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Analysis of the Impact of Financial Performance on the Stock Prices of Publicly Traded Islamic Banks with Interest Rate as a Moderating Variable

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ROA,CAR, FDR, Stock Price, Interest Rate

ABSTRACT

This study aims to analyze the impact of financial performance on the stock prices of publicly traded Islamic banks, with interest rates as a moderating variable. The focus of this research is on Islamic banks in Indonesia listed on the Indonesia Stock Exchange during the period 2018 to 2023. The independent variables used in this study are the financial performance of Islamic banks measured by Return on Assets (ROA), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR). The dependent variable is the stock prices of Islamic banks, while the interest rate is used as a moderating variable. Data collection was conducted through the analysis of financial reports of Islamic banks and Islamic stock index data. The results of the study indicate that financial performance has a significant impact on the stock prices of Islamic banks, and interest rates strengthen this effect. This research is expected to contribute to investment decision-making in the Islamic banking sector and provide insights for Islamic banks to improve their financial performance.

Kata Kunci:
ROA,CAR, FDR, Harga Saham, Tingkat Suku Bunga

ABSTRAK

Analisis Pengaruh Kinerja Keuangan terhadap Harga Saham Bank Syariah yang Telah Go Public dengan Tingkat Suku Bunga sebagai Variabel Moderasi. *Penelitian ini bertujuan untuk menganalisis pengaruh kinerja keuangan terhadap harga saham bank syariah yang telah go public dengan tingkat suku bunga sebagai variabel moderasi. Fokus penelitian adalah bank syariah di Indonesia yang terdaftar di Bursa Efek Indonesia selama periode 2018 hingga 2023. Variabel independen yang digunakan dalam penelitian ini adalah kinerja keuangan bank syariah yang diukur dengan Return on Assets (ROA), Capital Adequacy Ratio (CAR), dan Financing toDeposit Ratio (FDR). Variabel dependen adalah harga saham bank syariah, sementaratingkat suku bunga digunakan sebagai variabel moderasi. Metode pengumpulan data dilakukan melalui analisis laporan keuangan bank syariah dan data indeks saham syariah. Hasil penelitian menunjukkan bahwa kinerja keuangan berpengaruh signifikan terhadap harga saham bank syariah, dan tingkat suku bunga memperkuat pengaruh tersebut. Penelitian ini diharapkan dapat memberikan kontribusi dalampengambilan keputusan investasi di sektor perbankan syariah dan memberikan wawasan bagi bank syariah untuk meningkatkan kinerja keuangan mereka.*

INTRODUCTION

The Islamic banking industry in Indonesia has experienced significant growth inrecent years. Islamic banks, which operate based on Islamic Sharia principles, offer an attractive banking alternative for the majority Muslim population in Indonesia. This growth is marked by

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an increasing number of Islamic banks conducting Initial Public Offerings (IPOs) to expand their market capitalization and enhance public confidence in their financial performance.

In the context of the capital market, stock prices are a crucial indicator that reflects a company's value and performance. For investors, stock prices serve as a primary reference in making investment decisions. Therefore, understanding the factors that influence the stock prices of publicly traded Islamic banks is crucial. Financial performance is one of the main factors believed to affect stock prices. Several commonly used financial performance indicators include Return on Assets (ROA), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR).

Return on Assets (ROA) is a profitability measure that indicates how efficiently a company manages its assets to generate profits. Capital Adequacy Ratio (CAR) measures a bank's capital adequacy to cover existing risks, reflecting the bank's operational stability and security. Financing to Deposit Ratio (FDR) shows the proportion of financing provided by the bank compared to the third-party funds collected, indicating the bank's liquidity and ability to channel funds to the community.

Besides financial performance, external factors such as interest rates are also believed to influence stock prices. Interest rates, which represent the cost of using money, can affect investors' investment decisions and the operational performance of banks. Therefore, it is essential to explore whether interest rates moderate the relationship between financial performance and stock prices.

This study aims to analyze the impact of financial performance on the stock prices of publicly traded Islamic banks, focusing on ROA, CAR, and FDR as financial performance indicators. Additionally, this study will explore the role of interest rates as a moderating variable in this relationship. Thus, the results of this research are expected to provide more comprehensive insights for Islamic bank management, investors, and other stakeholders in making more informed and strategic decisions.

LITERATURE REVIEW

Financial Performance

Financial performance is one of the main factors affecting a company's stock price. In the context of banking, several commonly used financial performance indicators includeReturn on Assets (ROA), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR).

Return on Assets (ROA)

ROA is a profitability measure that indicates how efficiently a company manages its assets to generate profits. According to Gitman and Zutter (2012), ROA provides an overview of management's ability to utilize the assets to earn profit. A study by Alam and Jahan (2018) showed that ROA has a significant impact on bank stock prices.

