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Assessing Islamic Banking Equity: A Synthesis of Financial Ratios and Economic Conditions

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ABSTRACT

The success of companies in the banking sector is necessary for driving economic growth and state revenues. Their success is usually measured using their share prices which is a good index of their overall value. The objectives of this paper were to analyse the relationship between independent variables and share prices of Islamic Banking companies. The independent variables are the following financial ratios for indicators Return on Assets, Return on Equity, Debt to Equity Ratio, Debt to Asset Ratio, Inflation, interest rates and exchange rates. The study made use of the random effects data model to analyse the various Islamic Banking firms that are listed capital market, using data from 2020 to 2023. The results from the study were that Return on Assets, Return on Equity, Debt to Equity Ratio and Debt to Asset Ratio had a statistically significant impact on the share prices of the Islamic Banking Companies. However, Inflation, Interest, and exchange rates did not have a statistically significant effect on stock prices. The results of this analysis will be useful for stakeholders in the Islamic banking sector as they know the most critical factors in determining the market's valuation of a companies performance and results to help guide strategies for the future.

Keywords: Financial Ratios, Inflation, Interest Rates, Stock Prices, Islamic Banking

ABSTRAK

Keberhasilan perusahaan dalam sektor perbankan sangat penting untuk mendorong pertumbuhan ekonomi dan pendapatan negara. Keberhasilan ini biasanya diukur dengan harga saham yang merupakan indikator dari nilai keseluruhan mereka. Tujuan dari makalah ini adalah untuk menganalisis hubungan antara variabel independen dan harga saham. Variabel independen tersebut adalah Return on Assets, Return on Equity, Debt to Equity Ratio, Debt to Asset Ratio, inflasi, suku bunga, dan nilai tukar. Studi ini menggunakan model efek acak untuk menganalisis berbagai perusahaan Perbankan Islam yang terdaftar di pasar modal, menggunakan data dari tahun 2020 hingga 2023. Hasil dari studi ini menunjukkan bahwa ROA, ROE, DER dan DAR memiliki dampak yang signifikan secara statistik terhadap harga saham Perbankan Islam. Namun, inflasi, suku bunga, dan nilai tukar tidak memiliki efek secara statistik terhadap harga saham. Hasil analisis ini akan berguna bagi pemangku kepentingan dalam sektor perbankan Islam karena mereka mengetahui faktor-faktor paling kritis dalam menentukan penilaian pasar terhadap kinerja dan hasil perusahaan untuk membantu memandu strategi di masa depan.

Kata Kunci: Rasio Keuangan, Inflasi, Suku Bunga, Harga Saham, Bank Syariah

A. INTRODUCTION

The stock market is the core of the financial sector. It reflects a country's economic and financial dynamics. The primary object of interest in this context is share prices. They assume the position of a critical indicator of the value of investments at which investors, analysts, and market players focus[1]. Thus, in the context of country dynamics and economic performance, these factors are the focus due to numerous implications for investment decisions. The past dynamics of share prices are explained by prices and the resulting transaction volumes.

The prices are formed in the stock exchange, at a certain time and by participants of this market. The price is determined by the ratio of supply and demand in the exchange market. It reflects the market value of shares. Finally, there are external factors that influence share

[1] Sorwar et al., "To Debt or Not to Debt: Are Islamic Banks Less Risky than Conventional Banks?"; Camgöz and Topal, "Identifying the Asymmetric Price Dynamics of Islamic Equities: Implications for International Investors."

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prices and form the context of economic performance, market changes, policy development, and other related variables that impact share price dynamics[2].

The share price is concerned with the first item and probably the most interesting thing for investors because it generalizes everything to do with their perception of measures provided. Share value implies the logical continuation of all outcomes, because it calls for either growing the company's overall worth or shareholder wealth[3]. The higher the share price, the greater value of a company and similarly Some of the factors that should be into account is composed of what can affect company's share price while reviewing Islamic banking performance[4]. Investors were required to know that information along with the company's financial ratios and look forward also to some macroeconomic factors, which may affect share prices.

While deciding to sell, buy or hold shares investor always has financial reports as crucial document which they rely upon ondeciding their investments. Financial ratio analysis effectively understands a company's financial health and predicts its future performance[5]. However, Islamic banking requires a more profound understanding of the relationship between financial ratios and share prices. The company's microeconomic factors influence a company's share price through financial ratios such as ROA, ROE, DAR, and DER. Besides financial ratios, macroeconomic factors such as interest rates, inflation, and exchange rates can influence stock prices. Shares as proof of ownership of industrial companies have shareholders as owners[6].

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[2] Mubarok and Al Arif, "Pandemic Attack and Islamic Stocks Index: A Cross Country Analysis"; Djennas, "Business Cycle Volatility, Growth and Financial Openness: Does Islamic Finance Make Any Difference?"; Ng and Ariff, "Does Credit Rating Revision Affect the Price of a Special Class of Common Stock?"; Mazouz, Mohamed, and Saadouni, "Stock Return Comovement Around the Dow Jones Islamic Market World Index Revisions."

