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Nexus between Financial Performance and Stock Prices during the COVID-19: Evidence from Indonesian Islamic Banks

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ABSTRACT

Purpose: This study analyzes the impact of Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) on the stock prices of Islamic banking companies listed on the Indonesian Stock Exchange during the COVID-19 pandemic (2020–2021), aiming to understand how key financial metrics influence stock valuations during economic uncertainty.

Method: Using a quantitative approach, panel data regression analysis was conducted on a purposively selected sample of Islamic banking companies. The study assessed both individual and joint effects of ROA, ROE, and EPS on stock prices.

Result: The results reveal that ROA, ROE, and EPS significantly affect stock prices, both individually and collectively. This indicates that profitability and earnings performance remain critical to market valuation even during crisis periods.

Practical Implications for Economic Growth and Development: Findings offer practical value for investors and analysts using financial ratios to guide investment decisions. Bank managers can enhance shareholder value by improving these indicators, while policymakers may use the results to support the resilience of Islamic banking during economic disruptions.

Originality/Value: This study contributes to the limited research on Islamic banking performance in crisis contexts by highlighting the continued relevance of fundamental financial indicators in influencing stock prices during the COVID-19 pandemic in an emerging market setting.

Keywords: *Stock Prices, Islamic Banks, Return on Asset, Return on Equity, Panel Data Regression Analysis*

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INTRODUCTION

The capital market is a critical component of the global financial system, facilitating the allocation of capital by enabling companies to raise funds for expansion and operations through instruments like stocks (Aglietta & Breton, 2001). Stocks represent ownership in a company, and through Initial Public Offerings (IPOs), companies make their shares available to public investors, who in turn become stakeholders (Brennan & Franks, 1997). This process plays a vital role in promoting economic growth by efficiently channeling resources to productive ventures (Sanyang & Huang, 2010). The investment environment, however, was significantly disrupted by the emergence of the COVID-19 pandemic in late 2019, which had widespread implications for financial markets, including the Islamic banking sector (Rabbani

et al., 2021). Islamic banking, which operates under Sharia-compliant principles, saw notable fluctuations in its financial activities during the pandemic. Specifically, there were disruptions in deposit-taking and debt financing activities, a decline in rental financing, and a relatively stable growth in equity financing (Ivashina & Scharfstein, 2010). The Financial Services Authority (OJK) reported an increase in non-performing financing (NPF) levels across Indonesian Islamic banks in 2020, indicating deteriorating asset quality and profitability. These developments underscore the importance of understanding the factors that influence stock prices, especially during periods of economic uncertainty.

Research on the determinants of stock prices has long been a central theme in financial literature. Fundamental analysis, which involves evaluating a company's financial health through metrics such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS), has been widely used to predict stock prices. Recent studies have confirmed the relevance of these financial ratios in various contexts. For instance, (Rubaiyath & Lalon, 2022) investigates bank-specific factors impacting stock prices, including ROE and EPS. In another research, (Laili, 2024) explored ROE, PER, and EPS effects on stock prices. It focuses on Indonesia's Industrial and Consumer Staples sectors during 2017-2021, providing valuable insights for investment strategies. In the context of Islamic banking, study by (Al-Qudah, 2020) identified the impact of financial performance on stock prices of Jordanian Islamic Banks which are listed on the ASE.

However, the COVID-19 pandemic introduced unprecedented economic disruptions, affecting the predictive power of these traditional financial metrics (Sheng et al., 2021). Research by (Zhao et al., 2023) explored the pandemic's impact on the financial markets of developed and developing economies using a multi-criteria decision-making approach. This study highlights the need for a multifaceted approach to mitigate the negative impact of COVID-19 on financial markets. Specifically, it recommends promoting new financing instruments, reconstructing the relationship between public and private sectors, and providing targeted support to vulnerable households and enterprises. These measures are crucial in the context of Islamic banks, where the interaction between financial performance indicators and stock prices during the pandemic remains underexplored. The current body of literature predominantly addresses conventional banking and stable economic periods, leaving a significant gap in understanding how financial performance indicators impact Islamic banking stocks in times of crisis. Addressing this gap could provide valuable insights for investors, policymakers, and financial institutions navigating similar challenges in the future.

