the criteria for the t-test: if the Sig. value < 0.05, it indicates a significant influence, and if the Sig. The value is exactly 0.05, determining the presence or absence of the independent variable's influence on the dependent variable involves

comparing the calculated t-value with the critical t-value. Based on the analysis results, the t-test yields the following outcomes:

1. ROA, Sig. value of  $0.002 < 0.05$ , meaning ROA has a significant effect on stock prices.
2. ROE, Sig. value of  $0.553 > 0.05$ , meaning ROE does not have a significant effect on stock prices.
3. EPS, Sig. value of  $0.001 < 0.05$ , meaning EPS also has a significant effect on stock prices.
4. PER, Sig. value of  $0.501 > 0.05$ , meaning PER does not have a significant effect on stock prices.

### Multiple Linear Regression

The main objective of multiple linear regression is to understand how changes in the independent variables (ROA, ROE, EPS, PER) affect the dependent variable (stock price). Multiple linear regression is a method used to assess the influence of two or more independent variables on a single dependent variable measured on a ratio scale (Hardani et al., 2020).

**Table 1: results of multiple linear regression analysis**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	386.888	144.216		2.683	0.010
	ROA	129.718	40.790	0.483	3.180	0.002
	ROE	10.304	17.267	0.088	0.597	0.553
	EPS	7.812	2.247	0.351	3.477	<0.001
	PER	-0.027	0.040	-0.047	-0.678	0.501
a. Dependent Variable: Stock Price						

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Source: Data processed by SPSS application

Based on the data listed in Table 1, a multiple linear regression model has been generated to explain the relationship between relevant variables, which is as follows:

$$\text{Stock Price} = 386.888 + (129.718 \text{ ROA}) + (10.304 \text{ ROE}) + (7.812 \text{ EPS}) + (-0.027 \text{ PER})$$

The explanation of the multiple linear regression equation is as follows:

#### 1) Constant (Intercept)

The constant value of 386.888 indicates that if all independent variables (ROA, ROE, EPS, PER) are zero, the predicted stock price is 386.888. This condition represents the baseline stock price when other variables do not contribute.

#### 2) ROA (Return on Asset)

The ROA coefficient of 129.718 means that every 1-point increase in ROA will increase the stock price by 129.718 points, assuming other variables are constant. This shows that the company's profitability measured by its assets has a significant impact on the stock price. According to Salvatore (2022), a high ROA indicates the company's efficiency in generating profits from its assets. This efficiency reflects good management performance, which can increase investor confidence and ultimately the stock price. This result shows that profitability generated from assets is highly valued by the market, consistent with the theory that the intrinsic value of a stock is influenced by the company's financial performance.

#### 3) ROE (Return on Equity)

The ROE coefficient of 10.304 indicates that every 1-point increase in ROE will increase the stock price by 10.304 points, assuming other variables are constant. However, since the significance of ROE is 0.553, this effect is not statistically significant. According to Salvatore (2022), a high ROE indicates the company's efficiency in using shareholders' equity to generate profits. However, in the context of Islamic banking, this result shows

that the efficiency of equity use may be less relevant to investors, possibly due to other factors such as regulations and Shariah risks affecting investment decisions. This suggests that although ROE is important, other variables might be more dominant in the Islamic banking industry.

#### 4) EPS (Earnings Per Share)

The EPS coefficient of 7.812 means that every 1-point increase in EPS will increase the stock price by 7.812 points, assuming other variables are constant. The positive coefficient value indicates a positive relationship where the influence of EPS is very significant (significance value  $<0.001$ ), showing that EPS is an important indicator for investors in evaluating stock prices. EPS is a direct indicator of the company's profitability, recognized by Salvatore (2022) as an important factor in stock valuation. High EPS indicates good profitability, increasing investor confidence and driving up the stock price. This is consistent with Salvatore (2022) theory that good financial performance directly affects the company's stock value.

#### 5) PER (Price Earning Ratio)

The PER coefficient of -0.027 indicates that every 1-point increase in PER will reduce the stock price by 0.027 points, assuming other variables are constant. However, this influence is not statistically significant (significance value 0.501) and shows a negative relationship. According to Salvatore (2022), a high PER reflects the market's high expectations for the company's future earnings growth. However, this result shows that PER is not significant in affecting Islamic banking stock prices, possibly because investors are more focused on other indicators such as ROA and EPS, which more directly reflect the company's financial performance. In the Islamic banking industry, PER may be less relevant compared to the direct profitability shown by EPS.

#### Coefficient of determination test

According to Ghozali (2018) the coefficient of determination test is essentially used to determine the extent to which a model can explain the variation in the dependent or outcome variable. The regression model using ROA, ROE, EPS, and PER variables as predictors can explain approximately 74.9% (R Square) of the variation in the stock prices of Islamic banking in BEI for the period 2019-2023. The Adjusted R Square value of 73.0% confirms that this model remains significant even after adjusting for the number of independent variables used. The strong correlation coefficient ( $R = 0.865$ ) and the high R Square value indicate that the selected independent variables have a significant influence on stock prices. However, the relatively large standard error of the estimate suggests that there are some deviations in the model's predictions, which may be caused by other factors not included in this analysis.