[3] Mukhibad, Kiswanto, and Jayanto, "An Analysis on Financial and Social Performance of Islamic Banks in Indonesia"; Chen and Wu, "The Influence of R&D Intensity on Financial Performance: The Mediating Role of Human Capital in the Semiconductor Industry in Taiwan."

[4] Yanikkaya, Gümüş, and Pabuçcu, "How Profitability Differs Between Conventional and Islamic Banks: A Dynamic Panel Data Approach"; Kassim, "Islamic Finance and Economic Growth: The Malaysian Experience."

[5] Trad, Trabelsi, and Goux, "Risk and Profitability of Islamic Banks: A Religious Deception or an Alternative Solution?"; Miah and Uddin, "Efficiency and Stability: A Comparative Study between Islamic and Conventional Banks in GCC Countries."

[6] Takarini and Dewi, "Analisis Rasio Keuangan Terhadap Harga Saham Pada Perusahaan Farmasi Yang Terdaftar Di Bursa Efek Indonesia."

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Macroeconomic factors that influence the Islamic stock price index involve inflation as a condition of general and continuous increase in the prices of goods[7]. Another macroeconomic factor is the interest rate. An increase in interest rates will increase the rate of return on lower-risk investments compared to higher-risk securities investments. Currency exchange rates reflect the price of a country's currency against other foreign countries[8].

Several researchers have conducted previous studies on Islamic banking share prices. Return on Assets (ROA) does not have a significant influence on Islamic banking share prices[9]. However, there is a positive and significant influence between ROA and share prices[10]. Return on Equity (ROE) does not influence share prices[11]. Conversely, ROE has a positive and significant effect on stock prices[12]. Islamic bank stock prices are influenced by the Debt to Equity Ratio (DER)[13]. However, DER has a significant negative effect on stock prices[14]. Inflation and exchange rates do not affect the stock price index[15]. However, inflation and interest rates affect stock prices simultaneously[16].

[7] Mishkin, *The Economics of Money, Banking, and Financial Markets*.
[8] Setyaningrum and Muljono, "Inflasi, Tingkat Suku Bunga Dan Nilai Tukar Terhadap Return Saham."
[9] Satria and Putri, "Pengaruh Rasio Keuangan Terhadap Harga Saham Perbankan Syariah Terdaftar Bursa Efek Indonesia"; Rahmani, "Pengaruh ROA (Return On Asset), ROE (Return On Equity), NPM (Net Profit Margin), GPM (Gross Profit Margin) Dan EPS (Earning Per Share) Terhadap Harga Saham Dan Pertumbuhan Laba Pada Bank Yang Terdaftar Di Bursa Efek Indonesia Tahun 2014 - 2018."
[10] Ady, "Analisis Pengaruh Rasio Keuangan Terhadap Harga Saham Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2018."
[11] Nafiah, "Analisis Pengaruh Rasio Keuangan Dan Variabel Makro Ekonomi Terhadap Harga Saham (Studi Kasus Pada Perusahaan Perbankan Yang Masuk Dalam Indeks LQ45)."
[12] Rahmani, "Pengaruh ROA (Return On Asset), ROE (Return On Equity), NPM (Net Profit Margin), GPM (Gross Profit Margin) Dan EPS (Earning Per Share) Terhadap Harga Saham Dan Pertumbuhan Laba Pada Bank Yang Terdaftar Di Bursa Efek Indonesia Tahun 2014 - 2018."
[13] Krisnawati, Setiawan, and Anjani, "Analisis Pengaruh Rasio Likuiditas, Solvabilitas Terhadap Harga Saham PT. Indofood CBP Sukses Makmur Tbk."
[14] Prastiyan and Adiyanto, "Pengaruh Rasio Profitabilitas, Leverage, Dan Nilai Pasar Terhadap Harga Saham Bank Syariah Yang Terdaftar Di Bursa Efek Indonesia Periode Juli 2021 - November 2022."
[15] Tripuspitorini, "Analisis Pengaruh Inflasi, Nilai Tukar Rupiah, Dan BI-Rate Terhadap Harga Indeks Saham Syariah Indonesia."
[16] Rachmawati, "Pengaruh Inflasi Dan Suku Bunga Terhadap Harga Saham Pada Perusahaan Perbankan Yang Terdaftar Di LQ45 Bursa Efek Indonesia."

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To summarize, the results from these studies are generally research results that can be understood by the actors concerned, either what determines the stock price of the Islamic bank. The differences in their results point to how complex and fluid financial markets are. So, it is not something that can be easily understood and requires a careful approach. The current study analyses the factors that affect Islamic banking share prices in Indonesia. As for the differences with previous research, first, it concerns the sample of our research. The weaknesses of the previous research, directed to a sample of modest size, as well as to a special sample taken from different periods, do not reflect the state of the economy. In addition, the types of Islamic banks that were taken into account in previous research are limited methodology shortcomings.

