

Effect of Rentability, Liquidity, and Solvability Ratios of Islamic Banking Price In Indonesia

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Abstract: This study aims to determine the effect of the effect of profitability, liquidity, and solvency ratios on Islamic banking stock prices in Indonesia in the 2015-2018 period. The results showed that profitability affected the price of Islamic banking shares in thitung (3.243) > tttable (1.68023). Liquidity has no effect on the price of Islamic banking shares in thitung (0.376) < tttable (1.68023). Solvency affects the price of Islamic banking shares in the tcount (0.598) < tttable (1.68023). Simultaneously profitability, liquidity, solvency affect the stock prices of Islamic banking in Indonesia in the 2015-2018 period which shows the value of Fcount of (3,528) > Ftable (2,389). The magnitude of influence exerted by 0.150, this means that the stock price variable, 15% is influenced by profitability, liquidity, the remaining 85% solvency is influenced by other variables outside the study.

Keywords: *Profitability, Liquidity, Solvency, stock prices*

INTRODUCTION

The price of shares in the market will determine the value of a company, as well as the value of the company in the company's performance and health also affect the price of its shares. The company's health is a guarantee for investors to estimate future profits. (Windias, 2012). The better the performance of a company the higher its business profits and the more profits that can be obtained by shareholders, the company will be trusted by the public because it has a good reputation and can increase share prices (Setyawan, 2012).

Banking stocks are the stocks that are most in demand by capital owners or investors because the banking sector has an important role in mediating the economy between those who have excess funds and those who need funds. Based on this phenomenon, we need a Bank that has a good and healthy financial management system performance. Banking health assessment can help those who have an interest in making decisions. (Susanto, 2014). The system change policies assessed by Bank Indonesia include capital, asset quality, management, earnings, and liquidity factors, as well as sensitivity to market risk. Changes to the banking rating system are expected to be able to identify problems that commonly occur early in the company and implement risk management.

According to Yuliani (2007) Rentability is a ratio that illustrates the difference between the interest income earned from banks or other financial institutions and the value of interest paid to their lenders (for example, deposits), relative to the amount (productive interest) of assets. According to Yuni (2007) liquidity is a ratio that describes the ability of a company to meet financial obligations that must be fulfilled immediately when billed by the owner of the fund. liquidity or capital is one of the factors that influence a company's stock price level. Yuliani (2007) states that the higher the liquidity, the more profit the Bank will get or the smaller the risk of the Bank, the greater the profit the Bank will get. Thus it certainly can attract investors to invest their capital in the bank. That way capital is a reserve that is maintained to prevent bank losses.

Amanda and Pratomo (2013) state that the solvency component shows the ability of capital invested in total assets to generate corporate profits. The greater the value of the solvency ratio shows that the more effective the bank is in making profits by utilizing the assets owned and vice versa the smaller the value of the solvency ratio shows that the more

ineffective the bank is in making profits by utilizing the assets owned. Issuance of securities such as bonds and shares can strengthen a company's capital in order to increase the value of solvency.

UNDERLYING THEORY

1. Islamic Bank

Islamic Bank is a Bank that runs its business activities based on principles that are in accordance with Islamic regulations. By type, Islamic banks consist of BUS (Islamic Commercial Banks), UUS (Islamic Business Units) and Islamic Rural Banks (BPRS Syariah). Islamic Bank is a Bank whose activities are guided by Islamic laws and in its activities do not provide interest or pay interest to customers. Rewards to be received by Islamic banks or to be paid to customers depend on the contract and agreement that has been agreed upon by the customer and the bank. Agreements (contracts) that exist in Islamic banking must comply with the terms and conditions of the contract as stipulated in Islamic law.

Islamic banks have a different system from conventional banks. In Islamic banks provide interest-free services to their customers. In the system of Islamic bank activities, interest withdrawals are strictly prohibited in all forms of transactions. There is no such thing as an Islamic bank interest, be it interest earned from customers who borrow money or interest paid to depositors of funds in Islamic banks. Islamic banks have three main functions, namely:

- a. The function of Islamic banks is to collect funds from the public in the form of deposits and investments.
- b. The function of Islamic banks is to distribute funds to the public who need funds from banks.
- c. The function of Islamic banks is to provide services in the form of Islamic banking services.