This study addresses a critical gap in the existing literature by focusing on the impact of ROA, ROE, and EPS on the stock prices of Islamic banking companies listed on the Indonesian Stock Exchange during the COVID-19 pandemic. While prior research has established the importance of these financial ratios in predicting stock prices, especially in stable economics, this study is novel in its focus on the pandemic period, a time of significant economic disruption. The COVID-19 pandemic introduced unprecedented challenges to financial markets, particularly in the Islamic banking sector, which operates under a unique set of principles that differentiate it from conventional banking (Hassan et al., 2020). This research aims to explore whether the traditional financial ratios of ROA, ROE, and EPS maintained their predictive power during the pandemic or whether the crisis necessitated new approaches to stock price analysis in the Islamic banking sector.

The primary purpose of this study is to analyze the impact of return on assets (ROA), return on equity (ROE), and earnings per share (EPS) on the stock prices of Islamic banking companies listed on the Indonesian Stock Exchange during the 2020-2021 period, specifically within the context of the COVID-19 pandemic. By focusing on this unique and challenging period, the study seeks to contribute to the broader understanding of stock price dynamics in Islamic banking, particularly under crisis conditions. The findings are expected to provide valuable insights for investors, financial analysts, and policymakers, helping them make more informed decisions in the face of economic uncertainty and enhancing the resilience of the Islamic banking sector in future crises.

Hypotheses Development

Islamic banking in Indonesia has undergone significant growth and transformation since its inception. As the country with the largest Muslim population globally, Indonesia presents a unique and growing market for Islamic financial services. The first Islamic bank, Bank Muamalat, was established in 1991 following efforts from Islamic scholars and policymakers to create a financial system in line with Sharia principles (Karim, 2010). The introduction of Islamic banking laws in 1998 further solidified the sector's presence, allowing Islamic banks to operate alongside conventional financial institutions (Hidayat & Abduh, 2012).

Over the past two decades, the Islamic banking sector in Indonesia has experienced remarkable growth, driven by increased public awareness and government support. As of 2021, the Financial Services Authority (OJK) reported that Islamic banks accounted for around 6.51% of the total banking assets in Indonesia, a significant increase from previous years (OJK, 2021). The sector's resilience was tested during the COVID-19 pandemic, with challenges such as increased non-performing financing (NPF) and fluctuating profitability. However, despite these challenges, Islamic banks in Indonesia continued to show relatively stable equity financing and an expanding customer base (Rabbani et al., 2021).

When compared to Malaysia, Indonesia’s Islamic banking sector still lags behind in terms of market share and global influence. Malaysia has been a pioneer in the development of Islamic finance, with Islamic banks holding over 30% of the country's total banking assets (BNM, 2021). Malaysia's regulatory framework, infrastructure, and innovation in Islamic finance have positioned it as a global leader. The Malaysian government’s proactive policies, such as the establishment of dedicated Islamic finance institutions and its integration into the global Islamic financial architecture, have contributed to the sector's robust development (Hussain & Gunasekaran, 2022). In contrast, Indonesia's Islamic banking sector, though growing, faces challenges such as limited product innovation and competition with conventional banks. However, recent government initiatives, such as the establishment of a national Islamic economy roadmap and increased investment in digital Islamic financial services, suggest a bright future for the sector (Bank Indonesia, 2020).

Islamic banking operates under a unique set of principles guided by Sharia law, which sets it apart from conventional banking. Islamic financial institutions prohibit the payment and receipt of interest (riba), rely on profit-and-loss sharing, and emphasize ethical and asset-backed transactions. These operational distinctions create a different financial structure, influencing how financial performance metrics, such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS), interact with stock prices. Islamic banking's profit-and-loss sharing principle, primarily through instruments like mudarabah (profit-sharing) and musharakah (joint venture), creates a risk-sharing relationship between banks and their investors. This principle contrasts with conventional banking, where interest payments guarantee fixed returns to investors regardless of the bank's performance (Iqbal & Mirakhor, 2011). Additionally, Sharia-compliant banks avoid speculative transactions (gharar), focusing instead on promoting socially responsible investing (Haniffa & Hudaib, 2007). These theoretical underpinnings influence the financial structure and performance of Islamic banks, particularly in times of economic crisis.