Second, the study we conducted incorporates internal factors, namely profitability, liquidity and solvency ratios, which had not been incorporated into previous research. The inclusion of these internal factors is expected to provide a more complete understanding of how financial ratios affect the share prices of Islamic banks. Third, the current study involves the inclusion of external factors, including interest rates, inflation, aggregate economic growth or other indicators affecting the Islamic banking industry, which allowed us to identify the factors affecting the relationship between financial ratios and Islamic bank share prices.

The significant contributions of this research in relation to its purpose involve the provision of more in-depth insights into the relationship between the financial ratios and share prices of sharia banks. First, by expanding the sample size used in the research and adding more representative samples, this research provides more descriptive information on the Islamic banking market. Second, this research enables a deeper understanding of which factors drive stock prices by including some internal variables regarding the performance of banks in the form of financial ratios. Finally, the results allow understanding what affects sharia bank share prices by including some external variables such as macroeconomic variables.

This is an important, given the fact that the performance of Islamic banking is exposed to the influence of global financial markets and various other external factors. Therefore, this research will give stakeholders more informative suggestions in order to make investments and policy-makings in reference to the Islamic banking market. Therefore, the findings resulting from this study not only provide the necessary information to the investors but will also

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contribute to the sports-based knowledge by laying a foundation for future research and studies that may be carried out in regard to the relationship between financial performance and share prices for the Islamic banking sector.

The Effect of Return on Assets (ROA) on Share Prices

The return on asset ratio is one of the key financial ratios used to assess a company's profitability or its ability to generate profits based on the number of assets used. It is commonly measured as the proportion of the entity's net income over the assets owned in total, reflecting how the subject efficiently uses its assets to profit. Speaking about the relationship between ROA and share prices, it is possible to refer to the study where it was found that the return on assets does not partially and significantly affect the share prices of Islamic banking companies[17]. This means that, according to the given research, the change in the level of the target phenomenon significantly affects the change in prices of shares of the Islamic banking companies.

This result means that the investors pay significant attention to how effectively the company uses its assets to profit. If the return on assets value increases, the company can also be expected to get larger profits from the assets. This will increase investor interest, leading to increasing prices of shares. From a practical point of view, managers of Islamic banking companies can develop strategies to make asset usage more effective, thereby increasing the level of the target phenomenon and potential price growth.

H_1: Return on Assets (ROA) affects share prices

The Effect of Return on Equity (ROE) on Share Prices

The return on equity is the measure of the income that is available to the owners of a company, including both standard and preferred shareholders, on their investment in the company's capital. The equation to compute to return on equity is done by dividing the net profit by the equity of the company. In this regard, a higher value of ROE indicates the effective return on the capital that owners of the company invest in the company. The high value of ROE will stimulate the investor's confidence about the ability to make profits, and hence, the high value will arouse a high level of interest on the part of

[17] Satria and Putri, "Pengaruh Rasio Keuangan Terhadap Harga Saham Perbankan Syariah Terdaftar Bursa Efek Indonesia."

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investors to invest in the company's shares, and hence, the company's share price will increase.

This relation between the ROE and the share price was proved by the research conducted, showing that the performance that generated profits on the invested capital influenced the evaluation of the company performance by investors and hence influenced the share price[18]. Therefore, the ole of ROE as e evaluation indicator of the company's performance emphasizes the concept of how companies use their capital efficiently and generates the adequate profit that is in accordance with the shareholders' equity measurement. In this regard, the companies may consider perceived strategies that increase the ROE values to promote the interest of investors in investing in these companies' shares and hence increasing the prices of their shares.

H_2: Return on Equity (ROE) affects share prices

The Effect of Debt to Equity (DER) on Stock Prices

The fact is that the higher DER ratio in a bank, the higher the risk that must be assumed working for the company's collapse. Conversely, if DER decreases, it will cause an increase in stock prices, and the company is better able to pay its long-term obligations. When stock prices increase, the market may perceive it as a positive sign, and this will result in more investor interest in buying company shares. However, if information that the DER has increased is wrong on the investment market side, it can act as an adverse factor for investors considering the possibility of buying shares. In stress tests, it has been demonstrated that stock prices can be determined by the debt ratio over equity due to the assumption that the higher the DER, the less attractive the company is in the eyes of investors[19].

On the other hand, it has been shown in research that the debt-to-equity ratio (DER) does have a significant effect on stock prices[20]. The information supports DER because it was seen as a negative factor in estimating the stock price of the company involved. In practice, bank company management must correctly identify the

[18] Prastiyan and Adiyanto, "Pengaruh Rasio Profitabilitas, Leverage, Dan Nilai Pasar Terhadap Harga Saham Bank Syariah Yang Terdaftar Di Bursa Efek Indonesia Periode Juli 2021 - November 2022."

[19] Krisnawati, Setiawan, and Anjani, "Analisis Pengaruh Rasio Likuiditas, Solvabilitas Terhadap Harga Saham PT. Indofood CBP Sukses Makmur Tbk."