According to Antonio (2001) the principles of Islamic banks are as follows:

- a. The Principle of Deposit or Deposit (*Al-Wadiah*) is a deposit from one party to another, either partial or legal entity. The deposited party must safeguard and return it at all times when the requester wishes.
- b. The Profit Sharing Principle is a system that includes procedures for sharing the results of operations between the provider of funds (*Shohibul mall*) and the fund manager (*mudarib*).
- c. The Principle of Sale and Purchase is a system that implements procedures for buying and selling, in which the Bank will first buy the goods needed by the customer. The bank purchases goods on behalf of the bank, then the bank sells the item to the customer at the purchase price plus profit.
- d. The Lease Principle (*Al-Ijarah*) is a contract for the transfer of the right to use goods or services, through payment of the rent wage, without being followed by the transfer of ownership rights to the goods themselves.
- e. Service Principle (*Fee-Based Service*). This principle covers all non-financing services provided by banks.

2. Share Price

The stock price is a reflection of a company for investors. The better the company in managing its business in its efforts to obtain profits, the higher the value of the company in the eyes of investors. High stock prices will provide returns for investors in the form of capital again which will ultimately affect the value of the company.

Praditasari (2012) states that the high value of a company will make investors look at the company to invest their capital, so there is a possibility that the share price will increase. The more shares sold will increase the nominal price of the shares themselves, and vice versa. In general there are 2 types of stock analysis techniques used by investors, namely fundamental analysis and technical analysis. According to Hakim (2013) fundamental analysis uses fundamental data, i.e. data that has been obtained from company finances (for example earnings, paid dividends, sales, etc.), while technical analysis uses market data from stocks (for example stock price and transaction volume) determine the price or value of the stock.

3. Profitability

Profitability ratio is a ratio that shows the level of the company's ability to generate profits during a certain period. (Munawir, 2004: 33) Profitability ratios that can be used in a study that is ROA (Return on Assets), is a ratio used to measure the level of bank management ability in obtaining profits (profit before tax) resulting from the average total assets of the bank concerned. The greater the ROA, the greater the level of profits obtained by the Bank, so that the possibility of a bank in problematic conditions will be smaller. Profit before tax is the net profit from operational activities before tax. While the average total asset is the average volume of business or assets (Luciana, 2002).

4. Liquidity Ratio

The definition of liquidity ratio according to Munawir (2004: 71), is the ability of a company to meet financial obligations that must be immediately fulfilled by the company or the ability of a company to meet financial obligations on time when billed by customers. The liquidity ratio that is commonly used in a study is the Current ratio (CR). Current ratio is the most common size ratio used to determine the ability of a company to meet short-term obligations. Because this ratio shows how far the demands from short-term creditors are met by the estimated assets that will become cash in the same period as the debt maturity.

5. Solvency

Understanding the solvency ratio according to Munawir (2004: 32), is the ability of the company to have financial obligations when the company is liquidated in the form of short-term or long-term financial obligations. The solvency ratio used in a study is DER (Debt to Equity Ratio). This ratio shows the ratio between debt and equity in a company's funding and shows the level of capital capability owned by the company to meet all obligations to be borne.

Hypothesis

H1: Rentability has a positive and significant effect on prices

H2: Liquidity has a positive and significant effect on stock prices

H3: Solvency has a positive and significant effect on stock prices

H4: Profitability, liquidity, and solvency have positive and significant effects on stock prices

RESEARCH METHODS

Types of research

The data in this study use secondary data sourced from published by Bank Indonesia for four consecutive years from the period of 2015 to 2018.

Definition of Variable Operations

a. Profitability

Profitability in this study was measured using the ROA ratio. Dendawijaya (2009) states that the level of financial ratios is measured by ROA, because ROA is more focused on the company's ability to obtain earnings in the company's overall operations. In addition, in determining the soundness of a bank, Bank Indonesia places more importance on ROA valuation than ROE because Bank Indonesia prioritizes the profitability of a bank as measured by assets whose funds mostly come from public savings funds so that ROA is more representative in measuring the level of bank profitability .

