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Stock Return Drivers in the Indonesian Sharia Capital Market: Evidence from Jakarta Islamic Index

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A B S T R A C T

This study investigates the key drivers of stock returns-specifically profitability, leverage, B/M ratio and firm size within the Indonesian sharia capital market context. This research adopts a quantitative methodology and applies panel data regression analysis using Eviews 12. The study relies on secondary data collected from the official publications of the Indonesia Stock Exchange and Yahoo Finance. The sample includes 11 firms listed on the Jakarta Islamic Index during the 2021-2024 period, selected through a purposive sampling technique. Quarterly observations were used, yielding a total of 176 observation. The results reveal that profitability exerts a positive and statistically significant influence on sharia stock returns. Debt ratios and firm size were found to have no significant influence on sharia stocks returns. Meanwhile, the price-to-book ratio has a significant negative effect on the returns of sharia stocks. The study offers a new theoretical contribution demonstrating that profitability information is a highly relevant tool that also serves as a signal (good news/bad news) for sharia investors in making investment decisions. Conversely, that variables of leverage and firm size were found not to be primary determinants in predicting stock returns. Sharia investors tend to focus more on a company's growth prospects than on its fundamental value. Furthermore, the low level of leverage indicates that the restrictions on interest-based debt in the Jakarta Islamic Index (JII) effectively reduce agency problems, so that changes in debt ratios are no longer a primary consideration in investment decisions.

KATA KUNCI
Profitabilitas, *Leverage*, Ukuran Perusahaan, Rasio *Book-to-Market*, *Return* Saham

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A B S T R A K

Penelitian ini mengkaji faktor-faktor pendorong utama imbal hasil saham khususnya profitabilitas, *leverage*, ukuran perusahaan, dan rasio *book-to-market* dalam konteks pasar modal syariah Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan analisis regresi data panel yang diolah menggunakan software Eviews 12. Sumber data penelitian berupa data sekunder yang dikumpulkan dari publikasi resmi Bursa Efek Indonesia dan Yahoo Finance. Penelitian ini melibatkan 11 perusahaan yang masuk dalam Jakarta Islami indeks selama periode 2021-2024 yang dipilih melalui *purposive sampling* dengan data kuartalan sehingga menghasilkan 176 observasi. Hasil penelitian mengindikasikan bahwa profitabilitas berpengaruh positif dan signifikan terhadap *return* saham syariah. Rasio utang dan ukuran perusahaan tidak menunjukkan pengaruh yang signifikan terhadap *return* saham syariah. Sementara itu, rasio harga terhadap nilai buku memiliki pengaruh negatif yang signifikan terhadap *return* saham syariah. Studi ini memberikan kontribusi teoretis baru yang menunjukkan bahwa informasi profitabilitas merupakan alat yang sangat relevan yang juga berfungsi sebagai sinyal (berita baik/berita buruk) bagi investor syariah dalam mengambil keputusan investasi. Sebaliknya, variabel *leverage* dan ukuran perusahaan ternyata bukanlah faktor penentu utama dalam memprediksi imbal hasil saham. Investor syariah cenderung lebih berfokus pada prospek pertumbuhan perusahaan dibandingkan nilai fundamentalnya. Selain itu, tidak signifikannya *leverage* menunjukkan bahwa pembatasan utang berbasis bunga dalam Jakarta Islamik Indeks (JII) efektif mengurangi masalah agensi, sehingga perubahan rasio utang tidak lagi menjadi pertimbangan utama dalam keputusan investasi.

1. Introduction

The capital market in Indonesia plays a vital role as a source of funding for companies and an investment alternative for the public [1]. The capital market provides companies with opportunities to raise funds to support business growth and expansion, while investors can allocate their capital to various investment instruments such as equities, fixed-income, and managed funds [2]. Among these various investment instruments, stocks are the most sought-after because they offer the potential for high returns, although they come with greater risks compared to other investment instruments [3]. In Indonesia, the capital market features

various stock indices used as indicators of market performance, one of these is the Jakarta Sharia Index (JII), which serves as an indicator of the performance of liquid sharia-compliant stocks on the Indonesia Stock Exchange [4]. The JII consists of 30 stocks that meet Sharia criteria and are selected based on their liquidity levels. Additionally, the stocks included in this index must comply with the Sharia provisions established by the Indonesia Stock Exchange (IDX) and the National Sharia Council Indonesian Ulema Council (DSN-MUI), including not engaging in business activities that conflict with Sharia principles and meeting certain restrictions regarding the use of interest-based debt [5].