[20] Nafiah, "Analisis Pengaruh Rasio Keuangan Dan Variabel Makro Ekonomi Terhadap Harga Saham (Studi Kasus Pada Perusahaan Perbankan Yang Masuk Dalam Indeks LQ45)."

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optimal level of DER as follows: At the level to which the company can use debt to finance growth without increasing risks. With this risk, companies need to also communicate with financial markets correctly to explain financial policy so that investors will not consider the information provided negatively.

H_3: Debt to Equity (DER) affects stock prices

The Effect of Inflation on Stock Prices

Inflations refer to the general increase in the prices of goods and services which is sustainable over a certain period. Inflation is not the increase in the prices of one or two goods. However, the increase in the overall increase in prices of many goods and the increase affects all goods. On the other hand, the situation which is sustainable for falling prices to be referred to as deflation. When the operating costs for the company increase more than the income levels, the level of the profits made by the company is lower. The lower levels of company profits make it less attractive for people to invest which then leads to a decrease in the company share price.

Previous research findings have found that interest rates and inflation influence company share prices in the banking sector[21]. From these findings, it is clear that changes in rates of interest and inflation levels influence people's perceptions of the company. Company management should monitor the various influences and manage risks to reduce the impacts on the share price.

H_4: Inflation affects stock prices

The Effect of Interest Rates on Stock Prices

Indonesian Interest Rate actually outlines the interest rate established by the Bank Indonesia. There are several factors, which affect securities demand, and interest rate is one of them, along with wealth level, inflation rate, and exchange rate. As a form of monetary policy leveraged by the Bank Indonesia, BI-Rate influences stock index prices on the capital market. Usually, investors presume that the Bank Indonesia can raise the interest rate. Still, in the long run it can be unfavorable for investors.

An increase in interest rates tends to increase the rate of return on investments associated with low risk, compared to investments in

[21] Ginting, Topowijono, and Sulasmiyati, "Pengaruh Tingkat Suku Bunga, Nilai Tukar Dan Inflasi Terhadap Harga Saham (Studi Pada Sub-Sektor Perbankan Di Bursa Efek Indonesia Periode 2011-2015)."

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securities with high risk. In line with [22] research, which states that the BI Rate has a significant negative relationship with stock prices, it can be concluded that monetary policy, which includes increasing interest rates, can hurt stock prices in the capital market. In this context, investors need to monitor monetary policy and changes in interest rates to make informed investment decisions and manage risks that may arise.

H_5: Interest rates affect stock prices

The Effect of Exchange Rates on Stock Prices

Exchange rates reflect the price of a currency that can be exchanged for a country's local currency. The exchange rate directly impacts the share price trend. The BI exchange rate is a sort of important factor taken into account by investors to make decisions influencing the flow of investment in shares. The inflated-rate and interest-rate appreciably affect the stock price[23]. However, on the contrary, research suggests that prices are immune to inflation and exchange rates[24].

As can be seen, different researchers arrived at conflicting results owing to the differences in approaches applied within investigation to the impact of changes in rates at different times. Still, it ought to realize that the exchange rate's impact on stock prices is complex, varying with operative happening in the global economy and in the Asian market condition. For this reason, investors ought to first have an understanding of the general framework supported by exchange rates and perform in-depth research to make a wise investment for purchasing the aforementioned type of securities.

H_6: Exchange Rates Affect Stock Prices

B. METHOD

The method used in this research is the quantitative method and the philosophy is positivistic. This philosophy identifies a specific population of samples by collecting data using research instruments. Furthermore, data analysis in this method is quantitative or statistical for the purpose of testing predetermined hypotheses. The operational

[22] Sudarsono, "Indikator Makroekonomi Dan Pengaruhnya Terhadap Indeks Saham Syariah Di Indonesia."

[23] Rachmawati, "Pengaruh Inflasi Dan Suku Bunga Terhadap Harga Saham Pada Perusahaan Perbankan Yang Terdaftar Di LQ45 Bursa Efek Indonesia."

[24] Tripuspitorini, "Analisis Pengaruh Inflasi, Nilai Tukar Rupiah, Dan BI-Rate Terhadap Harga Indeks Saham Syariah Indonesia."

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variables used in the research are the independent variables, which are Return on Assets, Return on Equity, Debt to Equity Ratio, Debt to Asset Ratio, Inflation, Interest Rates, and Exchange Rates. On the other hand, the dependent variable is the Islamic banking sector's share prices. The research data is derived from the reports from the financial services authority, Bank Indonesia, and the Central statistics Agency for the years 2020 to 2023.

$$SP_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 DER_{it} + \beta_4 DAR_{it} + \beta_5 INL_{it} + \beta_6 IR_{it} + \beta_7 EXR_{it}$$

The research sample was selected using a probability sampling technique, which is a random sampling method. The sample for this research includes several companies, which are PT. Bank Panin Dubai Syariah, Tbk, PT. Indonesian Sharia Bank, Tbk, PT. Aladin Syariah Bank, Tbk, PT. Bank Danamon Indonesia, Tbk, PT. Bank Maybank Indonesia, Tbk, PT. Bank CIMB Niaga, Tbk, PT. Bank OCBC NISP, Tbk, PT. Bank Tabungan Negara, Tbk, dan PT Bank Jago, Tbk. Lastly, the methods used for hypothesis testing in this research include the panel regression for the purpose of examining the influence of the tested variable. The panel regression combines the time series and the cross-section data, and this provides better information for examining the total influence of the variables towards the stock prices among the combined Islamic banks.

