

# Unusual Phenomena of the Profit-Return Relationship in Indonesia Sharia Stocks Market

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**Abstract**—This study aims to prove the existence of an unusual phenomenon in the short-term investment market of Sharia stocks in Indonesia in 2018. The usual phenomenon that is in accordance with the fundamental analysis of stock investment is "High profit - high return, low profit - low return". Does this phenomenon exist? An understanding on the rank of the emiten's profitability and stock investment returns will be useful in the stocks analysis, especially in the analysis phase when potential investors will determine the stocks that will be the object of investment. Data of emiten's profitability and investment returns of Sharia stocks are taken and processed from the IDX data. Descriptive analysis is carried out to explain the ranking of profitability and investment return. Inferential analysis (Test of Rank Difference) is carried out to test hypotheses about the difference between profitability and return ranking. Research shows the results that profitability rank and return rank are differing. This shows that the phenomenon of "High profit - high return, low profit - low return" does not exist in the short-term investment market of sharia stocks in Indonesia in 2018, or that the unusual phenomenon occurs.

**Keywords:** *profitability, index, return, rank, sharia stock*

## I. INTRODUCTION

With a population that is predominantly Muslim, sharia stocks are the choice of some Indonesians for stock investments. On the Indonesia stock exchange (market) there are currently 627 officially registered and traded stocks, 624 issuers, capitalization value of Rp 7,415,933,688,057,700. Of these there are 414 (66.03%) sharia stocks (ISSI), 407 (65, 22%) issuers, with ISSI capitalization of Rp 3,861,714,080,000,000 (52.07%), and JII capitalization of Rp 2,376,039,140,000,000 (32.04%) [1]. Among sharia stocks in the stock market, potential investors still need to make a selection based on the returns and risks of their investments. Ideally, all stocks marketed have similar fundamental values (corporate financial performance), technical (stock performance) and investment risks. But the reality on the stock market is not the case. This makes the need for investors to make a selection.

The purpose of investors in stock investment in general is to get the maximum return with a certain risk that has been calculated, or to get a certain reward with the smallest risk. Returns are an indicator for an increase in investors' wealth and wealth, as well as a benchmark for the company's stock prospects. Stock returns can be in the form of capital gains and

a part of profits (Dividends). For short-term investors, the acquisition of stock returns from the element of capital gains is the main goal, so it is always a concern. Capital gains are obtained through the changes of the stock market price (HPS) or the stock price index (IHS) of individual companies.

Before making investment decisions, rational stock investors do an analysis of the potential returns and risks of stock investments [2]. Stock analysis consists of fundamental analysis, technical analysis, and investment risk analysis. With fundamental analysis, investors try to predict the potential stock returns through the values of the company's fundamental factors (the financial performance of an issuer company as measured by its financial ratios). The financial ratio that gets the most attention of companies and investors is the profitability ratio.

The table below shows the phenomenon of profitability and investment return of ten stocks/ companies that occur in the market as examples.

TABLE I. RETURNS AND PROFITABILITY (ROE) OF 10 COMPANIES IN 2018

No.	Company	Return	ROE
1	Adaro Energy	-2,75	11,81
2	AKR Corporindo	-2,91	24,71
3	Aneka Tambang	3,04	2,98
4	Astra International	0,08	17,30
5	Barito Pacific	0,95	15,49
6	Bumi Serpong Damai	-2,07	9,55
7	Charoen Pokphan Ind.	7,88	24,94
8	Ciputra Development	-0,75	4,98
9	XL Axiata	-2,61	-7,31
10	ICBP Sukses Makmur	1,44	23,16

TABLE II. STOCK RETURN AND PROFITABILITY

No.	Mount	Return	ROE
1	January	-1,97	20,45
2	February	2,87	20,45
3	March	-7,80	17,43
4	April	4,83	22,28
5	May	1,01	22,28
6	June	1,00	22,28
7	July	-1,41	22,46
8	August	-0,57	22,46
9	September	1,73	22,46
10	October	1,13	21,62
11	November	10,36	21,62
12	December	6,09	21,62

The table shows that profitability and return on investment among the companies varies and fluctuates periodically. The phenomenon of differences in financial performance and investment returns among the stocks and their fluctuations raises curiosity about investor behavior in the stock market relating to these factors, especially for sharia stocks. How do investors respond to the differences in the company's financial performance and stock investment returns in making investment decisions? The respond is certainly reflected in the stocks returns and company's performance in the stock market. Do stocks of high-performance companies generate high returns, and vice versa?

With the background described above, this study was conducted with the aim of proving whether the phenomenon of "High Profit - High Return, Low Profit - Low Return (HP-HR, LP-LR)" occurs in the short-term investment market of sharia stocks in Indonesia or not. Therefore, the research problem is formulated in the form of a question: Do sharia stocks of companies that have high profitability get high investment returns as well, and vice versa?

