

Empirical Evidence from the Indonesia Stock Exchange: The Influence of Debt to Equity Ratio (DER) and Return on Equity (ROE) on Sharia Stock Prices

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ABSTRACT: This paper aims to obtain empirical evidence about the influence of the Debt to Equity Ratio (DER) and Return on Equity (ROE) on Islamic stock prices, either partially or simultaneously. An exploratory investigation of 26 companies classified as sharia with the criteria of the Jakarta Islamic Index on the Indonesia Stock Exchange. The collection of complete financial data for the years 2014–2018 is done through secondary data analysis. 130 secondary data checks were successful, followed by processing with SPSS 26 and regression analysis. The research's conclusions furnish empirical proof that the Debt to Equity Ratio (DER) and Return on Equity (ROE) have a positive and significant influence on Islamic stock prices, either partially or simultaneously. This paper contributes theoretically to the scant knowledge exploring the Debt to Equity Ratio (DER) and Return on Equity (ROE) with Islamic stock prices on the stock exchange in Indonesia. In practice, this research gives a good insight that may be utilized to evaluate a company's performance health and determine its capacity to return shareholder investments for enterprises that are sharia-compliant.

Keywords: Debt to Equity Ratio (DER), Return on Equity (ROE), Islamic Stock Price.



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INTRODUCTION

The equity market is seen as crucial as a driver of the economic sustainability of any country, including Indonesia ([Bathia et al., 2020](#); [Han & Tang, 2020](#); [Lusiana, 2020a](#); [Usman et al., 2021](#)). Stock prices are a crucial reference before investing in the capital market ([Atems & Yimga, 2021](#); [Huang & Liu, 2021](#); [Tao et al., 2022](#)). Investors anticipate that the stock price will remain constant and will sometimes move upwards ([Chin & Paphakin, 2021](#); [Hogenboom et al., 2021](#); [Ji et al., 2021](#); [Tang & Yao, 2018](#)). However, because the stock price is according to the principle of supply and demand, the more investors who buy the stock, the more expensive the stock will be, and vice versa ([Harper et al., 2020](#); [Robinson et al., 2018](#); [Xu et al., 2020](#)). This means that stock prices will continue to fluctuate (up and down), which can be caused by internal or external factors. Therefore, investors must have the right knowledge to make the right assessment ([Aznedra & Putra, 2022](#); [Hao & Wang, 2021](#)). With the help of the capital market, shareholders

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can buy and sell shares, and business people can expand their network and make money ([Esteve et al., 2019](#)). The uncertain character of stock values must be taken into account by ([Adikerta & Abundanti, 2020](#); [L. Sari et al., 2022](#)). Companies must conduct financial analysis to obtain information because financial records will help investors ([Jia, 2018](#); [Tang & Yao, 2018](#)). Before choosing an investment, consider the company's financial status and its strengths and limitations. A bad stock price indicates a low company value, while a high stock price indicates a high company value. According to supply and demand, stock prices continue to change every day, monthly, and yearly ([Adikerta & Abundanti, 2020](#); [Cheng et al., 2020](#); [Yeung & Lento, 2018](#)).

Based on several previous studies, the element that influences the investment is Debt to Equity Ratio (DER) ([Bathia et al., 2020](#); [Rahmawati & Hadian, 2022](#)). The leverage ratio, often known as the extent to which debt is used as a source of corporate financing, is measured by the debt to equity ratio ([Davis, 2015](#)). The lower the Debt to Equity Ratio (DER), which measures a firm's ability to pay long-term obligations, will affect rising stock prices and the company will be better at paying long-term liabilities. The market will interpret information about the rising Debt to Equity Ratio (DER) as an unfavorable signal, which will harm investors' decisions to purchase shares. As nothing more than a result, stock prices and demand decline. ([Utami & Darmawan, 2019](#)). This is supported by past academics' investigations such ([Adikerta & Abundanti, 2020](#); [Meida Dzulqodah, 2016](#); [Munira et al., 2018](#); [Nining, 2020](#); [Pandansari, 2012](#)) which conclude that (DER) effects on stock value. If the Debt to Equity Ratio (DER) increases, the stock price will also increase. However, the findings of this study conflict with those of earlier scholars, such as ([Amaliah & Manda, 2021](#); [Hasanah & Sulistiyono, 2021](#); [Hutomo et al., 2020](#); [Lusiana, 2020a](#); [Nurhayati & Yudiantoro, 2022](#); [Rahmawati & Hadian, 2022](#); [Rusdiyanto et al., 2020](#); [D. I. Sari & Maryoso, 2021](#); [L. Sari et al., 2022](#); [Sudarman & Diana, 2022](#); [Utami & Darmawan, 2019](#)) whose research results conclude that (DER) does not effect on stock prices . If the Debt to Equity Ratio (DER) increases, the stock price will not increase as well.