C. RESULTS AND DISCUSSION

The table of descriptive statistics provides detailed insights into the characteristic of the data under consideration. First, the company's shares appear to have an average value of approximately 6.66, with a standard deviation of 1.46, meaning that while the price is generally not high, there is considerable variation in its level. Second, concerning the company's level of efficiency, ROA has an average value of 0.01, which is low. However, the coefficient states that the company is profitable, creating value from its level of assets. Third, the company's average ROEinheritance is approximately 0.04, meaning that it also manages to be profitable in terms of equity used. Nevertheless, the standard deviation is coming to a considerable extent, certifying for significant variation. The company generally shows similar variation in terms of DER, where the latter's average at 2.78.

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Table 1. Descriptive Statistics

	SP	ROA	ROE	DER	DAR	INL	IR	EXR
Mean	6.664	0.010	0.045	2.785	0.550	3.426	4.182	9.597
Median	6.98	0.005	0.036	2.4506	0.7655	3.52	3.5	9.59
Max	9.68	0.087	0.354	6.3914	0.9491	5.95	5.75	9.66
Min	4.06	0.0001	0.001	0.0154	0.0147	1.33	3.5	9.55
Std. Dev	1.461	0.015	0.047	2.200	0.345	1.655	0.941	0.032

Debt to Asset Ratio (DAR) averages around 0.55, indicating the extent to which companies finance their activities through debt, with a relatively high level of consistency. Inflation has an average of around 3.43, and interest rates have an average of around 4.18, which can affect a company's investment decisions. Finally, the exchange rate of the company appears to have an average value of 9.60, which indicates the stability of the given characteristic during the time observed. Thus, the above conclusions represent the minimum amount of data necessary to grasp the general specifics of this new set of observations. Indeed, this information can be used as the basis for further statistical analysis, possibly involving regression.

The next process is testing the best model in the context of testing a panel data regression. In model selection, three significant tests are employed, namely the Chow Test where either the Common Effect Model and the Fixed Effect Model, the Hausman Test where either the Fixed Effect Model and the Random Effect Model, the Lagrange Multiplier Test where either the Random Effect Model and the Common Effect Model. Referring to the results presented in Table 2, the probability value when performing the Chow Test is as follows 0.0000 < 0.05. Therefore, it can be concluded that the best model is the Fixed Effect Model.

On the other hand, Hausman test results show as follows a probability value more significant than the significance level namely 1.0000 > 0.05. As a result, it can be concluded that the best model is the Random Effect Model. Furthermore, the Lagrange Multiplier Test results show a probability value smaller than the significance level, 0.0000 < 0.05, indicating that the best model is the Random Effect Model (REM). Therefore, based on this analysis, the Random Effect Model (REM) is considered the best model in the context of this study.

Table 2. Best Model Panel Regression

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Test	Summary	Result
Chow	Cross-section Chi-square	0.0000
Hausman	Cross-section random	1.0000
Lagrange Multiplier	Cross-section Breusch-Pagan	0.0000

The normality test aims to determine whether the data used in the study is standard. The characteristics of data normality can significantly influence the success of a study. In this study, the normality test was carried out using the Jarque-Bera probability. The test results show a value of 0.750896, more significant than the significance level of 0.05. Therefore, it can be concluded that the data used is standard.

Table 3. Diagnostic Test

Test	Indicator	Value	Probability
Normality	Jarque-Bera	0.572975	0.750896
Heteroscedasticity	Glejser	ROA	0.7816
		ROE	0.7448
		DER	0.1192
		DAR	0.0828
		INL	0.0842
		IR	0.2687
		EXR	0.2687
Autocorrelation	Lagrange-Multiplier		0.050479

The heteroscedasticity test determines whether the regression model experiences non-uniformity in residual variance between observations. Data that is considered good shows homoscedasticity, namely the similarity of the variance of the residuals. In this study, the heteroscedasticity test used the Glejser test. The decision is taken by comparing the significance value with the 0.05 confidence level. The test results show that all variables have a significance value > 0.05, indicating no heteroscedasticity problem in the regression model.