$$\text{Return On Asset} = \frac{\text{Net Profit After Profit}}{\text{Total Asset}} \times 100\%$$

b. Liquidity

Liquidity in this research is measured using Current ratio (CR) Current ratio is the most commonly used measure to determine the ability to meet short-term obligations because this ratio shows how far the demands of short-term creditors are met by the estimated assets that turn into cash in the same period with debt maturity with the following formula:

$$\text{Current Ratio (CR)} = \frac{\text{current asset}}{\text{icurrent likuiditas}}$$

c. Solvency

Solvability in this study was measured using a DER (Debt to Equity Ratio) ratio. This ratio illustrates the ratio of debt and equity in corporate funding and shows the ability of the company's own capital to meet all its obligations.

$$\text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

d. Stock price

Stock prices that occur in the stock market at a certain time are determined by market participants and the demand and supply of the relevant shares in the capital market. Jogiyanto (2014). The valuation of the annual closing stock price is as follows:

$$\text{Stock Price} = \frac{\text{Number Of Stock Price Month}}{12}$$

RESULTS AND DISCUSSION

Table 1. Descriptive Statistics Results

	Profitability	Likuidity	Solvency	Stock price
N Valid	44	44	44	44
Missing	0	0	0	0
Mean	1.3948	1.0218	0.6864	10429.16
Std. Deviation	1.06926	0.65592	0.48830	9392.678
Minimum	0.17	0.07	0.02	1004
Maximum	4.48	2.05	1.80	44064

Based on the descriptive test results show that Rentability has a Mean value of 1.3948, Std. Deviation 1.06926, Minimum 0.17, Maximum 4.48, Liquidity has a Mean value of 1.0218, Std. Deviation 0.65592, Minimum 0.07, Maximum 2.05. Solvability has a Mean value of 0.6864, Std. Deviation 0.48830, Minimum 0.02, Maximum 1.80, Hargasaham, Mean 10429.16, Std. Deviation 9392,678, Minimum 1004, Maximum 44064.

Table 2. Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	2883.938	3657.392	
	Profitability	4048.203	1248.367	0.461
	Likuidity	762.027	2024.882	0.053
	Solvency	1632.145	2730.551	0.085

Based on the above table, the double linear regression equation is obtained as follows: $Y = 2883,938 + 4048,203 X_1 + 762,027 X_2 + 1632.145X_3 + e$

- The positive value constant is 2883,938 which means that if rentability, liquidity and solvency are from zero then the share price is 2883,938.
- The regression coefficient of the positive value variable profitability is 4048,203, meaning that each addition of 1 point profitability will increase the stock price by 4048,203 assuming the other variables are fixed.
- The regression coefficient of the positive value liquidity variable is 762,027, that is that each addition of 1 point of liquidity will increase share price by 762,027 assuming other variables are fixed.
- The regression coefficient of the positive value solvency variable is 1632,145, meaning that each addition of 1 solvency point will increase the stock price by 1632.145 assuming the other variables are fixed.

Table 3. Partial Test Results

Model	T	Sig.
1 (Constant)	0.789	0.435
Profitability	3.243	0.002
Likuidity	0.376	0.709
Solvency	0.598	0.553

- Rentability has a significance value $(0.002) < \alpha = (0.05)$ or $t_{\text{count}} (3.243) > t_{\text{table}} (1.68023)$ so that H_0 : is rejected, rentability is partially significant effect on stock prices.
- Liquidity has a significance value $(0.709) > \alpha = (0.05)$ or $t_{\text{count}} (0.376) < t_{\text{table}} (1.68023)$ so that H_0 : is accepted then liquidity has no effect and does not significantly influence the stock price.
- Solvency has a significance value $(0.553) > (0.05)$ or $t_{\text{count}} (0.598) < t_{\text{table}} (1.68023)$ so that H_0 : acceptable solvency partially means no significant effect on stock prices.

Table 4. Simultaneous Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7.937E8	3	2.646E8	3.528	0.023 ^a
Residual	3.000E9	40	7.500E7		
Total	3.794E9	43			

Simultaneous test analysis is used to test the effect of profitability, liquidity, solvency together on stock prices. Based on the results of the simultaneous test shows the value of $F_{count} (3,528) > F_{table} (2,389)$ with Significance $(0.023) < \alpha = 0.05$ means that together with profitability, liquidity, solvency affect the stock price.

Table 5. Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.457 ^a	0.209	0.150	8660.082	0.970

From the calculation results obtained the coefficient of determination of 0.150, this means that the stock price variable, 15% is influenced by profitability, liquidity, solvency the remaining 85% is influenced by other variables outside the study.