In addition to the Debt to Equity Ratio (DER) factor that has an empirical effect on stock prices, the Return on Equity (ROE) factor also provides the same empirical evidence. Market participants will see news of rising ROE as a positive signal, which will help investors make informed judgments about whether to purchase shares. Contrary to this, there is a greater demand for shares, which drives up their price ([Utami & Darmawan, 2019](#)). Such as several research results ([Hapsari & Chaniago, 2022](#); [Hasanah & Sulistiyono, 2021](#); [Lusiana, 2020a](#); [Nurhayati & Yudiantoro, 2022](#); [Rahmawati & Hadian, 2022](#); [L. Sari et al., 2022](#)) they state that an increase in Return on Equity (ROE) has negative implications, then the stock price will also increase. However, the study's findings run counter to those of earlier researchers, including ([Hutomo et al., 2020](#); [Lusiana, 2020b](#); [Sepindo et al., 2020](#); [Sudarman & Diana, 2022](#)) concludes that (ROE does not affect on stock prices. If Return (ROE) increases, then stock prices do not increase.

The scalpel analysis uses Signaling Theory. According to Conelly et al. (2011) in ([Utami & Darmawan, 2019](#)), According to the signaling theory, the information receiver can decide how to interpret the information they receive while the information provider can decide what and how the information will be conveyed. Businesses can set themselves apart from subpar competitors by communicating their quality to the capital market in a trustworthy manner (Spence, 1973) ([Utami & Darmawan, 2019](#)), signaling theory refers to information indications that investors must take into account when deciding whether to purchase shares of the target company.

Based on the gap research phenomenon mentioned above, there is a gap for researchers to re-proven the results of the study in a different context, namely, combining the (DER) and (ROE) variables, the effect is both partially and simultaneously on the share price of sharia shares with the criteria for the Jakarta Islamic Index on the Stock Exchange of Indonesia. The implications of the research report are expected

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to provide a theoretical contribution to the limited research that explores the (DER) and (ROE) on Islamic stock prices. Likewise in practice, this research provides significant insights that can be used to measure the health of the company and assess the company's ability to generate returns from the investment of shareholders of companies classified as sharia. From a broader standpoint, this study is more significant because a nation's economic development is influenced by the financial performance of companies whose shares are classified as sharia. The following hypotheses were established concerning the primary issues and study goals: H1: There is a strong influence of the Debt to Equity Ratio (DER) on indexed Islamic stock prices (Jakarta Islamic Index) on the Indonesia Stock Exchange; H2: There is a strong influence of Return on Equity (ROE) on the indexed Islamic stock price (Jakarta Islamic Index) on the Indonesia Stock Exchange. H3: There is a strong influence of the Debt to Equity Ratio (DER) and Return on Equity (ROE) simultaneously on the indexed Islamic stock price (Jakarta Islamic Index) on the Indonesia Stock Exchange.

METHOD

This research is explanatory research, namely research that explains the effect of Debt to Equity Ratio (DER) and Return on Equity (ROE) on Islamic stock prices, either partially or simultaneously. An exploratory investigation of 26 companies classified as sharia with the criteria of the Jakarta Islamic Index on the Indonesia Stock Exchange. The collection of complete financial data for the years 2014–2018 is done through secondary data analysis. 130 secondary data were successfully analyzed using regression after being processed using SPSS 26.

RESULT AND DISCUSSION

Based on Table 1, demonstrates the specifics of the partial influence of the (DER) variable on the Islamic stock price variable. A procedure is employed to reach this conclusion, and it looks at the value of Sig (Significance with criteria 0.05). In table 1, the value of sig. listed is 0.008. To achieve this, adhere to the sig level. The cutoff point for the significance value is 0.05. This indicates that (DER) has an influence on the stock if the (probability) significance is less than 0.05. Furthermore, the regression coefficient value is 24,466 which describes the direction of a positive relationship, meaning that for every one percent increase in the (DER) level, the stock price will also increase by 24,466 points. Based on these statistical data, it can be concluded that (DER) partially has a significant effect on the indexed Islamic stock price (Jakarta Islamic Index) on the Indonesia Stock Exchange. Thus, the first hypothesis (H1) can be proven (accepted). According to existing theory, if a company can maintain profits while taking on increasing debt, this shows that the benefits of using debt outweigh the costs, allowing investors to see the use of debt profitably (Husnan, 2005: 331). His opinion is strengthened ([Adikerta & Abundanti, 2020](#)), companies with high DER can create Earning Before Interest and Taxes (EBIT), which is greater than the interest expense that must be paid by the company. This is possible with strong corporate management. High debt interest also has an impact on reducing the absorbed tax burden, which is another reason why businesses seek large debt. This may be advantageous for the business when using the loan. Corporate earnings can benefit from a sound debt management strategy. Investors choose to buy company shares because of this belief. Stock prices rise as a result of increased demand for stocks. This research supports his claim that the (DER) is a reliable indicator of whether a company's stock is worthwhile to purchase or not ([Hapsari & Chaniago, 2022](#)). The larger the debt or obligation that the firm is required to pay the (DER) ratio should be. But on the other hand, as creditors or investors would feel comfortable in their assets even if the company is liquidated, the lower the trend in the debt-to-equity ratio,

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the better. Investors may feel more secure with a low DER ratio, making it easier for businesses to draw in capital. The stock price of a company may be impacted when several investors want to purchase shares of that company.

