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Jakarta Islamic Index (JII) in The Context of Investigating Financial Ratios as Determinant of Company Share Returns

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Abstract:

This study aims to analyze the effect of ROA, EPS on stock returns in companies listed on the Jakarta Islamic Index (JII). The population in this study are companies listed on the Jakarta Islamic Index (JII) during the 2018-2022 period. Sampling was done by purposive sampling method with a sample of 20 companies. The type of data used is secondary data obtained through the company's financial statements and annual reports which can be accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) or the official website of the company. The data analysis technique used is multiple linear regression. The results of this study indicate that the ROA variable affects stock returns in companies listed on the Jakarta Islamic Index (JII) while the EPS variable has no effect on stock returns in companies listed on the Jakarta Islamic Index (JII).

Keywords: *Shares, Jakarta Islamic Index (JII), ROA, EPS, Return*

1. Introduction

This investment activity means investing some capital. Usually an investor who invests has the hope of getting profits in the future. Someone who has a desire to get a decent life in the future, those who are wise will think about how to improve their standard of living or at least try how to maintain their current income level so that they are not short in the future (Ningsih & Kardinal 2022). This is one of the factors motivating potential investors to invest.

Shares are one of the investment instruments in the capital market as proof of ownership of a person or business entity in a company or limited liability company. Shares traded on the stock exchange can be in the form of common stock and preferred stock. Common stock is a certificate that shows proof of ownership of a company. As an owner, a common shareholder in a company also has proportional voting rights on various important decisions taken by the company at the general meeting of shareholders (GMS) (Ningsih & Kardinal 2022). Meanwhile, preferred stock is a type of equity security that differs in several ways from common stock, such as dividends paid are usually in a fixed amount and never change from time to time (Ningsih & Kardinal 2022). Basically, stock prices are volatile, sometimes going up and

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sometimes going down. However, the increase and decrease in stock prices is included in a common thing because, this increase and decrease is driven by the forces of supply and demand. If the demand increases, the stock price movement will increase and vice versa, if the number of offers is high, the stock price movement will decrease.

The decline in the number of share prices in 2015 to 2016 was influenced by various factors. Potential investors who invest their funds in companies listed on the Jakarta Islamic Index (JII) expect to benefit from an increase in share prices or a number of dividends. However, in investing there is not only a rate of return or profit but also has a risk. So that in investment there is a term high risk high return which means that the higher the risk the higher the rate of return. The rate of return or stock return is the income expressed as a percentage of the difference between the selling price of the shares and the purchase price of the shares. Stock returns can be positive (Capital Gain) or negative (Capital Lost). Capital gains can be obtained if the selling price of the stock is higher than the purchase price and vice versa. Although capital gains can be obtained in large amounts in a short time, it is also possible to experience large losses in a short time, along with changes in investor stock prices. For this reason, potential investors need to analyze a company first to ensure the risks they will face. The parameter commonly used to assess company performance is the financial approach of the company's financial statements. Financial performance can show the level of health of a company so that it can increase investor confidence in investing its capital. A company's performance that is good enough will be more attractive to potential investors. To analyze the financial condition of a company, it requires several benchmarks used such as ratios and indices.

In general, financial ratio analysis can be divided into several types including: profitability ratios. But in this study will use profitability ratios. Profitability ratio analysis is a ratio used to measure the focus on company profits which generally links the income statement to sales. The profitability ratio that will be used in this study is Return on assets (ROA). ROA is a ratio used to show the percentage of profit earned by a company from all of its assets. There are several previous studies that have different results regarding the effect of ROA on stock returns in manufacturing companies in the food and beverage sub-sector. Azizah et al. (2018), Mangantar et al. (2020) the results of their research explain that ROA has no effect on stock returns, while in the research of Putra & Kindangen (2016), Purba (2019) explains that ROA has an influence on stock returns.

EPS is a ratio that assesses the ability of a share to earn profits commonly used in annual reports for shareholders. Research on the effect of EPS on stock returns (Firda & Satrio, 2019; Nandani & Sudjarni (2017) results in EPS having a positive effect on stock returns, while, Mangantar & Baramuli (2020); Sinaga (2019) results in EPS has no effect on stock returns.

From previous research, there are still many who state different results, it can be concluded that there is still a problem of inconsistency in the results of previous research, so to strengthen the theory and results of previous research, this study examines more deeply the influence of ROA, EPS on stock returns. Therefore, the research objective is to analyze the effect of ROA, EPS on stock returns in companies listed on the Jakarta Islamic Index (JII).

2. Theoretical Background

The relationship between ROA and stock returns in companies listed on the Jakarta Islamic Index (JII).
ROA is a ratio that describes the company's ability to generate profit on its assets. With the increase in ROA value, it means that the company's performance is getting better in managing assets. So that as an impact, the company's share price will increase, which then affects the amount of stock returns distributed will also increase. The increasing value of ROA has its own charm and is able to influence potential investors to invest in the company. Nandani & Sudjarni (2017); Dewi & Sudiartha (2019); Gunadi & Kesuma (2015); Puspitadewi & Rahyuda (2016) state that ROA has a positive and significant effect on stock returns. H1: ROA affects stock returns in companies listed on the Jakarta Islamic Index (JII).

