

The Influence of Return on Assets (ROA) and Return on Equity (ROE) on Sharia Stock Prices (Case Study of Companies Registered on JII 2016-2019)

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Abstract

An important decision faced by an investor in deciding to include capital in the company is to be able to choose the right company because stock conditions often fluctuate and are uncertain. Then, it can be done using market ratio analysis, which can help investors determine which company to choose. This study aims to determine the partial and simultaneous effect of Return On Assets (ROA) and Return On Equity (ROE) on stock prices in the group Jakarta Islamic Index. The population in this study consisted of all issuers in the Jakarta Islamic Index (JII), which amounted to 30 companies. The purposive sampling technique was used to obtain 14 companies as research samples. The observation period is four years, namely in 2016-2019, so the unit of analysis obtained is 56. The research variables consist of the independent variables ROA (X1) and ROE (X2) and Stock Price (Y) as the dependent variables. The data collection method in this research is the documentation method. The data analysis technique used is multiple linear regression. Based on the results of the regression analysis, it can be seen that ROA and ROE simultaneously had an effect on Islamic stock prices in the JII group in 2016-2019. Partially, ROA did not affect Islamic stock prices in the JII group in 2016-2019. While ROE partially affected the price of sharia shares in the JII group in 2016-2019.

Keywords: ROA, ROE, Stock Price

INTRODUCTION

The increasing development of Islamic economics in Indonesia, especially in the investment sector, has recently become an exciting and encouraging phenomenon for the Indonesian people, most of whom are Muslim. This is indicated by the fact that since 2016, quoted from <https://idxislamic.co.id>, the number of sharia investors in Indonesia has grown by 647%, data as of February 2021, with an average annual growth of 65%. Now, the total number of Sharia investors in Indonesia has reached 91,703, which is a multiple of the number of Sharia investors in 2016, which was 12,283. Apart from that, the number of sharia shares is also growing consistently. Based on IDX data as of March 31, 2021, the number of Sharia shares was 434 shares out of a total of 724 shares recorded, an increase compared to 2016 when there were 331 Sharia shares out of a total of 537 shares recorded. This means that the number of sharia investors is increasing in Indonesia, indicating that Indonesian people's awareness of sharia investing is also increasing.

The problem often faced by investors in the capital market is choosing the right company to invest in so that investment can be obtained at a reasonable price and reflects potential investment. This is why potential investors must identify the shares they will invest in in the right way and consider the condition and prospects of the company in the future to increase the company's profits. To find out whether a company's shares are worthy of being an investment option, an analysis of the company in question must first be carried out. The results of this analysis must provide investors with an idea of the company's value (Tandelilin, 2010: 363). According to (Fahmi, 2013: 91), there are four assessments of an investor towards a stock, namely as follows: (1) by looking at promising business prospects, (2) financial and non-financial performance, (3) presentation of open financial reports and clear, (4) and the profit side continues to increase.

According to (Hantono, 2018: 1), financial report analysis is information that can describe and assess company performance, especially for companies whose shares have been listed and traded on the stock exchange. A critical indicator for determining a company's prospects is to see the extent of the company's profitability growth. It is essential to pay attention to this indicator to determine to what extent the investment that investors will make in a company can provide returns by the level required by investors. For this reason, two main ratios are usually used, namely Return On Assets (ROA) and Return On Equity (ROE) (Tandelilin, 2010, p. 372).

According to (Gumanti, 2011 p. 115), the higher the rate of return or Return On Assets (ROA) value obtained, the higher the company's ability to generate profits. The higher the profits generated, the more investors are interested in the value of the company's shares so that the share price will increase, as well as the return on equity (ROE). Also, the ability of own capital to generate profits or profits for shareholders so that it will increase share prices.

The following Table 1 shows the movement of ROA, ROE, and sharia share prices included in JII in 2016-2019:

Table 1
Average ROA, ROE, and Share Price Data

Year	ROA Value (%)	ROE Value (%)	Share Price (Rp)
2016	10,42	22,35	8.987
2017	11,20	24,12	10.777
2018	11,40	25,23	9.283
2019	9,89	24,69	8.814

Source: www.idx.co.id ROA, ROE, and Sharia Stock Price data processed

The table above contains data on ROA, ROE, and share prices for several companies that are members of JII for 2016-2019. ROA, ROE, and share prices have increased from 2016 to 2018. However, in 2019, ROA, ROE, and share prices decreased. The increase in ROA, ROE, and share prices in 2016-2018 was not followed by the rise in share prices in 2018. The average value of share prices shows that share prices experienced a decline in 2018.

