



Assessing Market Value : A Deep Dive into Jakarta Islamic Index Constituents

Faizul Mubarak

Program Studi Magister Manajemen Sekolah Pascasarjana Universitas Terbuka

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ABSTRAK

Secara keseluruhan, terdapat indikator perlambatan perekonomian global, dan beberapa negara mengalami kontraksi. Dampaknya adalah penurunan investasi, yang merupakan dampak lain yang tidak diinginkan. Tujuan dari penelitian ini untuk menganalisis pengaruh berbagai karakteristik perusahaan dalam Jakarta Islamic Index (JII) terhadap nilai perusahaan (TQ). Karakteristik tersebut antara lain ukuran perusahaan (SIZ), rasio utang terhadap aset (DAR), rasio lancar (CUR), dan rasio pengembalian atas aset (ROA). Penelitian ini menerapkan model efek acak data tahunan dari laporan keuangan sebelas perusahaan berbeda dari tahun 2011 hingga 2021. Temuan penelitian menunjukkan rasio utang terhadap aset dan rasio lancar merupakan indikator penting dari kesehatan dan nilai keuangan perusahaan secara keseluruhan. Kinerja perusahaan yang baik terangkum dalam nilai perusahaan, sehingga lebih mudah meyakinkan calon investor bahwa bisnis tersebut layak untuk dilakukan. Kekayaan pemegang saham perusahaan sebanding dengan nilai perusahaan.

Kata Kunci : Ukuran Perusahaan; Rasio Utang terhadap Aset; Nilai Perusahaan.

ABSTRACT

Overall, there have been indicators of a slowdown in the global economy, and several countries have actually seen contraction. Investment has dropped as a result, another unwelcome effect of the current crisis. The goal of this research is to determine the impact that various characteristics of the companies in the Jakarta Islamic Index (JII) have on their firm value (TQ). These characteristics include company size (SIZ), debt to assets ratio (DAR), current ratio (CUR), and return on assets ratio (ROA). Here, we apply a random effect model to the annual data from the financial statements of eleven distinct companies from 2011 to 2021. Findings suggest that the debt-to-asset ratio and the current ratio are important indicators of a company's overall financial health and value (TQ). Realizing the firm's full potential is crucial if it is to fulfill its major goals, which is why maximization of value is of such paramount importance. Good company performance is summarized in the firm value, making it simpler to convince potential investors that the business is worth their time. The wealth of the company's shareholders is proportional to the value of the company.

Keywords : Company Size; Debt to Assets; Firm Value.

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A. Introduction

Indonesia's economic climate has undergone several changes recently, in line with broader global trends and technical breakthroughs reflected in shifts in the commercial sector. One reason Indonesia's economy is improving is the increasing number of people investing in the Jakarta Islamic Index. However, countries must take precautionary measures to avoid being caught in a trade war, which has the potential to dampen the rate of economic growth in developing countries (Huang *et al.*, 2020).

Unstable economic conditions worldwide have affected financial markets in every country. In many countries, the rate of economic expansion has slowed down or even contracted, resulting in a decline in investment (Li *et al.*, 2021). The Islamic concept prioritizes cooperation where profits can be obtained through an agreed profit-loss sharing system (Bilgin *et al.*, 2021; Rouetbi *et al.*, 2023; Yaqin & Wijayanti, 2023). Extraordinary measures to reduce global economic uncertainty have led to a slowdown in economic growth. One factor that increases the number of people investing in a business is the role of education and policy in adopting Islamic capital market understanding (Ahmed & Elsayed, 2019; Karim *et al.*, 2022).

The market price at which a publicly traded firm can be purchased has a highly correlated relationship with the company's true value. A highly correlated relationship exists between the market price at which a publicly-traded company can be bought or sold, and the actual value of the company (Cincinelli *et al.*, 2022; Tan *et al.*, 2019). It can be inferred from the value that investors place on the firm that they are willing to pay to purchase the company's stock (Suhadak *et al.*, 2019). Market capitalization is a good indicator of a business's overall health. In most cases, a company's worth is a reflection of the financial security of the company's owners, which is why it attracts investors. There is a clear correlation between the success of a firm and the financial well-being of its shareholders (Himmaty *et al.*, 2021; Wayan *et al.*, 2020).