Table 4. Multicollinearity Test Results

	ROA	ROE	DER	DAR	INL	IR	EXR
ROA	1.000	0.606	-0.273	-0.361	0.008	-0.007	-0.069

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ROE	0.606	1.000	0.020	-0.100	0.006	0.057	-0.018
DER	-0.273	0.020	1.000	0.763	-0.004	0.009	-0.002
DAR	-0.361	-0.100	0.763	1.000	0.025	0.043	0.024
INL	0.008	0.006	-0.004	0.024	1.000	0.549	0.751
IR	-0.007	0.057	0.009	0.024	0.549	1.000	0.738
EXR	-0.069	-0.018	-0.002	0.024	0.751	0.738	1.000

The autocorrelation test is used to evaluate whether there is a correlation between errors between observations in the research data. Data that is considered reasonable is data that does not show any error correlation. The autocorrelation test in this study uses the Lagrange-Multiplier probability. The test results show a value of 0.050479, more significant than the significance level of 0.05. Therefore, the data does not experience autocorrelation problems. A multicollinearity test is conducted to assess whether there is a linear relationship between variables in the study. In Table 4, it can be seen that the correlation value between variables is less than 0.85 (<0.85). Thus, there is no multicollinearity problem in this study.

Table 5. Random Effect Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-7.049141	80.54419	-0.087519	0.9305
ROA	33.25760	12.85753	2.586625	0.0113
ROE	-10.44503	3.972969	-2.629023	0.0101
DER	0.235824	0.101895	2.314375	0.0229
DAR	-1.379115	0.659621	-2.090768	0.0393
INL	-0.054226	0.130929	-0.414164	0.6797
IR	-0.046400	0.225590	-0.205683	0.8375
EXR	1.492610	8.475932	0.176100	0.8606

The Effect of Return on Assets (ROA) on Share Prices (SP)

The random effect model analysis reveals that variable ROA shows a t-statistic value of 2.586625 with a Prob. (significance) of

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0.0113 (<0.05), indicating an influence between the independent and dependent variables. Thus, variable ROA significantly affects variable SP. This finding is consistent with previous research, which states that there is a positive and significant influence between ROA and Stock Price[25].

In the Islamic banking sector context, the positive and significant impact between ROA and Share Price can be explained as follows: the higher the ROA value, the better the company can manage its assets to generate profits. This can attract investors to conduct stock transactions because the high ROA value reflects the company's ability to generate profits by utilizing the total assets available[26]. A high ROA indicates the company's positive performance and can give investors confidence in the prospects for the company's shares in the future[27].

The Effect of Return on Equity (ROE) on Share Prices (SP)

The random effect model analysis shows that variable ROE significantly affects the dependent variable (Share Price), with a t-statistic value of -2.629023 and Prob. (significance) of 0.0101. These results indicate that ROE has a real impact on changes in stock prices in the Islamic banking sector. The results of this study are in line with the findings of previous research[28]. They also concluded that ROE has a significant positive effect on stock prices in the context of the Islamic banking sector.

One interpretation of this finding is that investors in the Islamic banking sector give special assessments of the company's financial performance. Although high ROE should be considered a positive indicator, other factors, such as certain risks or industry issues, more

[25] Ady, "Analisis Pengaruh Rasio Keuangan Terhadap Harga Saham Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2018."

[26] Yanikkaya, Gümüş, and Pabuçcu, "How Profitability Differs Between Conventional and Islamic Banks: A Dynamic Panel Data Approach"; Havidz and Setiawan, "Bank Efficiency and Non-Performing Financing (NPF) in the Indonesian Islamic Banks"; Mukhibad, Kiswanto, and Jayanto, "An Analysis on Financial and Social Performance of Islamic Banks in Indonesia."

[27] Trad, Trabelsi, and Goux, "Risk and Profitability of Islamic Banks: A Religious Deception or an Alternative Solution?"; Hasan, "Conversion of Conventional Banks into Islamic Banks: The Case of Bangladesh"; Solihin, Achsani, and Saptono, "The Islamic Banking and the Economic Integration in Asean."

[28] Prastiyan and Adiyanto, "Pengaruh Rasio Profitabilitas, Leverage, Dan Nilai Pasar Terhadap Harga Saham Bank Syariah Yang Terdaftar Di Bursa Efek Indonesia Periode Juli 2021 - November 2022."

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dominant in determining the share price, and the company's policies or strategies may also influence investment decisions in managing capital and profits[29].

In the context of the Islamic banking sector, the positive and significant impact between ROE and Share Price can be explained as follows: The high value of ROE reflects the effectiveness of the company in generating profits relative to the equity owned by shareholders. Investors who see a high ROE will likely be more confident about investing in the company, hoping to get optimal profits and increase the share price[30].

The Effect of Debt to Equity (DER) on Stock Prices

Analysis using the random effect model found that the variable DER significantly impacts the dependent variable Share Price with the t-statistic of the value 2.314375 and Prob. sign of 0.0229. This indicates that DER has a real impact on stock price changes in the Islamic banking sector. This is in line with the research, which also agreed that debt-to-equity ratio affects stock prices. In the Islamic banking sector, there is a positive and significant relationship between DER and Share Price[31].

