

# The Effect Of Capital Structure, Company Size, And Profitability On The Price Of Sharia Shares Listed In The Jakarta Islamic Index For The 2015-2019 Period

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**Abstract.** This study aims to examine and analyze the effect of capital structure, firm size and profitability partially and simultaneously on Sharia stock prices. The object of research is a company listed on the Jakarta Islamic Index (JII) for the 2015-2019 period. The research method uses quantitative methods with causal research design (causality). The research sample was 12 companies for 4 years of research so that the number of observations in this study in total is 48 observations. The analysis technique in this study uses the IBM SPSS For Windows program with multiple linear regression models. The results showed that capital structure had an insignificant negative effect on Sharia stock prices, firm size had a positive and significant effect on Sharia stock prices, profitability had a positive and significant effect on Sharia stock prices, and jointly capital structure, firm size, and profitability had a significant effect on Sharia stock prices.

**Keywords:** Capital Structure, Company Size, Profitability and Sharia Stock Price

## 1 Introduction

The capital structure of a company will have an impact on the amount of costs incurred, both in the form of cost of debt and cost of equity. With a careful calculation of the capital structure, the company can optimize the amount of WACC (Weighted Average Cost of Capital) that must be spent. In addition, the capital structure of a company also has the opportunity to maximize the company's share price [5]. Capital structure describes the composition between the amount of debt to equity. Company debt consists of long-term debt and short-term debt. Long-term debt is a company loan that has a maturity period of more than 1 (one) year [10].

Company size can be seen from the total assets owned, the greater the total assets, the greater the size of the company. Conversely, a company that has fewer total assets will be categorized as a smaller company size. Companies that are already large are expected to have better development potential and are tested over a longer period of time. This also has an impact on the share price, where a large company size has an impact on a higher share price. Meanwhile, companies that have lower total assets and have a smaller size tend to have lower share prices.

Profitability ratio is a ratio that explains how a company with all its resources is able to generate a certain amount of profit. The resources in question consist of the number of assets owned to support production activities, operating activities consisting of the production process, sales, cash management, changes in total equity, composition of the number of employees, number of branches and other things that affect the achievement of company profits.

To make a decision to invest in stock instruments, the information seen by investors is not only matters related to capital structure, but also other information that has an impact on stock prices. Other information includes company size. In the capital market, there are various types of issuers with different sizes. Company size can be seen from the total assets owned, the greater the total assets, the greater the size of the company is considered [10].

Investors who invest in issuers have the right to dividend payments from company profits. The amount of dividends that will be distributed to all investors is influenced by the amount of profit recorded in the current period. The greater the profit earned, the greater the receipt of dividends for investors. Measuring the profitability of a company using the Return on Equity (ROE) ratio or the amount of profit level compared to the total equity of the Company. ROE can also indicate a successful business, where shareholders can measure the level of profit achievement that has the potential to enrich shareholders.

### Signaling Theory

Signaling by company management to investors regarding policies that will be taken by the company that can affect company performance is common in business practice. Based on the signals received, investors can take two approaches to analyze fundamentals. The first approach is a bottom-up approach where investors first pay attention to the basic conditions of a company, financial status, and also competitive conditions which will be the basis for projecting potential profits. The second approach is top-down, where investors start not from the company, but from

macroeconomic and market aspects in general. In the top down approach, investors also first take into account the level of the inflation factor and the prospects of the industry.

Investors' opinions and decision making can be influenced by signals coming from financial statements. In the financial statements that have included the signal, information is implied regarding the decision plans taken by management in realizing the expectations and desires of the owner. Signaling theory is closely related to the existence of information asymmetry, where management knows more about the company's condition than investors. So that the reliability and correctness of the Financial Statements are important for investors so that the signals provided actually describe real information about the condition of the company. This is in line with [7] opinion that reliable and accountable financial reports are a way to minimize information asymmetry. Positive signals conveyed by management through financial information will be captured and understood by investors as a prospect for an increase in return on their investment [2].

Shares are proof of investor ownership of a company. Shares consist of 2 forms, where there are shares issued in the name of the owner, and the shares can be transferred even though the price has not been fully paid. Another form of shares is shares on demonstration where the owner's name is not written on the share certificate, but only authorizes the holder as the owner [11].