The relationship between EPS and stock returns in companies listed on the Jakarta Islamic Index (JII).
EPS is a ratio to show management's ability to earn profit from each share. With the basis of calculation dividing between net income and the number of shares. The increasing EPS value indicates that the company is in a developing condition so that it can generate net profit per share. Gunadi & Kesuma (2015); Nandani & Sudjarni (2017); Purba (2019) state that EPS has a positive and significant effect on stock returns. H2: Earning Per Share affects stock returns in companies listed on the Jakarta Islamic Index (JII).

3. Methodology

In this research, the author uses quantitative methods with regression analysis to explore the correlation between variables. This study applies a quantitative descriptive approach where the data source is secondary data. The population in this study are companies listed on the Jakarta Islamic Index (JII) during the 2018-2022 period. Sampling was carried out using the Purposive Sampling method with a sample of 20 companies listed on the Jakarta Islamic Index (JII). The type of data used is secondary data obtained through the company's financial statements and annual reports which can be accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) or the official website of the company. The data analysis technique used is multiple linear regression.

There are 2 variables in this study, namely: Free Variable: ROA (X_q); EPS (X_2) and the dependent variable is stock return (Y). After all data is obtained, it is then analyzed using SPSS'26 using: classical assumption test, hypothesis testing and coefficient of determination test.

4. Empirical Findings/Result

Normality Test

The Kolmogorov-smirnov test results, from 30 research samples, show a residual value of 0.2 which means> 0.05 significance so that all data in the variables are normally distributed. This shows that the data used in this study have met the normality test because the data are normally distributed.

Multicollinearity Test

The VIF value for the EPS variable is 2,863 with a tolerance of 0.349; DPS with a VIF value of 2,712 with a tolerance of 0.369; PER with a VIF value of 1,095 and a tolerance of 0.913 all tolerance values for each variable are more than 0.10 and the VIF value is less than 10. So it can be concluded that the proposed regression model does not occur symptoms of multicollinearity.

Heteroscedasticity Test

The test results show that the significance probability value of the independent variables in this study, among others: RAO, EPS is more than 0.05 or above the 5% confidence level. Thus it can be concluded that the independent variables used in this study can be said that there is no hesteroscedasticity problem in the regression model or it can be said to be hookedasticity.

Autocorrelation Test

Durbin Watson value of 2.048, comparison using a significance value of 5% sample size of 30 (n) and the number of independent variables 3 (k = 3) then in the DurbinWatson table will get a du value of 1.567. Because the DW value of 2.048 is greater than the upper limit (du) of 1.567 and less than 4 - 1.567 (2.433), it can be concluded that there is no autocorrelation.

F test

The calculated F value is 65.295 with a significance level of 0.00. The results of the F test have a significance value smaller than 0.05. This shows that simultaneously there is an influence between ROA; EPS on stock returns in companies listed on the Jakarta Islamic Index (JII). This means that this regression model is suitable for use to determine the effect of ROA, EPS variables on stock returns in companies listed on the Jakarta Islamic Index (JII).

Linear Regression Analysis

The results of the linear regression equation used are as follows:

$$Y = 0.899X1 + 0.809X3 + e$$

Based on this equation, it can be seen that the variables ROA; EPS are positive. From this equation it can be explained:

1. ROA with a regression coefficient of 0.899 is positive, which means that if ROA increases by 1 (one) point, it will cause an increase in stock returns of 0.899 points in companies listed on the Jakarta Islamic Index (JII) list.

2. EPS with a regression coefficient of 0.809 is positive, which means that if EPS increases by 1 (one) point, it will cause an increase in stock returns by 0.809 points in companies listed on the Jakarta Islamic Index (JII).

Hypothesis Test

Simultaneous Test (F Test)

If the significance is <0.05, then Ho is rejected, meaning that the independent and dependent variables have a significant impact. If the significance value is> 0.05, then Ho is accepted, so it can be stated that the independent and dependent variables have no influence. Based on the results of the F test, the calculated F value is 65.295 with a significance level of 0.00. The results of the F test have a significance value smaller than 0.05. This shows that simultaneously there is an influence between ROA, EPS on stock returns. This means that this regression model is suitable for use to determine the effect of ROA, EPS variables on stock returns in companies listed on the Jakarta Islamic Index (JII).