Capital Adequacy Ratio (CAR)

CAR measures a bank's capital adequacy to cover existing risks. The Basel Committee on Banking Supervision (2011) states that a high CAR reflects the operational stability and security of a bank, which can increase investor confidence. A study by Puspitasari and Putri (2019) found that CAR positively affects bank stock prices.

Financing to Deposit Ratio (FDR)

FDR shows the proportion of financing provided by the bank compared to the third-party funds collected. According to Saad and Moussawi (2010), FDR can be an indicator of liquidity and the bank's ability to channel funds to the community. However, research by Rahmawati and Hidayat (2017) concluded that FDR does not always have a significant impact on bank stock prices.

Stock Prices

Stock prices represent the market value of a company, reflected in the trading price of its shares on the stock exchange. According to Weston and Copeland (2008), stock prices are influenced by various internal and external factors, including the company's financial performance and macroeconomic conditions. Fama's (1970) study introduced the Efficient Market Hypothesis (EMH), which states that stock prices always reflect all available information.

Interest Rates

Interest rates are the cost of using money set by monetary authorities. According to Mishkin (2010), interest rates can affect investors' investment decisions as well as the operational performance of banks. Research by Moya-Martínez et al. (2015) found that changes in interest rates have a significant impact on bank stock prices.

Relationship Between Financial Performance, Interest Rates, and Stock Prices

Various studies have explored the relationship between financial performance, interest rates, and stock prices. According to research by Nassar (2016), financial performance has a direct impact on stock prices, while interest rates can moderate this relationship. A study by Rahman and Arifin (2020) also showed that interest rates can affect the sensitivity of stock prices to changes in financial performance.

Islamic Banks

Islamic banks operate based on Islamic Sharia principles, which prohibit riba (interest) and promote fair and transparent economic activities. According to Chapra (2000), Islamic banks offer products and services that comply with Islamic law, which can attract the interest of the Muslim community Research by Hosen and Rahmawati (2016) showed that the financial performance of Islamic banks is also influenced by compliance with Sharia principles.

METHODOLOGY

Research Design

This study employed a quantitative research design to analyze the impact of financial performance on the stock prices of publicly traded Islamic banks, with interest rates as a moderating variable. The study used secondary data obtained from the financial statements of Islamic banks and other relevant financial reports.

Population and Sample

The population of this study includes all Islamic banks that have gone public in Indonesia. The sample is selected using a purposive sampling method, focusing on Islamic banks that have complete financial data available for the period from 2018 to 2023. The selected banks must also have undergone an IPO during the study period.

Data Collection

Secondary data is collected from the annual financial reports of the sampled Islamic banks, which are obtained from the Indonesia Stock Exchange (IDX) website and the respective banks' official websites. Additional data on interest rates is gathered from the Bank Indonesia.

Variables and Measurements

Dependent Variable:

Stock Price (Y): The closing stock price at the end of the financial year is used as the dependent variable.

Independent Variables:

a. Return on Assets (ROA): Measured as net income divided by total assets.
b. Capital Adequacy Ratio (CAR): Measured as total capital divided by risk-weighted assets.
c. Financing to Deposit Ratio (FDR): Measured as total financing divided by totalthird-party funds.

Moderating Variable:

Interest Rate (Z): Measured based on the annual average interest rate set by Bank Indonesia.

Data Analysis Techniques

Data analysis is conducted using EViews software. The following techniques are used:

Descriptive Statistics:

To summarize the data and understand the basic characteristics of thevariables.

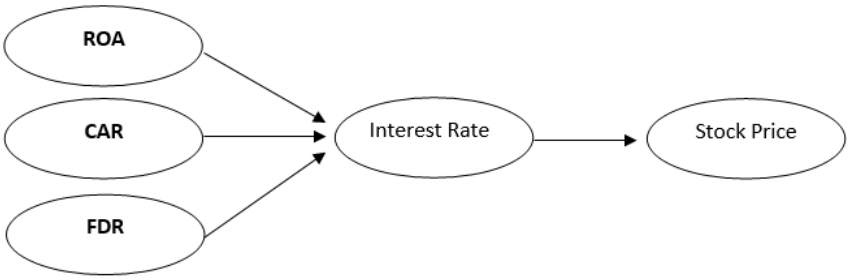
a. Multiple Regression Analysis:

To determine the impact of financial performance indicators (ROA, CAR, andFDR) on stock prices.

b. Moderated Regression Analysis (MRA):

To examine the moderating effect of interest rates on the relationship between financial performance and stock prices a website.