Share price measures a company's performance index, namely how successful management has managed the company on behalf of shareholders. In a short period,

the price of a share can fluctuate. Stock prices, as an indicator of company value, will experience various possibilities of price increases or decreases because various fundamental and technical variables influence them, and these variables will form market forces that affect stock transactions. Based on the background above, the researcher is interested in conducting research in the form of a thesis with the title "The Influence of Return On Assets (ROA) and Return On Equity (ROE) on Sharia Stock Prices (Case Study of Companies Registered on JII 2016-2019)".

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The influence of ROA on share prices in companies listed on the Jakarta Islamic Index (JII) in 2016-2019

According to (Tandelilin, 2010, p. 240), ROA describes the extent to which the assets owned by the company can generate profits. According to Gumanti (2011), the higher the rate of return or Return On Assets (ROA) value obtained, the higher the company's ability to generate profits. The higher the profits generated, the more investors will be attracted to the value of the company's shares, so that the share price will increase (Juwari, 2016).

H₁: ROA partially has a positive and significant effect on Sharia share prices in companies registered with JII from 2016 to 2019.

The influence of ROE on share prices in companies listed on the Jakarta Islamic Index (JII) in 2016-2019

Return On Equity (ROE) is a ratio that describes the extent of a company's ability to generate profits that can be obtained from shareholders (Tandelilin, 2010, p. 372). According to Gumanti (2011), the higher the rate of return on Return On Equity (ROE) capital, the better the position of the company owner and the higher the ability of the capital itself to generate profits for shareholders, thereby increasing share prices (Juwari, 2016).

H₂: ROE partially has a positive and significant effect on share prices in companies registered with JII in 2016-2019.

Return On Assets (ROA) and Return On Equity (ROE) together have a positive and significant effect on share prices in companies listed on the Jakarta Islamic Index (JII) in 2016-2019

ROA describes the extent to which the company's assets can generate profits. Meanwhile, ROE is a ratio that describes the extent of a company's ability to generate profits that shareholders can obtain.

H₃: ROA describes how much the company's assets can generate profits. Meanwhile, ROE is a ratio that describes the extent of a company's ability to generate profits that shareholders can obtain.

RESEARCH METHODS

This type of research uses quantitative research. It was conducted at companies registered on the Jakarta Islamic Index (JII) from 2016 to 2019, using data from the

Jakarta Islamic Index website (<https://www.idx.co.id/idx-syariah/index-saham-syariah/>). The research period was three months, namely April to June 2021.

This research's population consists of companies that fall into the JII category for 2016-2019. The sample used was nonprobability sampling with purposive sampling.

This research used bivariate and multivariate data analysis methods. The analytical tool used is the Statistical Package for Social Science (SPSS).

Hypothesis testing uses the F test (simultaneous) to show whether all the independent variables included in the model have an influence together or simultaneously on the dependent variable (Kuncoro, 2007: 82), the t-test (partial) to show how far the influence of one explanatory variable individually in explaining the dependent variable (Kuncoro, 2007: 81), and the Coefficient of Determination (R^2) essentially measures how far the model's ability to explain variations in the dependent variable.

RESULTS AND DISCUSSION

Bivariate Analysis

Bivariate analysis or bivariate relationship is a relationship between 2 variables: one independent variable and one dependent variable.

Descriptive statistics

The dependent variable is share price, and the independent variables are ROA and ROE. This study used 56 samples originating from companies listed on the Jakarta Islamic Index from 2016 to 2019.

Product Moment Correlation

Correlation analysis can be used to determine a quantity that states how strong the relationship between a variable and other variables is.