Test t

If the resulting probability <0.05, it will be stated that there is a significant implication of the *independent variable* to the *dependent variable*. If the resulting probability> 0.05, it is said that it will not have a significant effect. The test results are as follows:

1. Hypothesis 1: states that the ROA variable is a variable that affects stock returns in companies listed on the Jakarta Islamic Index (JII). The sig value of 0.000 is below 0.05, the calculation results of multiple regression obtained the t value is greater than the t table, which affects stock returns in companies listed on the Jakarta Islamic Index (JII) of 7.999> 1.690, so ha is accepted. This figure shows a significant value. For the statement H1 is accepted.
2. Hypothesis 2: states that the EPS variable is a variable that affects stock returns in companies that are included in the Jakarta Islamic Index (JII) list. sig value 0.044 below 0.05 the calculation results of multiple regression obtained t value greater than t table that is influential on stock returns in companies that are included in the Jakarta Islamic Index (JII) list of 2.100> 1.690 then ha is accepted. This figure shows a significant value, which means that EPS has a significant effect on stock returns in companies listed on the Jakarta Islamic Index (JII). For the statement H2 is accepted

Test Coefficient of Determination (R)^2

The coefficient of determination (R^2) is between 0-1. The independent variable can explain the dependent variable if the determinant score (R^2) obtained is small. Conversely, all information is given to predict the *dependent variable* by the *independent variable* when the determinant score (R^2) is obtained large and close to 1. The result of adjust R square is 0.863. This means that ROA, EPS are able to explain the stock returns of companies listed on the Jakarta Islamic Index (JII) by 86% while the remaining 14% is explained by variables outside the study

5. Discussions

The effect of ROA on Stock Returns in companies listed on the Jakarta Islamic Index (JII)

The first hypothesis proposed in this study posits that the Return on Assets (ROA) has a significant impact on stock returns. The results derived from employing the t-test on the ROA variable revealed a value less than or equivalent to 0.05. This indicates that the ROA variable does indeed have a significant influence on the stock returns of companies listed on the Jakarta Islamic Index (JII) from 2018 to 2022, thereby validating this hypothesis. This finding aligns with previous research by Gunadi & Kesuma (2015), Puspitadewi & Rahyuda (2016), and Purba (2019), all of which found a positive correlation between ROA and stock returns.

ROA, being a ratio that illustrates the rate of return or yield on a company's investment from the comprehensive management of its assets, is a crucial metric for investors. A higher ROA value signals a greater rate of return on the company's assets, which in turn attracts investors seeking higher returns on their investments. Moreover, an increase in the ROA value is indicative of the company's improved performance. This has a direct impact on the company's stock price and, subsequently, its stock returns. As such, the escalating ROA value of companies listed on the Jakarta Islamic Index (JII) is likely to lead to an increase in their stock prices and returns due to their interrelated nature. This, in turn, makes these companies more attractive to investors, thereby potentially leading to an increase in their market value.

Thus, the study's findings underscore the significant role of ROA in influencing stock returns, reinforcing its importance as a key financial indicator for investors when considering investment decisions in companies listed on the Jakarta Islamic Index (JII).

The Effect of EPS on Stock Prices in companies listed on the Jakarta Islamic Index (JII)

The analysis of this study's results, conducted using multiple linear regression, presents essential insights regarding the influence of Earnings Per Share (EPS) on stock returns in companies listed on the Jakarta Islamic Index (JII) from 2018 to 2022. The findings suggest that a lower EPS value can lead to a decrease in the price of the shares in question, which subsequently influences the stock returns in these companies. The EPS, which reflects the amount of money earned (or the return) from each share, is a significant factor for shareholders or potential shareholders and management.

An increase in the EPS value signifies a higher rate of return for shareholders, given that this measure essentially indicates the profitability of a company on a per-share basis. Hence, a higher EPS typically makes a company's stock more attractive to investors, leading to an increase in the stock price and, by extension, the stock returns.

This finding aligns with the research conducted by Gunadi & Kesuma (2015), Nandani & Sudjarni (2017), and Firda & Satrio (2019), all of which concluded that the EPS variable significantly impacts stock returns. However, it's worth noting that this conclusion contradicts the outcomes of research conducted by Putra & Kindangen (2016) and Sinaga (2019), which found that the EPS variable does not influence stock returns.

This discrepancy underscores the complexity of the relationship between EPS and stock returns, suggesting that the impact of EPS on stock returns might be influenced by other factors, such as market conditions, investor sentiment, or specific industry characteristics. Further research is needed to investigate these dynamics in more depth and to reconcile the contrasting findings in the literature.

6. Conclusions

Based on the research findings and discussion, it has been determined that tax avoidance stock returns are significantly and positively influenced by the Return on Assets (ROA) and Earnings per Share (EPS) in companies listed on the Jakarta Islamic Index (JII) from 2018 to 2022. ROA, a ratio that illustrates the rate of return or yield on investment made by the company from managing all its assets, has a positive impact on stock returns. Hence, it can be deduced that higher the ROA value, greater is the return expected by investors.

Similarly, EPS also affects stock returns. The results indicate that a lower EPS value can lead to a decrease in the share price, which subsequently impacts the stock returns in companies listed on the Jakarta Islamic Index (JII). In conclusion, both ROA and EPS are significant factors influencing stock returns in companies listed on the Jakarta Islamic Index (JII).

For future research, it would be beneficial to examine other potential variables that may influence stock returns, such as market volatility, company size, or industry-specific factors. Additionally, a comparative study between companies listed on the Jakarta Islamic Index (JII) and those listed on other Islamic indices could provide valuable insights into the significance of ROA and EPS in different market contexts.

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