A stock can be classified as a sharia-compliant stock if the issuing company meets sharia financial criteria, namely having interest-based debt that does not exceed 45% of total assets and revenue from non-halal activities that does not exceed 10% of total revenue [6].The distinct financial structure of sharia companies compared to conventional firms can influence stock performance or returns [7]. However, research findings on sharia stock performance remain mixed. Sharia stock performance was found to be lower than that of conventional stock, although the difference was not statistically significant [8]. In contrast, other studies reported that islamic stock provider higher returns while exhibiting lower risk levels than conventional stock [9], [10]. The differences in findings from various previous studies indicate that research on sharia-compliant stocks remains relevant and warrants further investigation in the Indonesian capital market.

Stock performance can be conducted using a range of metrics, including return, risk, and liquidity, with stock return being the most commonly used indicator in assessing investment returns [11]. Stock returns are the profits investors earn from stock investments, which come from capital appreciation and dividends [12]. The performance of stock returns is influenced by a combination of internal corporate characteristics and external macroeconomic variables, such as profitability, leverage, firm size, B/M ratio, inflation, exchange rates, and interest rates [13]. In this study, a company's financial performance is measured using profitability ratios, leverage, firm size, and the book-to-market ratio.

Profitability refers to the extent to which a company can generate profits or revenue over a specific period of time [14]. Return on Assets (ROA) serves as the primary measure to represent profitability in this paper. Based on signaling theory, an increase in ROA indicates a company's growing ability to generate profits through the utilization of its assets. This information can be perceived as a positive signal by investors, thereby stimulating investment interest and influencing investment decisions [15]. However, research findings regarding the impact of ROA on stock returns remain inconsistent. The results indicate that return on assets (ROA) has a positive and significant effect on stock returns [16]. However, other findings suggest that ROA has a negative effect on stock returns, although the effect is not statistically significant [17].

Leverage represents the proportions of a company's assets that is financed by debt or other external funding sources [18]. Leverage in this study is measured using the debt-to-equity ratio (DER). Agency theory suggests that the use of debt at a reasonable level can reduce conflicts between managers and shareholders and improve company performance [19]. However, excessively high leverage can increase financial risk and reduce investor confidence, thereby impacting stock returns. Previous studies have reported mixed findings. One study found a significant negative effect on stock returns [16], whereas another study indicated a positive effect on stock returns, although the effect was not statistically significant [20].

In three-factor model Fama and French's, firm size is one of the factors influencing stock returns. Large firms are generally considered more stable and have lower risk compared to small firms [21]. Previous studies have found an inverse correlation between firm size and equity returns [22], [23]. Small companies generally generate higher returns because investors demand compensation for the higher risk associated with such companies. However, another study on sharia stocks found that firm size has a positive but statistically insignificant effect on stock returns [24].

Based on the Fama–French three-factor framework, the B/M ratio is used as a basis for distinguishing value stocks from growth stocks and is one of the factors contributing to stock returns [25]. Stocks with high B/M ratios tend to yield high returns because they are considered undervalued by the market [26], [27]. Research findings regarding the effect of the B/M ratio on stock returns still show differences. Previous studies have reported inconsistent findings regarding the effect on stock returns. One study found a positive effect [28], whereas another study reported a negative effect on stock returns [29].

Research findings on the effect of profitability, leverage, firm size, and the book-to-market ratio on stock returns remain inconsistent. Furthermore, most previous studies have used conventional stocks as their research subjects, whereas the financial characteristics of sharia-compliant issuers differ from those of conventional stocks. Given that these differences are believed to influence the factors affecting sharia-compliant stock returns in Indonesia, further research on this topic remains relevant.

2. Research Method

This This research uses a quantitative approach. Stock returns are treated as the dependent variable, while the independent variables consist of leverage proxied by the Debt-to-Equity Ratio (DER), firm size, profitability

proxied by Return on Assets (ROA), and the book-to-market ratio.

The population of this study consists of all companies include in the Jakarta Islamic Index (JII) form 2021-2024. The research sample was selected using purposive sampling based on the following criteria:

a. Companies listed consecutively on the Jakarta Islamic Index (JII) during the 2021–2024 period,

b. Companies that routinely and fully published financial statements during the 2021–2024 period,

c. Companies using the Indonesian rupiah in their financial statements.