Several studies related to the company's financial performance and stock returns have been conducted (Previous Research), but the results vary. The results of Ika and Abdullah state that there is no significant difference in financial performance between conventional banks and Islamic banks, except in terms of liquidity [3]. Martani et al. shows that profitability, turnover and market ratios have a significant impact on stock returns [4]. Research by Fama and French found that lagged profitability, asset growth, and accruals are related to average returns [5]. Narayan and Bannigidadmath study concludes [6]: First, both positive and negative news can predict the majority of Islamic and conventional stock returns, where positive news has a greater impact on both types of stock returns. Second, shocking financial news only reverses return for some stocks. Third, investing in sharia stocks is relatively more profitable than investing in conventional stocks. Fourth, earnings have a strong influence on various time series risk factors (market risk, size-based risk, and risk caused by momentum). Narayan et al. study concluded that investing in sharia stock portfolios belonging to emerging markets and sharia stock portfolios in the consumer goods sector offers the most returns among regions and industries [7]. Widodo in his research concluded that TATO, ROA, ROE and EPS had a significant positive effect on sharia stock returns, ITO had no significant effect, and PBV had a significant negative effect. Regression models that are formed with independent variables TATO, ITO, ROA, ROE, EPS and PBV can be used to predict Islamic stock returns in the Jakarta Islamic Index (JII) [8]. Anhar found that there were differences in the ranking of stock returns among the sectors, including sharia stocks group as separate "sectors" [9]. Eljelly and Alghurair study concluded that profitability as measured by EPS is a significant variable in explaining changes in stock returns [10]. Kim and Verrechia concluded that there was a change in the company's stock price caused by the announcement of performance, and abnormal volume was positively correlated with absolute abnormal returns [11]. Natarsyah concluded that fundamental factors and risks affect stock prices [12].

In order to answer the research problem, a hypothesis was proposed stating that "Islamic stocks of companies that have high profitability get high returns too, and vice versa."

**II. METHODS**

This study was designed as quantitative, ex post facto, and comparative research by analyzing the difference between stock returns and companies' profitability. Descriptive analysis and hypothesis testing were conducted in this study. Sharia stocks of the JII group (Jakarta Islamic Index) are used as samples of sharia stocks because this stocks group is considered to be a leading sharia stock. The variables studied were companies' profitability and stocks investment returns, each using indicators Return on Equity (ROE) and Capital Gain (CG) of sharia stocks.

Individual stock returns (Ri) are formulated as follows [13]:

$$R_i = IHSI_t - IHSI_{t-1} / IHSI_{t-1} \tag{1}$$

While profitability is formulated as follows [6]:

$$ROE = \text{Earning available for common stocholders} / \text{Common stock equity} \tag{2}$$

The Mann-Whitney Rank Difference Test is used to test the hypothesis. This method is used to test hypotheses about the difference between return rank and profitability rank. The testing procedure is as follows:

Hypothesis formulation:

H1<sub>0</sub>: There is no difference between the company's profitability rank and the rank of Islamic stock returns.

H1<sub>a</sub>: There is a difference between the company's profitability rank and the rank of Islamic stock returns.

The level of significance  $\alpha$  is 0,05.

Testing criteria: T dan W Mann-Whitney

$$T = \sum R_x - \{n(n+1)/2\} \tag{3}$$

$$W_1 = (nm/2) \tag{4}$$

$$W_2 = Z \{nm(n+m+1)\}/12 \tag{5}$$

H<sub>0</sub> is accepted (no rank difference) if  $W_1 \leq T \text{ count} \leq W_2$

H<sub>a</sub> is accepted (there is a difference in rank) if  $T \text{ count} < W_1$  or  $T \text{ count} > W_2$ .

**III. RESULTS AND DISCUSSION**

*A. Descriptive Statistical Analysis*

From the descriptive statistical analysis the following research results were obtained:

TABLE III. MINIMUM VALUE, MAXIMUM, AND AVERAGE RETURNS AND PROFITABILITY

No.		Return	PT	ROE	PT
1	Mean	0,62		21,34	
2	Min	-4,73	PP	-7,31	XLA
3	Max	20,30	SCM	129,24	UI

- Sharia stocks studied received an average return of 0.62%, the lowest return obtained by PT. Housing Development, and the highest return obtained by PT. Surya Citra Media.
- Issuers of Islamic stocks studied achieved profitability (ROE) on average 21.34%, the lowest profitability achieved by PT. XL Axiata, and the highest profitability was achieved by PT. Unilever Indonesia.

#### B. Hypothesis test of the difference between return rank and profitability rank

Hypothesis formulation:

Ho: There is no difference between the rank of Islamic stock returns and the rank of the issuer's profitability.

Ha: There is a difference between the rank of Islamic stock returns and the rank of the issuer's profitability.

The level of significance ( $\alpha$ ) is 0,05.

Test criteria: T dan W Mann-Whitney

Ho is accepted (no rank difference) if  $W1 \leq T \text{ count} \leq W2$

Ha is accepted (there is a difference in rank) if  $T \text{ count} < W1$  or  $T \text{ count} > W2$ .

Number of stocks = 30, so  $n1 = 30$  dan  $n2 = 30$

$$T = \sum R_x - \{n(n+1)/2\}$$

$$T = 465 - \{(30)(31)/2\} = 465 - 465 = 0$$

$$W1 = (nm/2)$$

$$W1 = \{(30)(30)/2\} = 450$$

$$W2 = Z \{nm(n+m+1)/12\}$$

$$W2 = 1,96 \{(30)(30)(30+30+1)/12\} = 4575$$

Because  $T < W1$ , Ho is rejected and Ha is accepted.

Conclusion: There is a significant difference between the return rank and the profitability rank of sharia stock issuers.

#### IV. CONCLUSION

The results of this study prove that there is a significant difference between the rank of sharia stock returns with the rank of the issuer's profitability. This means that stocks of companies that have high profitability do not always get higher returns than stocks of companies that have low profitability, and stocks of companies that have low profitability do not always get lower returns than stocks of companies that have high profitability. In other words, stocks of companies that have high profitability can get low returns. Vice versa, the stocks of companies that have low profitability can get high returns. So it can be said that the phenomenon of "high profit - high return, low profit - low return" does not occur in the sharia

stock market in Indonesia. This is an unusual phenomenon, contrary to the general rules in fundamental stock analysis.

The implication of this unusual phenomenon is that a prospective stock investor must make a trade-off between stock returns and the profitability of the issuer, what are its priorities, high returns or high profitability. Prospective investors cannot choose stocks that have high potential returns at the same time from issuers with high profitability.

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