The stock price that is formed and will become a reference can be seen from the closing price at the end of the buying and selling period. Therefore, the stock price can be seen from the closing price at the end of the period. According to research conducted by [1], the value of DER has no significant effect on stock prices. The regression coefficient result obtained by [1] is -0.134 for the DER variable with a sig value = 0.307 or greater than 0.05. Thus, [1] made the decision that DER has no effect on stock prices.

In contrast to the research results from [1], the results of [16] prove that the significance level of the capital structure variable is 0.038 or smaller than 0.05 and t count 2.132 is greater than t table 2.011. The calculated t value shows a negative value, so the decision taken Capital structure has a significant negative effect with a regression coefficient value of 0.334, where every 1x increase in DER will affect the decline in stock price by IDR 0.334, and vice versa if the DER value decreases by 1x, the stock price can increase by IDR 0.334 with other variables remaining constant.

Based on some of these studies, the following hypothesis can be drawn:

H1: There is a negative effect of capital structure on the price of Islamic stocks listed on the Jakarta Islamic Index (JII).

According to [10], company size is an indicator that gets a positive response and reaction in the market. Because a large company is considered to be able to provide better prospects in the future. Especially if the Company provides information on the profits used for reinvestment so that it will further increase the size of the Company in the future. Based on the effect of company size, a large company, its share price will be high, and a company that is small in size, its share price is also low. Thus, the larger the size of the company, it can attract investors and make it an indicator in investing.

In contrast to the results of research by [15], according to research conducted by [16], the company size variable has a regression coefficient of 14.289 with a significant value of 0.000 or less than 0.05 and a t value of 7.607 greater than the t table 2.011. The calculated t value shows a positive value of 7,607, so the decision is taken that the company size variable using the measurement of the natural logarithm value of the company's total assets has a significant effect on firm value.

Based on some of these studies, the following hypothesis can be drawn:

H2: There is a positive influence of company size (SIZE) on the price of Islamic stocks listed on the Jakarta Islamic Index (JII).

Profitability ratio which is an indicator in measuring the effectiveness of overall management and is indicated by the size of the level of profit obtained, greatly influences the determination of stock prices. A company that has a high net profit margin will make investors more confident so that it results in more demand for shares which results in an increase in the company's share price [9]. The Net Profit Margin (NPM) variable has a positive influence on stock prices. Return on equity (ROE) is one of the ratios to measure the level of profitability of a company and see the ability of the company's capital to generate profits for all shareholders. Investors see this ratio as an indicator of how much the company will be able to provide profits in the future. If the ROE of a company is getting bigger, then it is very attractive to investors, because the rate of return on the investment they make is large. Information relating to the increase in the ROE ratio of a company, positively affects the decision to buy shares. this makes the demand for shares increase, so the price will also increase. This is supported by the results of research from [14] which show that ROE has a significant positive effect on the closing stock price.

Based on the results of [1], it is known that ROE has a significant positive effect on stock prices. This means that if there is an increase in ROE, an increase in stock price will follow. Conversely, if there is a decrease in ROE, a

decrease in stock price will follow. The regression coefficient of the Return on Equity (ROE) variable is 0.835. This means that an increase in ROE of 1 rupiah will cause an increase in stock price of Rp 0.835 rupiah. Conversely, if there is a decrease in ROE by 1 rupiah, it will cause a decrease in stock price of Rp 0.835.

Based on some of these studies, the following hypothesis can be drawn:

H3: There is a positive influence of ROE on the price of Islamic stocks listed on the Jakarta Islamic Index (JII).

Based on the research as mentioned above, and taking into account the hypothesis development that has been carried out on the 3 variables to be tested, the 4th hypothesis is also drawn as follows:

H4: There is a simultaneous influence of DER, SIZE, and ROE on the price of Islamic stocks listed on the Jakarta Islamic Index (JII).

### Research Methods

This research uses a quantitative research approach. The research design in this study uses causal research (causality). [12] explains that causal research is a causal relationship. The object of research studied consists of four variables, namely capital structure, company size and profitability and Islamic stock prices. The population of this study are companies listed on the Jakarta Islamic Index for the period 2015 - 2019.