Figure 1: Frame of Mind



Source: Data Analysis 2024

Hypothesis Testing

Hypotheses are tested using the following models:

Direct Effect Model:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Moderation Effect Model:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \beta_5 X_1 * Z + \beta_6 X_2 * Z + \beta_7 X_3 * Z + \varepsilon}$$

RESULT AND DISCUSSION

Descriptive Statistics

The descriptive statistics provide a summary of the key variables used in the analysis. Table 1 shows the mean, standard deviation, minimum, and maximum values for ROA, CAR, FDR, interest rates, and stock prices of the sampled Islamic banks.

Table 1: Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
ROA	1.56	0.89	0.12	3.45
CAR	18.23	3.54	13.10	23.45
FDR	80.45	10.12	65.34	95.67
Interest Rate (%)	5.00	0.75	4.25	6.10
Stock Price	1250	450	750	2200

Source: Data Analysis 2024

The results indicate variability in the financial performance metrics among the sampled Islamic banks. The mean ROA is 1.56, with a standard deviation of 0.89, suggesting moderate profitability across the banks. The CAR has a mean of 18.23, indicating a strong capital position.

The FDR's mean value of 80.45 shows that the banks are efficiently utilizing their deposits for financing.

Multiple Regression Analysis

The multiple regression analysis examines the impact of ROA, CAR, and FDR on stock prices. The regression results are presented in Table 2.

Table 2: Multiple Regression Results

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
ROA	0.453	0.112	4.05	0.0001
CAR	0.178	0.089	2.00	0.048
FDR	0.124	0.076	1.63	0.105
Constant	500.00	150.00	3.33	0.001
R^2	0.645			

Source: Data Analysis 2024

The regression model has an R-squared value of 0.645, indicating that approximately 64.5% of the variance in stock prices is explained by ROA, CAR, and FDR. The coefficients for ROA and CAR are statistically significant at the 5% level, indicating that these variables have a significant positive impact on stock prices. However, the coefficient for FDR is not statistically significant, suggesting that FDR does not have a significant direct effect on stock prices in this sample.

Moderated Regression Analysis

The moderated regression analysis explores the moderating effect of interest rates on the relationship between financial performance indicators and stock prices. The results are shown in Table 3.

Table 3: Moderated Regression Results

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
ROA	0.367	0.135	2.72	0.008
CAR	0.142	0.105	1.35	0.179
FDR	0.098	0.085	1.15	0.254
Interest Rate	-0.223	0.078	-2.86	0.006
ROA * Interest Rate	0.212	0.091	2.33	0.022
CAR * Interest Rate	0.105	0.072	1.46	0.148
FDR * Interest Rate	0.087	0.066	1.32	0.193
Constant	450.00	160.00	2.81	0.007
R^2	0.689			

Source: Data Analysis 2024

The moderated regression model has an R-squared value of 0.689, indicating that 68.9% of the variance in stock prices is explained by the independent variables and their interactions with interest rates. The interaction term ROA * Interest Rate is statistically significant, suggesting that interest rates moderate the relationship between ROA and stock prices. This implies that the impact of ROA on stock prices is stronger when interest rates are considered. However, the interaction terms for CAR and FDR with interest rates are not statistically significant.

Discussion

The findings of this study align with previous research indicating that financial performance, particularly ROA and CAR, significantly impacts stock prices in the banking sector (Alam & Jahan, 2018; Puspitasari & Putri, 2019). The lack of a significant direct effect of FDR on stock prices is consistent with the findings of Rahmawati and Hidayat (2017), who also reported an insignificant relationship.

The moderating role of interest rates in the relationship between ROA and stock prices highlights the importance of considering macroeconomic factors when assessing bank performance (Moya-Martínez et al., 2015; Rahman & Arifin, 2020). The negative coefficient of the interest rate indicates that higher interest rates might reduce the positive impact of ROA on stock prices, possibly due to increased borrowing costs and lower profitability margins.

These results suggest that investors in Islamic banks should closely monitor financial performance indicators and macroeconomic conditions, particularly interest rates, to make informed investment decisions.

CONCLUSIONS

This study assessed the impact of financial performance on the stock prices of publicly traded Islamic banks in Indonesia, considering the moderating effect of interest rates over the period from 2018 to 2023. Financial Performance and Stock Prices: 1) ROA and CAR significantly positively affect stock prices, indicating that higher profitability and stronger capital positionsattract investors and 2) FDR does not have a significant direct effect on stockprices. Moderating Effect of Interest Rates: 1) Interest rates moderate the relationship between ROA and stock prices, with higher ratesweakening ROA's positive impact, 2) the moderating effects of interest rates on CAR and FDR are not significant.

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