Based on the sample selection criteria used, the sample size of companies used in this study was 11 companies with an observation period of 4 years (16 quarters). The analysis used panel data regression with the regression equation on Equation (1), (2), (3) and (4).

$$Y_{i,t} = \alpha + \beta 1X1_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$Y_{i,t} = \alpha + \beta 1X1_{i,t} + \beta 1X2_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$Y_{i,t} = \alpha + \beta 1X1_{i,t} + \beta 1X2_{i,t} + \beta 1X3_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$Y_{i,t} = \alpha + \beta 1X1_{i,t} + \beta 1X2_{i,t} + \beta 1X3_{i,t} + \beta 1X3_{i,t} + \varepsilon_{i,t} \quad (4)$$

Where $Y_{i,t}$ is the return on investment for company i at time t. α is intercept, $X1_{i,t}$ is ROA of company i at time t, $X2_{i,t}$ is DER of company i at time t, $X3_{i,t}$ is firm size of company i at time t, $X4_{i,t}$ is B/M ratio of company i at time t. β1, β2, β3, β4 is regression coefficient and $\varepsilon_{i,t}$ is error term.

3. Result and Discussion

3.1. Descriptive Statistic Analysis

Table 1 show that the average return on sharia stocks during the study period was negative, indicating relatively poor stock performance. The stock return and leverage (DER) variables have standard deviations greater than the mean, indicating that the data is heterogeneous, whereas profitability (ROA), book-to-market ratio, and firm size have standard deviations smaller than the mean, indicating that the data is more homogeneous. The average ROA of 2.5% indicates that companies are still able to generate profits from their assets, while the average DER of 54% indicates a moderate level of debt.

Table 1. Descriptive Statistic

	Return	Profitability	Leverage	Firm Size	B/M Ratio
Mean	-0.002	0.0250	0.541	24.940	0.792
Median	-0.014	0.0210	0.325	25.050	0.636
Maximum	0.373	0.1080	2.150	26.426	2.252
Minimum	-0.352	-0.0089	0.000	23.499	0.026
Std. Dev.	0.127	0.0220	0.550	0.826	0.546
Skewness	0.361	1.3870	1.076	0.132	0.683
Kurtosis	3.371	5.1280	2.933	1.839	2.646

An average DER of 54% does not necessarily contradict the principles of sharia-compliant stocks, as the screening criteria for sharia-compliant stocks do not use the DER ratio for debt restrictions; instead, they use the ratio of interest-bearing debt to total assets, which is generally capped at a maximum of 45% [30]. The average book-to-market ratio of 0.792 < 1 indicates that the market value of the sample stocks is higher than their book value. All variables have positive skewness values, indicating a right-skewed data distribution, as well as positive kurtosis, indicating a data distribution that tends to be leptokurtic.

3.2. Correlation Test

The correlation test result show that all correlation coefficients among the independent variable are below 0.6, indicating the absence of a strong relationship among the independent variables included in this study. Meanwhile, the correlation between profitability and return appears to be very strong. However, the correlations between return and leverage, B/M ratio, and firm size are not particularly strong.

Table 2. Correlation Test

	Profitability	Leverage	Firm Size	B/M Ratio	Return
Profitability	1.000				
Leverage	-0.479	1.000			
Firm Size	0.100	-0.146	1.000		
Rasio B/M	-0.282	0.268	-0.551	1.000	
Return	0.114	-0.011	0.018	0.005	1.000

3.3. Model Selection Test

Chow and Hausman tests, as shown in the Table 3, demonstrate that the Fixed Effect Model (FEM) provides the most suitable framework for this research.

Table 3. Results of Selection of Panel Data Regression Model

No	Method	Testing	Prob Value		Conclusion
1	Chow Test	CEM vs FEM	0.0005	FEM	FEM
2	Hausman Test	FEM vs REM	0.0019	FEM	

3.4. Classic Assumption

3.4.1. Normality Test

The Jarque-Bera method was utilized to evaluate whether the residual follow a normal distribution, which is confirmed if the p-value is higher than 0.05 [31]. As shown in Figure 1, the assumption of a normal distribution is satisfied for the data, as evidenced by a Jarque-Bera test significance value that is greater than 0.05.