Empirical studies have explored the relationship between financial performance and stock prices within Islamic banking, with varying results depending on the context. Al-Khazali et al. (2014) found that Islamic stock markets tend to be less volatile during economic downturns compared to conventional stock markets, due in part to their prohibition of high-risk speculative investments. Mollah and Zaman (2015) showed that Sharia governance plays a critical role in maintaining the financial health of Islamic banks, which in turn affects stock prices. However, research specific to the performance of Islamic banking stocks during crises, such as the COVID-19 pandemic, remains limited. In the Indonesian context, studies have demonstrated the significant role that financial ratios such as ROA, ROE, and EPS play in influencing stock prices. For example, Laili (2024) found that ROE and EPS were significant predictors of stock prices in Indonesia’s Industrial and Consumer Staples sectors. Rubaiyath and Lalon (2022) also examined these financial ratios within the banking sector, confirming

their relevance as predictors of stock performance. Based on the review of theoretical and empirical literature, this study formulates the following hypotheses:

H1: Return on assets (ROA) has a significant positive effect on the stock prices

H2: Return on equity (ROE) positively influences the stock prices

H3: Earnings per share (EPS) significantly affects stock prices

METHOD

This research adopts a quantitative approach, emphasizing the analysis of numerical data to explore the relationships between financial performance indicators and stock prices of Islamic banking companies. The study is designed to provide empirical evidence through rigorous data analysis, ensuring the reliability and validity of the results. The study uses secondary data sourced from the Monthly Reports of Sharia banking companies listed on the Indonesian Stock Exchange (IDX) for the years 2020-2021. The secondary data includes detailed financial information and stock prices, which are publicly available through the IDX website (http://www.idx.co.id). Secondary data is particularly advantageous for this research as it allows the study to leverage existing financial records, ensuring a comprehensive analysis over the selected period.

This research employs panel data, a methodological approach that combines time series and cross-sectional data. Panel data is particularly suitable for this study as it allows the examination of multiple entities (Islamic banking companies) over several time periods (2020-2021). The use of panel data provides several advantages, including increased data points, which improve the precision of the estimations, and the ability to control for unobserved heterogeneity across the companies (Bliese et al., 2020). The choice of panel data also facilitates the analysis of dynamic changes in stock prices in relation to financial performance metrics, offering deeper insights than would be possible with purely cross-sectional or time series data alone.

The study utilizes a ratio scale for measurement, which is appropriate given the nature of financial data such as stock prices, return on assets (ROA), return on equity (ROE), and earnings per share (EPS). The population for this study consists of all banking companies listed on the Indonesian Stock Exchange during the 2020-2021 period. The study applies a purposive sampling technique, which is a non-probability sampling method that involves selecting entities based on specific criteria relevant to the research objectives (Hossan et al., 2023). The purposive sampling approach ensures that the sample is representative of the population while focusing on Islamic banking companies that meet the following criteria: a) Islamic banking companies listed on the IDX during the 2020-2021 period, b) companies that have monthly reports (full month reports) published on the IDX from 2020 to 2021, and c) availability of complete monthly closing stock price data during the 2020-2021 period.

By restricting to these criteria, we used only 3 Islamic banks in this study, namely: BTPN Syariah (BTPS), Bank Panin Dubai Syariah (PNBS), and BRI Syariah (BRIS). The data analysis in this study involves the application of panel data regression analysis, which is suited to the structure of the dataset. Panel data regression allows for the evaluation of both the individual and collective effects of the independent variables (ROA, ROE, EPS) on the dependent variable (stock prices). The analysis accounts for potential fixed effects and random effects within the data, which helps to control for variables that are not directly observed but may influence the relationship between financial performance and stock prices (Garcia-Castro et al., 2010)

The following regression equation was used to analyze the relationship between financial performance metrics and stock prices of Islamic banking companies listed on the Indonesian Stock Exchange during the COVID-19 pandemic:

$$Stock\ Price_i = \beta 0 + \beta 1ROA_i + \beta 2ROE_i + \beta 3EPS_i + \epsilon i$$

Where:

- Stock Pricei represents the stock price of company i,
- ROAi is the Return on Assets of company i,
- ROEi is the Return on Equity of company i,
- EPSi is the Earnings per Share of company i,
- β0 is the intercept, and
- ϵi is the error term.