This can be explained if the DER value is greater and the company uses more loan capital than equity. In Islamic banking, this is a warning sign for investors. Investors would perceive a high DER as risky because the company has to repay the debt, which can affect the shareholder[32]. An increase in DER can trigger concerns regarding the company's ability to meet its financial obligations. In addition, a

[29] Nasution and Ahmed, "Outreach and Profitability Trade-off: Does Synergy between Islamic Banking and Islamic Microfinance Institutions Matter?"; Hasan, "Conversion of Conventional Banks into Islamic Banks: The Case of Bangladesh"; Nasuha, "Dampak Kebijakan Spin-off Terhadap Kinerja Bank Syariah"; Olson and Zoubi, "Convergence in Bank Performance for Commercial and Islamic Banks During and After the Global Financial Crisis."

[30] Olson and Zoubi, "Convergence in Bank Performance for Commercial and Islamic Banks During and After the Global Financial Crisis"; Hasan, "Conversion of Conventional Banks into Islamic Banks: The Case of Bangladesh"; Trad, Trabelsi, and Goux, "Risk and Profitability of Islamic Banks: A Religious Deception or an Alternative Solution?"

[31] Krisnawati, Setiawan, and Anjani, "Analisis Pengaruh Rasio Likuiditas, Solvabilitas Terhadap Harga Saham PT. Indofood CBP Sukses Makmur Tbk."

[32] Miah and Uddin, "Efficiency and Stability: A Comparative Study between Islamic and Conventional Banks in GCC Countries"; Khediri, Charfeddine, and Youssef, "Islamic versus Conventional Banks in the GCC Countries: A Comparative Study Using Classification Techniques"; Ahmed, "Global Financial Crisis: An Islamic Finance Perspective."

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decline in share prices may occur as investors may be less interested in buying shares of companies with high DER, given the more significant risks associated with a debt-dominated financial structure[33].

The Effect of Inflation on Stock Prices

The random effect model analysis shows that the inflation variable has no significant impact on the stock price variable (SP) with a t-statistic value of -0.414164 and Prob. (significance) of 0.6797. The high probability value indicates that it cannot reject the null hypothesis, which means there is insufficient statistical evidence to state that the inflation variable significantly affects changes in stock prices.

In the context of Islamic banking, the ineffectiveness of the inflation variable on stock prices can be explained as follows. Inflation, which is generally identified with an increase in the prices of goods and services, can double impact companies[34]. On the one hand, increasing prices can increase the company's revenue, especially if it can adjust the price of its products or services effectively. However, on the other hand, inflation can also significantly increase a company's operating costs if the cost of production and other inputs has increased[35].

When the adverse effects of increased operating costs outweigh the positive impact of increased revenues, the company may experience a decline in profitability. This may impact investors' interest in investing in the company's shares, resulting in the ineffectiveness of the inflation variable on share prices [36]. Therefore, investors tend to

[33] Alandejani, "Does Issuing Islamic Bonds Through Banks Increase Banking Efficiency?"; Maghyereh, Abdoh, and Al-Shboul, "Oil Structural Shocks, Bank-Level Characteristics, and Systemic Risk: Evidence from Dual Banking Systems"; Khediri, Charfeddine, and Youssef, "Islamic versus Conventional Banks in the GCC Countries: A Comparative Study Using Classification Techniques."

[34] El Alaoui et al., "Evaluation of Monetary Policy: Evidence of the Role of Money from Malaysia"; Nahar and Sarker, "Are Macroeconomic Factors Substantially Influential For Islamic Bank Financing? Cross-Country Evidence."

[35] Mensi et al., "Impact of Islamic Banking Development and Major Macroeconomic Variables on Economic Growth for Islamic Countries: Evidence from Panel Smooth Transition Models"; Aysan, Disli, and Ozturk, "Bank Lending Channel in a Dual Banking System: Why Are Islamic Banks so Responsive?"; Bahloul, Mroua, and Naifar, "The Impact of Macroeconomic and Conventional Stock Market Variables on Islamic Index Returns under Regime Switching."

[36] Camgöz and Topal, "Identifying the Asymmetric Price Dynamics of Islamic Equities: Implications for International Investors"; Moi et al., "Influence of Liquidity, Solvency, and Profitability on Share Prices of Banking Listed on the Indonesia Stock Exchange for the 2018-2021 Period."

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consider aspects of the company's overall profitability rather than just looking at the increase in revenue that inflation can cause.

The Effect of Interest Rates on Stock Prices

Analysis using the random effect model shows that the interest rate variable has no significant impact on the stock price variable with a t-statistic value of -0.205683 and a probability of 0.8375. The high probability value indicates that it cannot reject the null hypothesis, which means that there is insufficient statistical evidence to state that the interest rate variable significantly influences changes in stock prices.

In Islamic banking, the ineffectiveness of interest rates on stock prices can be explained as follows. Interest rates are often crucial in investor decisions, especially in a conventional financial environment. However, Islamic banking has different characteristics, where Islamic principles prohibit the payment or receipt of interest (riba). As a result, factors typically associated with changes in interest rates in conventional banking may have a different impact on Islamic banking[37].