The sampling technique uses purposive sampling method, namely setting specific criteria or certain criteria, namely 1) Companies that issue Islamic shares, and the issuer is included in the Jakarta Islamic Index (JII) since 2015-2019. 2) Available financial report data during the research period, 3) Financial statements include data on capital structure, company size, profitability and Islamic stock prices.

The data analysis method uses multiple linear regression analysis. The analysis technique in this study uses the IBM SPSS For Windows program. Multiple linear regression testing can be done after the model of this study meets the requirements of free from classical assumptions, namely data does not contain multicollinearity, autocorrelation, and heteroscedasticity [8].

### Results of Analysis and Discussion

The results of the Kolmogorov Smirnov Test normality test obtained a probability value = 0.078 > 0.05, so the regression model fulfills the assumption of normality. Based on the results of the multicollinearity test with the VIF method, the VIF value is < 10. Thus there is no multicollinearity in all independent variables and there is no interpretation bias in the results of the regression analysis results. It turns out that the D-W statistic value of 2.236 is in the Ho acceptance area (1.1688 < 2.157 < (2.312)). This means that the estimated model does not occur autocorrelation. Based on the results of the heteroscedasticity test using Glejser, it can be seen that the probability value > 0.05. This means that the estimated model is free from heteroscedasticity.

The results of Multiple Linear Regression analysis to determine the effect of independent variables consisting of Capital Structure (DER), Company Size (DER), and Profitability (ROE) on the dependent variable, namely Sharia Stock Price (Y). By using the SPSS for Windows computer statistics program as follows:

**Tabel 1 Hasil Uji t**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.977	1.378		3.613	.001
Struktur Modal	-.001	.002	-.062	-.546	.587
Ukuran Perusahaan	.276	.120	.241	2.291	.026
Profitabilitas	.024	.004	.734	6.357	.000

Sumber: Lampiran Hasil Olah Data Regresi, 2021.

The results of data testing concluded that capital structure has a negative and insignificant effect on stock prices. While the other two variables have a significant effect on stock prices. There is a joint influence of the Capital Structure, Company Size and Profitability variables on Stock Prices.

**Tabel 2. Hasil Uji R<sup>2</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673 <sup>a</sup>	.453	.424	.84468

Sumber: Lampiran Hasil Olah Data Regresi, 2021.

The results of the regression with the OLS (Ordinary Least Square) method obtained R<sup>2</sup> (Coefficient of Determination) of 0.453, meaning that the dependent variable in the model, namely stock price, is explained by the

independent variables, namely capital structure, company size, and profitability by 45.3%, while the remaining 54.7% is explained by other factors outside the model.

## Discussion

The results of multiple linear regression show that capital structure has a negative and insignificant effect on stock prices. The results of this study are in line with the results of research by [1] which states that capital structure has an insignificant effect on stock prices and is different from the results of research by [16] which states that capital structure has a significant positive effect on Islamic stock prices. Apart from [1] which also present research results that DER has a negative and insignificant effect on stock prices.

The capital structure that describes the capital composition of a company consisting of debt and equity, is one of the considerations for investors in making decisions. Investors will use this information as material to analyze and match by looking at the financial statements. If the Financial Statements indicate that the Debt to Equity Ratio calculation formula is enlarged, investors will conclude that the capital structure derived from debt is greater than the capital derived from equity [13]. Thus, the company prefers to use funding through external or loans rather than through existing shareholders.

In this study, the authors did not conduct research on the background of investors from issuers listed on the Jakarta Islamic Index group. So that the author does not conduct an in-depth analysis of investor behavior, especially with regard to decisions related to compliance with sharia values. As is known, in determining whether a stock is included in the sharia stock category, there are certain ratios that must be met regarding the amount of capital structure that comes from debt which contains elements of usury. However, since this research does not focus on this, it is recommended that the investor background and decisions related to compliance with sharia aspects be carried out by future researchers.

Looking at the research results above, it is known that if the capital structure has a low value, it means that the company's debt is getting smaller and can increase the stock price. The high capital structure presented in the Debt to Equity Ratio (DER) formula will have a negative impact. With a larger amount of debt, investors see the risk of failure to pay debts is possible, and the company has the potential to prioritize the interests of creditors will also be greater. Based on this, investors will interpret that companies that in meeting their operational needs use a large amount of loans or debt, will affect performance, so that stock prices have the potential to fall.