RESULT AND DISCUSSION

Descriptive Statistics

Table 1 presents the descriptive statistics for the financial performance indicators of Islamic banking companies in Indonesia, specifically focusing on Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and Stock. The analysis encompasses 72 observations for each variable.

Table 1. Descriptive Statistics of Financial Performance Indicators

Statistics	ROA	ROE	EPS	Stock Prices
Mean	1.1577	3.4929	36.6147	1638.472
Median	0.3650	3.3200	22.2050	1842.500
Maximum	7.9200	20.7100	190.7200	4410.000
Minimum	-6.2200	-36.5900	-21.5000	57.0000
Std. Dev.	0.4793	2.8709	26.3070	1485.085
Skewness	0.1120	-2.3982	1.3999	0.2442
Kurtosis	5.1343	11.3850	4.6541	1.5038
Jarque-Bera	13.8160	279.9409	31.7229	7.4316
Probability	0.0010	0.0000	0.0000	0.0243
Sum	83.3570	251.4860	2636.2570	117970.0
Sum Sq. Dev.	436.4410	6917.7910	152247.8	1.5700E+08
Observations	72	72	72	72

Source: Processed data (2022)

The mean values reveal that ROA is 1.1577, indicating a modest average return on assets, while ROE, at 3.4929, suggests a stronger average return on equity among the banks studied. The mean EPS of 36.6147 reflects substantial earnings per share, and the average stock price stands at 1638.472, indicative of market valuation trends during the period under review. Variability within the dataset is illustrated by the standard deviation values, with ROE exhibiting the highest dispersion (2.8709), followed by EPS (26.3070). This suggests that returns on equity vary significantly among the sampled banks. The standard deviation for ROA is relatively lower at 0.4793, indicating less variability in asset returns across the sample.

Chow Test

The Chow test, as presented in Table 2, evaluates the necessity of including fixed effects in a panel data regression model. This test is crucial for determining whether a fixed effects model provides a significantly better fit to the data compared to a simpler pooled model that assumes homogeneity across cross-sectional units.

Table 2. Chow Test Result

Effects Test	Statistics	Df	Prob.
Cross-section F	70.669326	(2.66)	0.0000
Cross-section Chi-square	82.418308	2	0.0000

Source: Processed data (2022)

The F-statistic for the cross-section fixed effects test is 70.6693 with degrees of freedom (2.66) and a p-value of 0.0000. This result is highly significant, as the p-value is substantially lower than the conventional significance level of 0.05. This finding indicates that the fixed effects model significantly improves the fit of the regression model compared to a pooled model. The substantial F-statistic suggests that the variability in the data across different cross-sectional units is better accounted for by including fixed effects, thus rejecting the null hypothesis that fixed effects are redundant. The Chi-square statistic is 82.4183 with 2 degrees of freedom, and the p-value is 0.0000. Similar to the F-test, this result is highly significant, reinforcing the conclusion that the fixed effects model provides a superior fit over a pooled model. The Chi-square test further supports the rejection of the null hypothesis, which posits that the fixed effects are unnecessary.

Hausman Test

The Hausman test, presented in Table 3, is used to evaluate the appropriateness of the random effects model relative to the fixed effects model in panel data analysis. This test is essential for determining whether the assumptions underlying the random effects model—specifically, the assumption that the regressors are uncorrelated with the error term—are valid.

Table 3. Hausman Test Result

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section Random	10.467944	3	0.0150

Source: Processed data (2022)

The Hausman test produces a Chi-square statistic of 10.4679 with 3 degrees of freedom and a p-value of 0.0150. The p-value is below the conventional significance threshold of 0.05, indicating a statistically significant difference between the estimates provided by the fixed effects and random effects models. The significant result of the Hausman test suggests that the random effects model is not suitable for this analysis due to the presence of correlation between the regressors and the error term. This correlation violates one of the key assumptions of the random effects model, leading to potential bias and inconsistency in its estimates. As a result, the fixed effects model is preferred.