For investors in the Islamic banking sector, an analysis might show that the primary focus could be on operational performance levels that align with Islamic principles. As previously highlighted, these principles include compliance with halal rules of investment, social and environmental sustainability, and business models that subscribe to Islamic ways[38].

In this way, it should not be surprising to notice that interest rates are not likely to influence the share prices of Islamic banks. Moreover, in such an analysis, other approaches to evaluating firms might become relevant. One of these approaches is an evaluation of the company's compliance with Islamic principles and the company's financial performance. In addition to this, the social and environmental

[37] Ibrahim et al., "Determinants of Profit and Loss Sharing Financing in Indonesia"; Hossain, "Inflationary Shocks and Real Output Growth in Nine Muslim-Majority Countries: Implications for Islamic Banking and Finance"; Aysan, Disli, and Ozturk, "Bank Lending Channel in a Dual Banking System: Why Are Islamic Banks so Responsive?"

[38] Zarrouk, Ben Jedidia, and Moualhi, "Is Islamic Bank Profitability Driven by Same Forces as Conventional Banks?"; Siddique and Siddique, "Intrinsically Irreconcilable: The Case Against Running Musharakah as Employed by Islamic Banks"; Mahdi and Abbes, "Relationship between Capital, Risk and Liquidity : A Comparative Study between Islamic and Conventional Banks in MENA Region."

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impact of the company's operations forms part of the analysis process[39].

The Effect of Exchange Rates on Stock Prices

The random effect model analysis shows that the exchange rate variable (EXR) has no significant impact on the dependent variable (Stock Price) with a t-statistic value of 0.176100 and a probability of 0.8606. The high probability indicates insufficient statistical evidence to reject the null hypothesis, which states that the exchange rate has no significant effect on stock price changes.

In the context of Islamic banking, the ineffectiveness of the exchange rate on stock prices can be explained as follows. Islamic banking, by Islamic principles, is not involved in transactions that contain elements of usury or unclear speculation (gharar). In the context where economic conditions dictate the rates can be as an unstable driver of change the exchange rate is not the factor determining the investment performance or valuation of companies represented in the Islamic banking sector [40].

Instead, the investors in the latter are likely to consider other factors that affect this business area, such as compliance of the business with the halal investment facility market, protection of the rights of investors in the Islamic banking facility, maintenance of integrity in the businesses conducted by Islamic banks, or creation of a positive contribution to societies in the area of the Islamic community [41] . The exchange rate is an aspect that may play minor importance

[39] Caporale et al., "The Bank Lending Channel in the Malaysian Islamic and Conventional Banking System"; Mubarok, Wibowo, and Latif, "Safeguarding Stability and Enhancing Profitability: The Case of Islamic Banking in Indonesia"; Akhatova, Zainal, and Ibrahim, "Banking Models and Monetary Transmission Mechanisms in Malaysia: Are Islamic Banks Different?"; Zarrouk, Ben Jedidia, and Moualhi, "Is Islamic Bank Profitability Driven by Same Forces as Conventional Banks?"

[40] Hossain, "Inflationary Shocks and Real Output Growth in Nine Muslim-Majority Countries: Implications for Islamic Banking and Finance"; Nahar and Sarker, "Are Macroeconomic Factors Substantially Influential For Islamic Bank Financing? Cross-Country Evidence"; El Alaoui et al., "Evaluation of Monetary Policy: Evidence of the Role of Money from Malaysia."

[41] Wasiaturrahma et al., "Financial Performance of Rural Banks in Indonesia: A Two-Stage DEA Approach"; Bakhouche, El Ghak, and Alshiab, "Does Islamicity Matter for the Stability of Islamic Banks in Dual Banking Systems?"; Ghouse et al., "Performance of Islamic vs Conventional Banks in OIC Countries: Resilience and Recovery During Covid-19"; Saeed et al., "Dependency of Islamic Bank Rates on Conventional Rates in a Dual Banking System: A Trade-off between Religious and Economic Fundamentals."

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for the assessment of these banks' performance or investment opportunity.

D. CONCLUSION

In this research, the purpose was to determine how financial ratios impacted stock prices at Indonesian Islamic banks. The evidence of the study indicates that Return on Asset , Return on Equity, Debt to Equity Ratio, and Debt to Asset Ratio influence stock prices significantly at Islamic banks. The research confirms that the performance of the company's financials and capital structure of the companies have vital impacts to determine the company's valuation in the stock market. However, inflation, the interest rate, and the exchange rate variables have not proven to significantly affect the stock price of Islamic banks.

As an investor, the inflation rate, interest rate, and exchange rate are not the key reference points to evaluate the performance and valuation of Islamic banking companies and such information should be taken as very limited supplementary information. On the other hand, practitioners running Islamic banks should focus more on the efficient use of the company's assets and capital and the company's financial structure as the main sources that help them manage their share prices. The study is crucial as far as the investment decision making and risk management at Islamic banks is concerned.

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