Discussion

1. Effect of profitability on stock prices.

Based on the regression equation positive value coefficient rentability of 4048,203, meaning that each addition of 1 point profitability will increase the stock price by 4048,203 assuming other variables are fixed.

Based on the results of the study showed that profitability has a significance value $(0.002) < \alpha = (0.05)$ or $t_{count} (3.243) > t_{table} (1.68023)$ so H_0 : rejected, then rentability partially significantly influences the stock price. The results of the study are not consistent with the results of Indriani and Dewi (2016) research which explains that there is no significant effect of ROA on stock prices. The same thing was expressed by Karla (2014) who explained that there was a significant influence of ROA on stock prices. The same thing was expressed by Amanda and Pratomo (2013) who explained that there was a significant influence of ROA on stock prices.

2. Effect of liquidity on stock prices.

Based on the liquidity regression equation the positive value regression coefficient is 762,027, meaning that each addition of 1 point of liquidity will increase the stock price by 762,027 assuming other variables are fixed. Based on the results of the study indicate that liquidity has a significance value $(0.709) > \alpha = (0.05)$ or $t_{count} (0.376) < t_{table} (1.68023)$ so that H_0 : is accepted then liquidity has no significant effect on stock prices. The results of the study are consistent with the results of Indriani and Dewi (2016) research which explains that there is no significant relationship between CR and changes in stock prices. The same thing was expressed by Karla (2014) who explained that the CR variable did not significantly influence the changes in stock prices.

3. Effect of solvency on stock prices

Based on the solvability regression equation, the positive value regression coefficient is 1632,145, meaning that each addition of 1 solvency point will increase the stock price by 1632.145 assuming the other variables are fixed. Based on the results of the study showed that solvency has a significance value $(0.553) > (0.05)$ or $t_{count} (0.598) < t_{table} (1.68023)$ so that H_0 : acceptable can be interpreted as partial solvency does not significantly influence the stock price. (2014) which explains the DER variable has no significant effect on changes in stock prices, similarly expressed by Karla (2014) who explains that there is no significant effect of DER on stock prices.

4. The effect of profitability, liquidity, solvency on stock prices.

Based on the analysis of the F test is used to test the effect of profitability, liquidity, solvency together on stock prices. Simultaneous test results show that the Fcount of (3,528) > Ftable (2,389) with Significance (0.023) < $\alpha = 0.05$ means that together with profitability, liquidity, solvency have a significant effect on stock prices. From the calculation results obtained a coefficient of determination of 0.150, this means that the stock price variable, 15% is influenced by profitability, liquidity, the remaining 85% solvency is influenced by other variables outside the study.

CONCLUSIONS AND SUGGESTIONS

Conclusion

1. Profitability has a significant effect on the price of Islamic banking shares in Indonesia in the 2015-2018 period indicated by tcount (3.243) > t table (1.68023) as indicated by the value of sig 0.002 < 0.05
2. Liquidity has no effect on the stock prices of Islamic banking in Indonesia in the 2015-2018 period which shows tcount (0.376) < t table (1.68023) which is indicated by the sig value 0.0709 > 0.05
3. Solvency does not have a significant effect on the share prices of Islamic banking in Indonesia in the 2015-2018 period, which is indicated by tcount (0.598) < t table (1.68023) as indicated by a sig value of 0.053 > 0.05
4. Simultaneously profitability, liquidity, solvency have a significant effect on the stock prices of Islamic banking in Indonesia for the 2015-2018 period which shows a Fcount value of (3,528) > Ftable (2,389).
5. The magnitude of influence exerted by 0.150, this means that the variable stock price, 15% is influenced by profitability, liquidity, the remaining 85% solvency is influenced by other variables outside the study.

Suggestion

1. It is better for further research to add variables such as BOPO, ROE, NIM and other factors that can influence changes in the company's stock price so that it can be utilized by banks in Indonesia.
2. It is better to extend the time period by increasing the year of observation and also increasing the number of samples for future research.
3. Islamic Banking banks in Indonesia should be able to evaluate financial ratios that can provide positive benefits to the company so that it can provide benefits in terms of corporate profits that have an impact on global stock prices

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