Panel Data Regression in Fixed Effect Model

Table 4 displays the results of the fixed effects model applied to analyze the impact of key financial performance indicators on the stock prices of Islamic banking companies. The model uses panel least squares with a balanced panel dataset, covering three cross-sectional units over a period of 24 months from January 2020 to December 2021. This setup allows for a detailed examination of how financial performance metrics influence stock prices.

Table 4. Fixed Effect Model

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	1484.572	113.8872	13.03545	0.0000
ROA	-621.2941	187.6868	-3.310271	0.0015
ROE	93.05109	29.25615	3.180565	0.0022
EPS	14.97161	4.767114	3.140602	0.0025
Effects Specifications				
Cross-section Fixed (Dummy Variables)				
R-squared	**0.851280**	**Means Dependent Var**		**1638.472**
Adjusted R-squared	0.840014	SD Dependent Var		1485085
SE of Regression	594.0085	Akaike Info Criteria		15.69132
Sum Squared Resid.	23287839	Schwarz Criteria		15.88104
Logs Likelihood	-558.8875	Hannan-Quinn Criteria		15.76685
F-statistics	75.55761	Durbin-Watson Stat.		1.922052
Prob (F-statistic)	0.000000			

Source: Processed data (2022)

Hypotheses Test

Table 5 presents the results of the t-tests conducted to assess the significance of the coefficients for the independent variables in the fixed effects model. The t-tests are crucial for evaluating whether the estimated coefficients for Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) are significantly different from zero, thus confirming their impact on stock prices.

Table 5. Hypotheses Test Result

Variables	Coefficient	Std. Error	t-Statistics	Prob.	Conclusion
C	1484.572	113.8872	13.03545	0.0000	
ROA	-621.2941	187.6868	-3.310271	0.0015	H1 Accepted
ROE	93.05109	29.25615	3.180565	0.0022	H2 Accepted
EPS	14.97161	4.767114	3.140602	0.0025	H3 Accepted

Source: Processed data (2022)

The coefficient for the constant term (C) is 1484.572, with a standard error of 113.8872. The t-statistic is 13.0355 with a p-value of 0.0000, indicating that the constant term is statistically significant at the 1% level. This result establishes a baseline level for stock prices in the model, affirming that the constant term contributes meaningfully to the regression equation. The variable ROA has a coefficient of -621.2941 and a standard error of 187.6868. The t-statistic for ROA is -3.3103 with a p-value of 0.0015, which is significant at the 1% level. This negative coefficient suggests a significant inverse relationship between ROA and stock prices. Specifically, an increase in ROA is associated with a decrease in stock prices, which could reflect market reactions or sector-specific dynamics that differ from general expectations. The hypothesis test for ROA (H1) is accepted, confirming that ROA has a significant impact on stock prices. For ROE, the coefficient is 93.0511 with a standard error of 29.2561. The t-statistic for ROE is 3.1806, and the p-value is 0.0022, which is significant at the 1% level. This positive coefficient indicates that higher ROE is associated with higher stock prices, aligning with the expectation that strong equity returns positively influence market valuations. The hypothesis test for ROE (H2) is accepted, demonstrating that ROE significantly affects stock prices. The EPS coefficient is 14.9716 with a standard error of 4.7671. The t-statistic is 3.1406, and the p-value is 0.0025, also significant at the 1% level. This positive relationship

suggests that higher EPS leads to higher stock prices, supporting the notion that increased earnings per share are viewed favorably by investors and enhance stock valuations. The hypothesis test for EPS (H3) is accepted, confirming the significant influence of EPS on stock prices.