The results of the study strengthen or support the results of previous research conducted by (Adikerta & Abundanti, 2020; Meida Dzulqodah, 2016; Munira et al., 2018; Nining, 2020; Pandansari, 2012) which stated Debt to Equity Ratio (DER) affects stock prices.

Based on Table 2, shows information about the effect of the (ROE) variable on the Islamic stock price variable partially. To make this decision, a method is used, looking at the value of Sig (Significance with criteria <0.05). In table 1, the value of sig. listed as 0.000. This is by following the sig level. 0.05 as the cut-off value from the significance value. This means that if the probability value (significance) is below 0.05, the (ROE) affects stock prices. Furthermore, the regression coefficient value is 209,065 which describes the direction of a positive relationship, meaning that every one percent increase in the (ROE) level, the stock price will also increase by 209,065 points. Based on these statistical data, it can be concluded that (ROE) partially has a significant effect on the indexed Islamic stock price (Jakarta Islamic Index) on the Indonesia Stock Exchange. Thus, the second hypothesis (H2) can be proven (accepted). This study supports his assertion. According to (Hapsari & Chaniago, 2022), return on equity (ROE) is a measure that can demonstrate a company's capacity to generate a profit from its equity. As the return on equity (ROE) increases, a company's investor appeal rises (Bunea et al., 2019). This research strengthens his opinion (Hasanah & Sulistiyo, 2021), It will benefit the company if it can turn a profit with its resources because strong profits will boost interest in the company's shares and drive up the price of its stock. High profitability demonstrates that the company has a sizable internal fund, while high return on equity shows that the company earns high profits with its capital and does not require money from outside sources like creditors. The results of the study strengthen or support the results of previous research conducted by (Hapsari & Chaniago, 2022; Hasanah & Sulistiyo, 2021; Lusiana, 2020a; Nurhayati & Yudiantoro, 2022; Rahmawati & Hadian, 2022; L. Sari et al., 2022), which stated that Return on Equity (ROE) affects stock value.

Based on Table 3, displays information on the interaction between the Islamic stock price variable and the (ROE) and (DER) variables. To make this decision, a method is used, looking at the value of Sig (Significance with criteria <0.05). In table 3, the value of sig. listed as 0.000. This is by following the sig level. 0.05 as the cut-off value from the significance value. This means that if the probability value (significance) is below 0.05, then Debt to Equity Ratio (DER) and Return on Equity (ROE) affect stock prices. Based on these statistical data, it can be concluded that Debt to Equity Ratio (DER) and Return on Equity (ROE) simultaneously have a significant effect on the indexed Islamic stock price on the Stock Exchange of Indonesia. Thus, the third hypothesis (H3) can be proven (accepted). The value of R^2 in this regression model is obtained at 0,580. This means that 58% of the stock price variables can be influenced by the Debt to Equity Ratio and Return on Equity variables, while the remaining 42% can be influenced by other variables not included in this research model.

Table 1 Partial Regression Model

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Criteria	Conclusion
		B	Std. Error	Beta				
1	(Constant)	4668.908	969.962		4.813	.000		
	Debt to Equity Ratio	24.466	9.015	.233	2.714	.008	<0.05	H1: accepted

a. Dependent Variable: Sharia Stock Prices

Source: Secondary Data Processed, 2022

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Table 2 Partial Regression Model

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Criteria	Conclusion
		B	Std. Error	Beta				
1	(Constant)	2249.874	826.101		2.723	.007		
	Return on Equity	209.065	26.256	.576	7.962	.000	<0.05	H2: accepted

a. Dependent Variable: Sharia Stock Prices

Source: Secondary Data Processed, 2022

Table 3 Simultan Regression Model

ANOVA ^a								
Model		Sum of Squares	Df	Mean Square	F	Sig.	Criteria	Conclusion
1	Regression	3630206935.857	2	1815103467.928	32.219	.000 ^b	<0.05	H3: accepted
	Residual	7154686123.632	127	56336111.210				
	Total	10784893059.488	129					

a. Dependent Variable: Sharia Stock Prices

b. Predictors: (Constant), Return on Equity, Debt to Equity Ratio

c. R²=0,580

Source: Secondary Data Processed, 2022

CONCLUSION

The research findings provide the following conclusions: Debt to Equity Ratio (DER) and Return on Equity (ROE) positively and significantly affect Islamic stock prices, either partially or simultaneously. In this case the three hypotheses proposed can be proven. If the (DER) and (ROE) increase, the stock price will also increase. This study provides a theoretical contribution to limited research exploring (DER) and (ROE) with stock prices in the context of the Indonesian stock market, especially indexed companies (Jakarta Islamic Index). In practice, this research offers important insights that can be applied to gauge the company's health and determine its capacity to maximize returns on shareholders' investments for businesses that are classed as adhering to sharia law. In future research, it will be useful to explore the (DER) and (ROE) with stock prices by comparing stock exchanges of various countries.

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