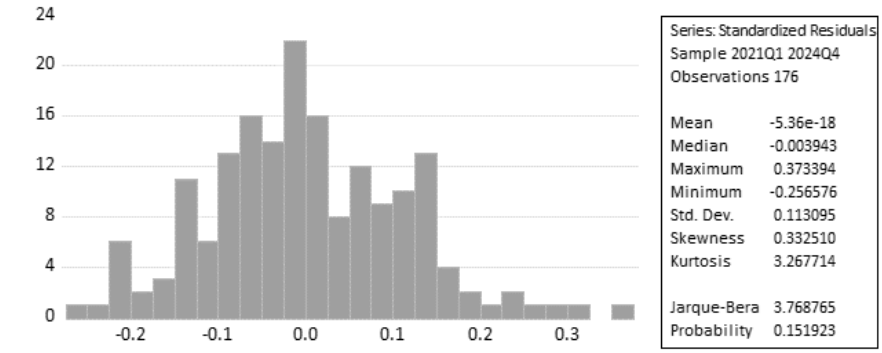

Figure 1. Result of Normality Test

3.4.2. Multicollinearity Test

The purpose of the multicollinearity test is to assess the presence of linear relationships among the independent variables included in the regression model. The absence of multicollinearity in a regression model is indicated when the VIF value of each independent variable is less than 10 [32]. Based on the Table 4 of multicollinearity test result, all variables have a centered VIF value < 10, indicating that the independent variables used in this study did not indicate any multicollinearity issues.

Table 4. Result of Multicollinearity Test

Variable	VIF	Conclusion
Profitability	1.417	There is no multicollinearity
Leverage	1.384	There is no multicollinearity
Firm Size	1.605	There is no multicollinearity
Ratio B/M	1.340	There is no multicollinearity

3.4.3. Heteroskedasticity test

The heteroskedasticity test is conducted to assess whether heteroskedasticity is present in the residuals of a regression model. The test is conducted using a residual scatterplot, in which the model is considered to be free of heteroskedasticity if the points are randomly scattered and do not from a specific pattern [32]. The results of the heteroscedasticity test shown in Figure 2 indicate that the residual variances are randomly distributed without forming any specific pattern. These findings suggest that the regression model used does not exhibit heteroscedasticity, and thus the assumption of homoscedasticity has been met.

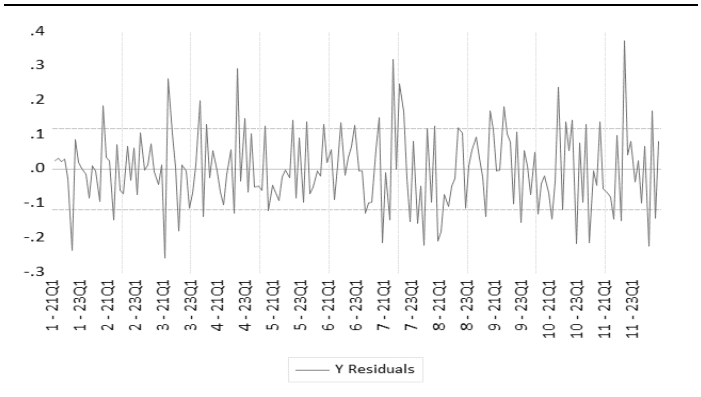

Figure 2. Result of Heteroskedasticity Test

3.5. Panel Data Regression Analysis

The Panel Regression Analysis results are shown in Table 5. The panel data regression models were conducted sequentially from M1 to M4. The model that yielded the best results in this study was the M4 model because it has the highest R^2 value of 0.207 or 20.7%, meaning that the variables of firm size, leverage, profitability, and the B/M ratio can explain 20.7% of the variation in stock returns, while the remaining 79.3% is

explained by other variables outside the model under study.

Table 5. Panel Data Regression

Variable	M1		M2		M3		M4	
	Coef	Prob	Coef	Prob	Coef	Prob	Coef	Prob
Coefficient	-0.043	0.031	-0.024	0.602	-1.194	0.6140	-0.609	0.787
Probability	1.659	0.021*	1.606	0.028*	1.594	0.029*	1.698	0.015*
Leverage			-0.033	0.649	-0.030	0.6740	-0.124	0.088
Firm Size					0.047	0.6210	0.032	0.723
Ratio B/M							-0.208	0.000*
R-squared		0.117		0.118		0.1190		0.207
Adjusted R-squared		0.057		0.053		0.0482		0.138
S.E. of regression		0.123		0.124		0.1239		0.118

*Significant at the 5% level.

In the M1 model, profitability has been shown to have a positive and statistically significant influence on stock returns, with a regression coefficient of 0.021 (<0.05). This indicates that companies with higher profitability, the more stock returns tend to increase. An R^2 value of 0.117 indicates that profitability explains 11.7% of stock returns.

In Model M2, the leverage variable was added to the regression model. The results of the analysis show that profitability consistently has a positive and significant impact on stock returns, with a p-value of 0.028. Meanwhile, leverage does not have a significant impact on stock returns, with a negative coefficient of -0.003 and a probability of 0.649 (>0.05). The R^2 value increases slightly to 0.118.