Discussion

The findings indicate a significant negative impact of Return on Assets (ROA) on stock prices, with a 1% decrease in ROA corresponding to a notable increase of 621.2941 units in stock prices, while a 1% increase in ROA results in a decrease of the same magnitude. This finding is particularly intriguing when placed alongside recent studies that highlight the complex relationship between ROA and stock prices. For example, Hendrich (2021) found a positive effect of ROA on stock prices in manufacturing companies in Indonesia, suggesting that ROA typically serves as a reliable indicator of financial health in stable market conditions. Conversely, Maulani et al. (2023) revealed a negative impact of ROA on stock prices in mining companies listed on the Indonesia Stock Exchange (IDX), aligning more closely with our results. The divergence of these findings suggests that the COVID-19 pandemic may have exacerbated the dynamic between ROA and stock prices, significantly altering investor perceptions and market valuations in unpredictable ways. The pandemic introduced unprecedented levels of market volatility, characterized by economic uncertainty, disrupted supply chains, and shifts in consumer behavior. Under such conditions, traditional financial metrics like ROA may not fully capture the underlying economic realities. Investors, grappling with the unpredictable nature of the pandemic, might have adjusted their expectations based on immediate concerns or speculative trends rather than relying solely on fundamental performance indicators like ROA. This shift in focus could explain the atypical market responses where traditional financial metrics no longer align with stock price movements as expected. Moreover, investor behavior during crises often shifts dramatically. Fear of long-term economic decline can drive investors toward assets perceived as undervalued or poised to benefit from emerging market conditions. In the context of the pandemic, this behavior may lead to a scenario where a lower ROA—typically associated with weaker financial performance—could result in increased stock prices if investors believe that companies are positioned to rebound or adapt successfully to new economic realities. Thus, the pandemic's impact on investor sentiment and market dynamics likely altered the interpretation and significance of ROA, contributing to the observed inverse relationship with stock prices.

In addition to ROA, our study revealed that Return on Equity (ROE) significantly influences stock prices, with a 1% increase in ROE resulting in a 93.05109 increase in stock prices. This result aligns with prior research, such as Iqrad et al. (2023), who found a positive effect of ROE on stock prices in the Malaysian banking industry during the COVID-19 pandemic. The positive correlation between ROE and stock prices suggests that investors place significant value on ROE when assessing a company's financial health and potential returns. A high ROE indicates that a company effectively utilizes shareholders' equity to generate profits, signaling robust financial performance and effective management. Investors often perceive companies with high ROE as having strong profitability and efficient capital utilization, leading to increased investor confidence and demand for the company’s shares.

Furthermore, the findings related to Earnings Per Share (EPS) revealed a significant positive impact on stock prices, with a 1% increase in EPS leading to a 14.97161 increase in stock prices. This result corroborates findings from past studies, such as Mu’minatus et al. (2021), which identified a positive nexus between EPS and stock prices in Indonesian commercial banks. Similarly, Amiputra et al. (2021) emphasized the importance of EPS in positively impacting stock prices of banks listed on the IDX. The positive relationship can be understood through signaling theory, which posits that higher EPS signals improved company performance and profitability, thereby attracting more investors and driving up stock prices (Ntow-Gyamfi et al., 2015). Agency theory further supports this observation, as higher EPS often reflects effective management and better financial results, thereby reducing information asymmetry between company insiders and external investors (Kothari et al., 2011).

Consequently, the significant positive correlation between EPS and stock prices underscores its role as a vital metric in stock valuation and investment decision-making.

CONCLUSION

This study offers valuable insights into the impact of financial performance indicators—specifically return on assets (ROA), return on equity (ROE), and earnings per share (EPS)—on the stock prices of Islamic banking companies listed on the Indonesian Stock Exchange during the COVID-19 pandemic. The findings reveal that while these traditional metrics generally maintained their predictive power, their effectiveness was influenced by the unique challenges posed by the pandemic. This suggests that investors should consider not only the historical performance of these banks but also the context of economic instability when making investment decisions.

The potential beneficiaries of this research are diverse. Bank managers can leverage the insights to refine their financial strategies, focusing on enhancing the factors that positively impact stock prices. Policymakers in the financial sector may use the findings to develop regulations that strengthen the resilience of Islamic banks against future crises. Moreover, investors can gain a deeper understanding of the dynamics between financial performance and stock prices during periods of economic disruption, enabling more informed investment choices.

This study also contributes to the broader literature on Islamic banking by addressing a significant gap regarding the behavior of financial performance indicators during crises. Future research should explore additional factors that may influence stock prices in turbulent times and examine the role of market sentiment and investor behavior. By enhancing the understanding of stock price dynamics in Islamic banking, this research provides a foundation for more robust investment strategies and regulatory frameworks that can withstand economic shocks.

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