#### The Effect of Return On Asset (ROA) on Islamic Banking Stock Prices in BEI for the Period 2019-2023

The results of the partial significance test or t-test indicate that Return On Asset (ROA) has a significant positive effect on stock prices, which is consistent with Salvatore (2022) theory on companies emphasizing the complexity of the business environment in influencing company performance. According to Kasmir (2021) Return On Asset (ROA) is a financial ratio that shows how effective a company is in managing its assets to generate profit. ROA is considered an important indicator in assessing a company's ability to generate profit from its assets, and investors tend to be attracted to companies with high ROA. However, in the Islamic banking industry, ROA must be assessed with considerations of compliance with Sharia principles. This result aligns with previous research, such as the study by Takarini dan Dewi (2023), which found a positive effect of ROA on stock prices of pharmaceutical companies in BEI, and Majid et al., (2022) which found a positive effect of ROA on stock prices of companies in the trade and services sectors of Islamic investment in ISSI. However, these findings differ from the study by

Hisbullah, Mohammad Rizqi (2021) which stated that ROA does not affect stock prices of companies in the consumer goods and industrial sector in BEI.

### **The Effect of Return On Equity (ROE) on Islamic Banking Stock Prices in BEI for the Period 2019-2023**

The results of the partial significance test or t-test indicate that Return On Equity (ROE) does not have a significant effect on stock prices, in line with Salvatore (2022) Theory of The Firm, which emphasizes that managerial decisions are not always oriented towards increasing ROE. According to Kasmir (2019) Return On Equity (ROE) or return on equity is a ratio that measures the net profit after tax earned by a company compared to its equity or shareholders' equity. Although ROE is an important profitability indicator, it is not always attractive to investors due to its limitations as a single indicator and the complexity of the Islamic banking industry. Smart investments in this industry require a holistic understanding of financial and operational performance, as well as external factors that can influence the company's growth and stability. This result is consistent with the study by Muhidin dan Situngkir (2023) which concluded that ROE does not affect stock prices of banking companies in BEI from 2015-2021, but contradicts the study by Hisbullah, Mohammad Rizqi (2021) which stated that ROE has a positive effect on stock prices of consumer goods and industrial sector companies in BEI from 2017-2020. Al-Qudah, Hanan Ahmad (2020) also found a significant effect of ROE on the stock prices of Islamic banks in Jordan from 2010-2018.

### **The Effect of Earnings Per Share (EPS) on Islamic Banking Stock Prices in BEI for the Period 2019-2023**

The t-test results confirm that Earnings Per Share (EPS) has a significant positive effect on stock prices, in line with Salvatore (2022) Theory of The Firm, which emphasizes the goal of companies to maximize profits. According to Kasmir (2019) Earnings Per Share (EPS) is an important measure because it provides investors with an overview of how much profit a company generates for each share they own. EPS reflects the company's earnings per share and becomes a key factor in determining stock prices, with companies capable of increasing EPS tending to be viewed as more successful. This affects investor perception, as they are more attracted to companies with high EPS or promising growth prospects. In the Islamic banking industry, stable or increasing EPS reflects the bank's profitability and growth potential, influencing investor confidence and stock prices. These findings are consistent with previous research, such as the studies by Takarini dan Dewi (2023) and Muhidin dan Situngkir (2023) which found a significant positive effect of EPS on stock prices. However, the study by Majid et al., (2022) found different results, showing that the role of EPS on stock prices varies depending on the industry sector. In conclusion, EPS has a varied role in influencing company stock prices.

### **The Effect of Price Earnings Ratio (PER) on Islamic Banking Stock Prices in BEI for the Period 2019-2023**

The t-test results show that the Price Earnings Ratio (PER) does not have a significant effect on stock prices, in line with Salvatore (2022) Theory of The Firm, which highlights that maximizing company profits is not always directly related to PER. According to Tandelilin, (2018) Price Earning Ratio (PER) indicates how well investors perceive the future growth prospects of a company. Additional factors such as Sharia compliance, risk management, and business structure in the Islamic banking industry can influence the relationship between PER and stock prices. For example, PT Bank BTPN Syariah Tbk (BTPS) has the highest PER, but this does not necessarily mean that its stock price is proportional to its net earnings per share. Investors often interpret a high PER as an indication of high stock valuation, but it can also indicate overvaluation. This study is consistent with the findings of Hashim (2020) which stated that PER does not significantly affect the stock prices of consumer companies in Malaysia, but contradicts studies that found a positive relationship between PER and Dividend Payout Ratio (DPR) according to



Wijayantini et al., (2022) and between PER and stock prices of banking companies in the Indonesia Stock Exchange according to Rumiatiningsih et al., (2021). In the context of the stock market, PER is just one of many factors that influence stock prices, and investors often consider PER along with other factors when making investment decisions.

#### 4. Conclusion

This study has demonstrated that Return On Assets (ROA) and Earnings Per Share (EPS) have a significant positive influence on the stock prices of Sharia banking in the IDX for the period 2019-2023, while Return On Equity (ROE) and Price Earnings Ratio (PER) do not have a significant influence. These findings advance knowledge in the field of Sharia finance, particularly for banking in Indonesia, by highlighting the importance of ROA and EPS as key indicators in stock price evaluation. This has practical implications for Sharia bank management to focus on improving financial performance through asset optimization and earnings per share, as well as for investors in making more informative investment decisions. As a further step, future research is recommended to expand the observation period and add other relevant variables, such as liquidity and market risk, while considering broader macroeconomic conditions to provide a more comprehensive understanding of the factors influencing the stock prices of Sharia banking.

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