Xu *et al.* (2021) examine the reduction in the ability of boards of directors to supervise senior managers and its impact on the value of Chinese firms. Pantouvakis & Syntychaki (2022) investigated the factors used by Greek shipping companies to determine which agencies to work with to increase profitability. Benkraiem *et al.* (2022) link a company's carbon performance to its share price. Zhang *et al.* (2022) explore the integration of manufacturing and service sectors in China and its impact on firm value. Gu *et al.* (2022), examine the effect of international audit controls on company value in the United States. Niyas & Kavida (2023) conducted a literature analysis on determining the monetary brand value of companies in India using various brand valuation methodologies.

Azamat *et al.* (2023) evaluate the value of intangible assets and their contribution to company profit expansion. Mubarak *et al.* (2024) examines the impact of macroeconomics on the profitability of Islamic banks in the short and long term. Arafah & Wijayanti (2023) analyzed the influence of the Islamicity performance index on the financial performance of Islamic commercial banks. Sun *et al.* (2020) evaluate the impact of value-added tax incentives on China's energy industry. Hadian & Adaoglu (2020) examine the impact of a controlled floating currency exchange rate regime on hedging and operational costs and the value of Malaysian companies. Rahmanto *et al.* (2020) highlight the need for consistent increases in investment returns for sustainable growth.

Previous research on business value based on Tobin's Q became the basis for this new research, which uses the Jakarta Islamic Index (JII) as its novel aspect. Previously, the majority of research objects came from traditional and manufacturing industries. However, to the author's knowledge, research needs to be conducted to evaluate the value of companies in JII. In addition, this research uses data from eleven years (2011-2021), which is different from previous research, which is usually only three to five years. Annual data is collected, and the variables analyzed include a combination of internal variables and variables from various available sectors. This research analyzes the factors influencing company value in the Jakarta Islamic Index (JII). The findings provide information about predicting company value (Tobin's Q) and its impact on company success, help make more informed investment decisions, and provide new insights into the influence of financial performance and the application of existing concepts.

B. Research Method

This research looks at a selection of companies that were members of the Jakarta Islamic Index (JII) during the years 2013 and 2023. In this study, each company's financial documents are used, and then the variables Debt to Assets Ratio (DAR), Current Ratio (CUR), Return on Assets Ratio (ROA), Company Size

(SIZE), and Firm Value (TQ) are searched for. The questions posed by the research objectives are addressed by this study through the use of panel data regression.

$$TQ_{it} = \alpha + \beta_1 DAR_{it} + \beta_2 CUR_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + e_{it}$$

Panel regression modeling is carried out in three ways: the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. The Common Effect Model combines data without considering time and individual variations. The Fixed Effect Model uses dummy variables to handle intercept variations. The Random Effects Model assumes intercept differences originate from random errors between units and time. Selecting the best model involves the Chow test to compare the Common and Fixed Effect Models, the Hausman test to compare the Fixed and Random Effect Models, and the Lagrange Multiplier test to choose between the Random and Common Effect Models. After selecting the best model, classical assumption tests were carried out: normality test, multicollinearity test, and heteroscedasticity test.

C. Results and Discussion

For panel data estimation, the Chow test determines whether the Fixed Effect Model (FEM) or Common Effect Model (CEM) is more appropriate. The Chow test results show a probability value of 0.000 (< 5%), so it is recommended to use FEM. Next, the Hausman test is used to differentiate between FEM and Random Effect Model (REM). The Hausman test results show a probability value 0.5768 (> 5%), so REM is more appropriate. Based on the Lagrange Multiplier test results with a probability value of 0.0000 (< 5%), it was concluded that REM was the best choice. Therefore, this research uses REM.

Table 1: Best Model

Test	Statistic	Prob.
Chow	240.2352	0.0000
Hausman	2.887359	0.5768
Lagrange Multiplier	351.9744	0.0000

The heteroscedasticity test aims to determine whether the residual variance of one observation is different from other observations in the regression model. The Breusch-Pagan-Godfrey test shows a probability value of 0.0001 (< 5%), indicating the presence of heteroscedasticity. However, the Generalized Least Squares method has been applied through a random effects model, so heteroscedasticity does not exist in this model. The normality test, a key component of our analysis, is used to check the normal distribution of residuals in the regression model. The results of the Jarque-Bera test, a widely used method, show a probability value of 0.1591 (> 5%), indicating that the data is normally distributed, further validating the robustness of our regression model.