In the M3 model, the firm size variable was added to the model. Profitability still has a significant positive effect on stock returns. Leverage and firm size do not have a significant effect, as their probability values are 0.674 and 0.621, respectively (>0.05). The R^2 value for this model is 0.119.

In Model M4, a positive and statistically significant relationship is observed between profitability and stock returns, with a coefficient of 1.698 and a probability of 0.015 (<0.05). stock returns are significantly and adversely influenced by the book-to-market ratio, with a coefficient of -0.208 and a probability of 0.000 (<0.05). This indicates that as the B/M ratio increases, stock returns tend to decrease. Meanwhile, leverage and firm size do not have a significant influence on stock returns, as they have probability values of 0.088 and 0.723, respectively (>0.05).

3.6. Discussion

3.6.1. The Influence of Profitability on Stock Returns

The empirical findings demonstrate a statistically significant positive relationship between profitability and stock returns, implying that enhanced corporate profitability drives higher market returns. High profitability reflects strong financial performance, thereby signaling positive prospects for the company's future to investors [33]. This condition increases investor interest in the company's stock returns and drives an increase in stock returns [34]. These results support signaling theory, which states that information on a company's profits is a critical consideration for investors in making investment decisions [35]. These findings imply that profitability serves as a critical and relevant signal for sharia investors in guiding their investment decisions. It highlights that sharia investors exhibit rational behavior by seeking out profitable assets, rather than being exclusively driven by normative or religious motives.

3.6.2. The Influence of Leverage on Stock Return

The empirical findings demonstrate that leverage, measured via the Debt-to-Equity Ratio (DER). Exerts an adverse yet statistically insignificant impact o sharia-compliant equity returns. According to agency theory, the use of debt can increase a company's returns, but it also increases financial risk and conflicts of interest between shareholders and creditors [36], [37]. The lack of a significant effect of leverage in this study is likely due to the characteristics of sharia stocks, which have restrictions on debt usage in accordance with sharia principles, meaning that leverage is not a primary consideration for investors in their investment decision-making. Sharia stock investors potentially do not view leverage as a primary factor when assessing stock performance [37]. Consequently, the insignificant effect of leverage on stock returns in this study reflects that leverage is not a key determinant of stock returns among sharia-compliant companies.

3.6.3. The Influence of Firm Size on Stock Return

The study finds that firm size is not significantly associated with sharia stock returns. These findings are inconsistent with the theory stating that small firms tend to generate higher returns than large firms [22]. The lack of a significant effect of firm size is likely due to the fact that the study sample was drawn from the Jakarta Islamic Index, which is dominated by large, liquid firms, resulting in relatively little variation in firm size. The outcome indicates that public information, including firm size, may already be priced into stock values, meaning that variations in firm size no longer generate abnormal returns. Furthermore, the insignificant effect of firm size on sharia stock returns suggests that islamic

investors prioritize sharia-compliance criteria over asset size. he limited universe of sharia-compliant stocks further constrains investor's options, leading them to overlook firm size when constructing their portfolios.

3.6.4. The Influence of Book-to-Market Ratio n Stock Return

The results of the study indicate that the book-to-market ratio has a significant negative effect on sharia stock returns. These results differ from the theory stating that companies with high book-to-market ratios tend to generate higher returns [22]. This finding indicates that sharia stocks with a low book-to-market ratio actually generate higher returns. This condition is likely due to the fact that sharia stock investors prefer growth stocks with good growth prospects over value stocks. Additionally, companies in the sharia stock index generally have strong fundamentals, so book value does not fully reflect the company's intrinsic value.

4. Conclusion

This study concludes that stock return dynamics in the Jakarta Islamic Index (JII) are primarily driven by specific financial fundamentals. Profitability emerges as a robust positive determinant of stock returns, while the book-to-market ratio conversely exhibits a significant negative relationship. Meanwhile, changes in leverage and corporate scale (firm size) do not meaningfully alter stock return behaviors, suggesting that these two metrics are not key considerations for investors in this market segment. These findings suggest that Islamic stock investors place greater emphasis on a company's profitability and growth prospects than on its debt level or size when making investment decisions. This study has limitations in that it focuses only on four independent variables profitability, leverage, firm size, and the book-to-market ratio so other variables that could potentially influence stock returns have not been included. Additionally, the scope of this research is restricted exclusively to companies included in the Jakarta Islamic Index (JII). The period used in the study is quite short to observe the impact of these factors on stock returns only four years. Therefore, to obtain comprehensive results, future research should expand the variables used, extend the study period, and broaden the scope to include different sharia indices. Companies are expected to maintain and improve their financial performance, particularly profitability, to enhance stock returns and investor confidence.

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