From the results of the correlation analysis above, it can be seen that the correlation between ROA and share prices is 0.719. According to the level of closeness between the independent variable and the dependent variable, it shows that there is a strong relationship between ROA and share prices. Meanwhile, the direction of the relationship is positive, meaning that the higher the ROA, the higher the share price value. From the results of the correlation analysis above, it can be seen that the correlation between ROE and share prices is 0.782. According to the level of closeness between the independent variable and the dependent variable, it shows that there is a strong relationship between ROE and share prices. Meanwhile, the direction of the relationship is positive, meaning that the higher the ROE, the higher the share price value will be.

Simple Linear Regression

Simple linear regression is a regression test method used to determine the influence of an independent variable on the dependent variable.

From the results of the simple linear regression test, the Hypothesis 1 regression equation is obtained, namely:

$$Y = -695,633 + 946,879X_1 \text{ atau } Y = -695,633 + 946,879 \text{ ROA}$$

From the results of the simple linear regression test, the Hypothesis 2 regression equation is obtained, namely:

$$Y = 2399,073 + 293,055X_2 \text{ atau } Y = 2399,073 + 293,055 \text{ ROE}$$

The constant (a) of 2399.073 is positive. This shows that if ROE is 0, the share price (Y) is 2399.0733. 2) ROE has a regression coefficient of 293.055. The coefficient value of ROE is positive on share prices. It can also be interpreted that ROE has a positive influence on share prices. It can be concluded that every time ROE increases by 1 unit, the share price will increase by 293,055, assuming other variables are considered constant.

Multivariate Analysis

Classic assumption test

The data normality test shows that the data is normally distributed, there is no multicollinearity, and there is no correlation between the independent variables in the regression model. Furthermore, heteroscedasticity does not occur, and the variance of the residual variable from one observation to another remains constant. In this model, there is no autocorrelation, either positive or negative.

Multiple Linear Regression

Multiple linear regression analysis is used to determine the influence between the independent variable and the dependent variable. ROA and ROE are independent variables (X), and sharia share prices are the dependent variable (Y). The regression equation in this research is as follows:

$$Y = 3261,003 + (-202,003) X_1 + 347,208 X_2 + e$$

The constant 3261.003 is positive. This shows that if ROA (X1) and ROE (X2) are zero, then the sharia share price (Y) has a value of 3261.003. The coefficient value of ROA is negative for share prices. Alternatively, it can also be interpreted that ROA negatively influences share prices. It can be concluded that every time ROA decreases by 1 unit, the share price will increase by 202,003, assuming the other variables are considered constant. The coefficient value of ROE is positive for share prices. It can also be interpreted that ROE has a positive influence on share prices. It can be concluded that every time ROE increases by 1 unit, the share price will increase by 347,208, assuming other variables are considered constant.

Hypothesis test

The influence of Return On Assets (ROA) on share prices

The results of the data analysis can be concluded that Return On Assets (ROA) has no effect on stock prices where the significance value of 0.548 is more significant than 0.05. This shows that H0 is accepted (H1 is rejected), which means that partial Return On Assets (ROA) does not positively and significantly affect sharia stock prices.

The influence of Return On Equity (ROE) on share prices

The results of the data analysis show that return on equity (ROE) has a significant effect on share prices, with a significance value of 0.001 being smaller than 0.05. This shows that H₀ is rejected, which means that Return On Equity (ROE) partially has a positive and significant effect on Sharia stock prices.

The influence of Return On Assets (ROA) and Return On Equity (ROE) on stock prices

The results of the data analysis can be concluded that Return On Assets (ROA) and Return On Equity (ROE) have a positive and significant effect on stock prices, with a significance value of 0.000 being smaller than 0.05. This shows that H₀ is rejected, which means Return On Assets (ROA) and Return On Equity (ROE) simultaneously significantly affect stock prices, meaning ROA and ROE are factors included in the profitability ratio. In companies that are included in the Jakarta Islamic Index (JII), the profitability ratio has quite a significant influence on stock development. So, the better the profitability ratio attracts the interest of many investors; the higher the interest of investors in buying shares, the higher the share price will be. The results of data analysis in Table 16 can conclude that Return On Assets (ROA) and Return On Equity (ROE) have a positive and significant effect on stock prices where the significance value of 0.000 is smaller than 0.05. This shows that H₀ is rejected, which means Return On Assets (ROA) and Return On Equity (ROE) simultaneously significantly affect stock prices, meaning ROA and ROE are factors included in the profitability ratio. In companies that are included in the Jakarta Islamic Index (JII), the profitability ratio has quite a significant influence on stock development. So, the better the profitability ratio attracts the interest of many investors; the higher the interest of investors in buying shares, the higher the share price will be.