Table 2: Diagnostic Test

Test	Indicator	Value	Probability
Heteroscedasticity	Breusch-Pagan	24.8425	0.0001
Normality	Jarque-Bera	3.6763	0.1591
Multicollinearity	Variance Inflation Factor	DAR	3.6534
		CUR	3.9281
		ROA	1.3283
		SIZ	1.4939

The multicollinearity test aims to determine if the independent variables in a regression have a significant or perfect correlation. Multicollinearity can be detected in a regression model by inspecting the variance inflation factor (VIF). Inflation of the variance measures how much the selected independent variables differ from one another in a way that cannot be accounted for by changing any of the other independent variables. The variance inflation factor analysis showed that all variables were uncorrelated (< 10).

Table 3: Panel Regression Model

Variable	CEM	FEM	REM
SIZ	0.1312 (0.0200)*	-0.1529 (0.0005)*	-0.1407 (0.0011)*
DAR	1.1949 (0.0087)*	0.8586 (0.0001)*	0.8672 (0.0001)*
CUR	0.1596 (0.0045)*	0.1162 (0.0000)*	0.1154 (0.0000)*
ROA	0.5378 (0.2098)	0.2130 (0.4382)	0.2591 (0.3370)*
C	-4.9870 (0.0086)*	4.1120 (0.0035)*	3.7253 (0.0069)*
R-squared	0.1131	0.900140	0.451487
Adjusted R-squared	0.0793	0.886617	0.430591

*Significant at 5%

If the company is supported by a high ratio of total assets, the company is able to retain its market worth as it is with only very few moderate assets. Large total of assets would have an increase to the value of the company in all sizes of the company. On the other hand, however many literature finding indicate that the size of firms endowed property of high number of assets not surely cause an increase in the prosperity of the shareholders who own the company (Fikri, 2019).

The debt to asset ratio (DAR) has a coefficient of 0.8672 and a probability of 0.0001 at its findings. Business value and has a significant effect, which is in turn positive. When a company's debt to asset ratio goes up, so does the value of the business; as a result, the shares' values show that the company's financial position is good. In this manner, a positive debt to asset ratio leads provides a system of informing the investors. The investors use the results to form a judgment on whether or not to take up an investment opportunity in the given company (Deffi *et al.*, 2020; Shafron, 2019). When a company's debt level rises in comparison to its assets, the company is deemed to be at a higher debt risk, which in turn means that the company's value is likely to go down (Hadian & Adaoglu, 2020).

The test results demonstrated the coefficient value of 0.1154 with the probability 0.0000, which means that the Current Ratio (CUR) is positive for firm value. The company's value is desires immediately when all of the firm's obligations are fully satisfied, as such the entity has a need to generate higher levels of short-term debt. It will serve to protection the value of the company (Baud *et al.*, 2019; Benczur *et al.*, 2019; Grundy & Verwijmeren, 2020). It implies that if the company has more liquidity, it will be reduced as the possibility that it would not capable to satisfy the creditors in the short-term debt, and vice versa (Mohammad *et al.*, 2020).

This ratio helps investors understand how valuable a company's operating results and current and future financial condition are. The higher the CUR, the better the company's financial status, indicating a good investment opportunity. However, although a company's liquidity tends to increase because most of the funds are invested in current assets, the company may miss the need to catch up on potential profits if the funds are not invested in profitable activities (Izzeldin *et al.*, 2021; Suhendry *et al.*, 2021).

However, numerous pieces of research have demonstrated that a high liquidity level does not mean that an extra fund is utilised, which may result in a company being unable to grow its earnings and offering a minimal return to the investors (Wajdi, 2019). These are measurements based on ratios as when the current ratio is. Its low level indicates that the firm does not have enough capital to pay their debts (Hosen & Muhari, 2017; Irman *et al.*, 2020; Yuliani *et al.*, 2020).

D. Conclusion

The objective of this research is to acquire a more complete understanding of the components of firm value as assessed by the Jakarta Islamic Index. As a result of the study's results, it is entirely feasible to conclude that the value of a firm might have been assessed by the firm size, the liability to asset ratio of the firm, and the current ratio of the firm. However, the return on assets or ROA is unaffected by the flaw. As for the implications, it is

expected that the results of this study will be used in the discussions that potential investors participate in before making an investment. As such, the outcomes of this study are likely to be used for this purpose.

In this vein, it is essential to select the best sides of the investment that would not include other types of risk. It is compulsory to evaluate the decision whether to make the investment or not. In particular, it is required to take into account the firm's profitability, liquidity, leverage, and size relative to the size of the firm. This said, there is also a need to analyze it in a way that takes into consideration the current state and likely the future of the concern. Irrespective of whether the investment is made or not, these conditions must be taken into account. It can then be assessed whether or not it will be profitable to make the investment or.

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