The multiple linear regression results show that Company Size (Total Asset) has a positive and significant effect on Stock Price. This means that if the company size becomes larger where its assets continue to grow, the stock price will also increase. The size of the company itself can be seen through how much total assets the company has. Both current assets and non-current assets. The occurrence of mergers, acquisitions, or spin-offs by one or more companies can affect investors' decisions in carrying out investments.

With the increase in the size of a company's assets, the potential to generate profits and production capabilities are assumed to be greater. With the greater ability to produce, it is expected that the returns that will be given will also increase. Thus, the size of a company's assets can affect investor interest in investing. The larger the size of the company which can be seen from the total assets, the higher the company's stock price will be, while if the size of the company is smaller, the lower the company's stock price will be.

The results of this study are in line with previous research conducted by [16] and [6], which shows that company size has an effect on stock prices.

The multiple linear regression results show that Profitability has a positive and significant effect on Stock Price. This means that if profitability increases, the share price will also increase, and vice versa if profitability decreases, the share price will decrease.

The results of this study support the hypothesis that the profit or return obtained from the Company's operating activities is a measure of successful performance. With higher returns or greater profits, it shows that the Company has good business prospects, and investors become increasingly interested and respond with positive signals. With the response of interest from investors, it will affect the increase in the stock market price which ultimately increases the value of the Company. To assess the profitability of a company, there are several ratios used. These ratios provide information to both management and shareholders regarding the Company's financial performance picture, including the Company's financial position, and the results of operations obtained by the Company from existing sources of income.

Companies with good profitability, and already have a clear captive market and optimal revenue, then have the opportunity to develop and grow and generate greater returns. With the projection of large returns, investors are interested in investing so that the positive response is expected to increase the stock market price to be higher. For investors who pursue dividends, the profitability ratio is an important element in considering making investments.

And for investors who want capital gains, good profitability also has the potential to increase stock prices so that they can provide capital gains. This profitability ratio is also one of the factors used by technical analysis on the Stock Exchange. The results of this study are in line with research by [15], [3] and [1] which say that company profitability has a positive and significant effect on stock prices.

#### Effect of Profitability on Stock Price

The multiple linear regression results show that Profitability has a positive and significant effect on Stock Price. This means that if profitability increases, the share price will also increase, and vice versa if profitability decreases, the share price will decrease.

The results of this study support the hypothesis that the profit or return obtained from the Company's operating activities is a measure of successful performance. With higher returns or greater profits, it shows that the Company has good business prospects, and investors become increasingly interested and respond with positive signals. With the response of interest from investors, it will affect the increase in the stock market price which ultimately increases the value of the Company. To assess the profitability of a company, there are several ratios used. These ratios provide information to both management and shareholders regarding the Company's financial performance picture, including the Company's financial position, and the results of operations obtained by the Company from existing sources of income.

Companies with good profitability, and already have a clear captive market and optimal revenue, then have the opportunity to develop and grow and generate greater returns. With the projection of large returns, investors are interested in investing so that the positive response is expected to increase the stock market price to be higher. For investors who pursue dividends, the profitability ratio is an important element in considering making investments. And for investors who want capital gains, good profitability also has the potential to increase stock prices so that they can provide capital gains. This profitability ratio is also one of the factors used by technical analysis on the Stock Exchange. The results of this study are in line with research by [15], [4] and [1] which say that company profitability has a positive and significant effect on stock prices.

## Conclusion

The capital structure variable has a negative and insignificant effect on Islamic stock prices. This shows that changes in the value of capital structure can affect the price of Islamic stocks but not significantly. The firm size variable has a positive and significant effect on Islamic stock prices. This shows that, if the size of the company increases or becomes larger, the Islamic stock price will also increase. Furthermore, the profitability variable has a positive and significant effect on Islamic stock prices. This shows that, if the profitability of a company increases, the price of Islamic stocks will also have an effect and increase. Further results show that together capital structure, company size, and profitability have a significant effect on Islamic stock prices.

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