Coefficient of Determination (R²)

The analysis's results obtained an Adjusted R² value of 0.599. This shows that ROA and ROE influence variations in share price changes by 59.90%, and the remaining 49.90% is influenced by other variables not used in this research.

Discussion

The influence of Return On Assets (ROA) on share prices

Return On Assets (ROA) is a ratio that describes how much the company's assets can generate profits (Tandelilin, 2010 p. 372). The greater the company's profits, the greater the investor's desire to invest in shares. So, the higher the ROA value, the higher the share price will be. However, from the test results in Table 15, it is known that the ROA coefficient is negative (-), namely -202.003. In other words, the higher the ROA value, the lower the share price. So, the size of the ROA in a company will not affect the share price of the company itself. This is because the data in this research shows companies that are losing money, which will decrease their share prices. Apart from that, data from this research also shows that the ROA value of each Jakarta Islamic Index (JII) company from 2016 to 2019 experienced fluctuating changes, which could have no effect on share prices on the stock exchange. According to (Egam et al., 2017), the lack of influence of ROA on share prices can also be caused by investors not only paying attention to the company's internal ability to generate profits 74 but also paying attention to external risks and market conditions. External risks outside the company's control can include inflation, tariff increases, and changes in economic and political policies. Supply and demand in the capital market also influence investment decisions, which can result in share price fluctuations. The results of this research are research conducted by Pramita (2020), namely that the Return On Assets (ROA) variable partially does not significantly affect stock prices.

The influence of Return On Equity (ROE) on share prices

Return On Equity (ROE) is a ratio that describes the extent of a company's ability to generate profits that can be obtained from shareholders (Tandelilin, 2010, p. 372). According to (Brigham & Houston, 2010, p. 133), the most important ratio is ROE. Shareholders want to get a high return on the capital they invest, and ROE can show the level of return they get. This means that the higher the ROE value, the higher the company's value in the eyes of investors and potential investors; therefore, it can increase share prices. This theory is in line with this research, wherein the test results in Table 15, ROE is positive (+) with a coefficient value of 347.208. In other words, the higher the ROE ratio value, the higher the share price in that company. The results of this research are based on Ani (2019), namely that the return on equity (ROE) variable partially has a positive and significant effect on stock prices.

The influence of Return On Assets (ROA) and Return On Equity (ROE) on stock prices

Return On Assets (ROA) and Return On Equity (ROE) have a positive and significant effect on stock prices, with a significance value of 0.000 smaller than 0.05. This shows that H₀ is rejected, which means Return On Assets (ROA) and Return On Equity (ROE) simultaneously significantly affect stock prices, meaning ROA and ROE are factors included in the profitability ratio. The profitability ratio significantly influences stock development in companies included in the Jakarta Islamic Index (JII). So, the better the profitability ratio attracts the interest of many investors; the higher the interest of investors in buying shares, the higher the share price will be.

CONCLUSION

Based on the results of data analysis, hypothesis testing, and discussions that have been carried out on companies listed on the Jakarta Islamic Index (JII) in the 2016-2019 period, it can be concluded that:

Return On Assets (ROA) did not partially have a positive and significant effect on Sharia share prices in companies listed on the Jakarta Islamic Index (JII) from 2016 to 2019.

Return On Equity (ROE) partially had a positive and significant effect on Sharia share prices in companies listed on the Jakarta Islamic Index (JII) from 2016 to 2019.

Return On Assets (ROA) and Return On Equity (ROE) simultaneously had a positive and significant effect on sharia share prices in companies listed on the Jakarta Islamic Index (JII) from 2016 to 2019.

Limitations and Suggestions

The variables researchers use are only the majority of financial ratios in companies listed on the (JII) Jakarta Islamic Index.

Researchers only conducted research on companies listed on the Jakarta Islamic Index (JII) for four years, namely from 2016 to 2019, by looking at each company's annual financial reports and could not represent companies in general.

Researchers only researched a few variables, so they hope future researchers will use other variables.

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