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DETERMINANTS OF MARKET CAPITALIZATION AND ITS EFFECT ON SHARIA STOCK RETURNS IN JAKARTA ISLAMIC INDEX

Akidah Fitrah[1], Gaguk Apriyanto[2], Harianto Respati[3]
University of Merdeka Malang[1,2,3]
E-mail: akidah.fitrah@um.ac.id[1]; gaguk.apriyanto@unmer.ac.id[2]; harianto.respati@unmer.ac.id[3]*
**Correspondence Author*

Abstract: The aims of this study is to test and obtain empirical evidence regarding the effect of the effect of EPS, EPS, ROA, ROE, ROI, Inflation, Interest Rate, Exchange Rate Rupiah against USD and Indonesian Crude Price on Market Capitalization and the mediating effect of Market Capitalization on Stock Returns Jakarta Islamic Index Indonesia. This study is a causal study with a quantitative approach. The sample was selected by purposive sampling. The data used is secondary data. Dana analysis used data panel regression. Based on results of study, various empirical evidence were found. EPS, PER, ROA and ROE has a positive effect and significant on Market Capitalization. ROI and Interest Rate has a negative effect and significant on Market Capitalization. Inflation and Indonesian Crude Price has a positive and insignificant on Market Capitalization. Exchange Rate Rupiah against USD has a negative effect and insignificant on Market Capitalization. Market Capitalization has a negative and insignificant on Stock Returns. The Market Capitalization cannot as a information for investors in predicting stock returns, because the Market Capitalization is not necessarily able to provide high stock returns.

Keywords: *Market Capitalization, Stock Returns, Jakarta Islamic Index*

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1. Introduction

The Jakarta Islamic Index (JII) is a Shariah equity index featuring the 30 most liquid Islamic equity constituents on the Indonesian Stock Exchange. The 60 issuers were selected based on their highest average market capitalization over the past year, with decreasing market capitalization values of 2020 to early 2022 In 2020 the market capitalization fell to Rp. 2,058,722.65 billion, in 2021 the market capitalization will also decrease to Rp. 2,015,192.24 billion and in January 2022 the market capitalization also fell to Rp. 2,009,678.86 billion (Financial Services Authority, 2022). The number of Islamic investors in the first quarter of 2022 reached 108,345 investors, an increase of 105,174 investors compared to 2021 with growth in the last five years almost four times with an active rate of 16.6% (Fawzi, 2022). Agency theory suggests that investors as principals want maximum and immediate returns from investments as reflected in the increase in the share of stock dividends. Getting the maximum return is the goal and motivation of investors in investing (Tandelilin, 2010). Market capitalization is now widely accepted as an indicator of corporate valuation (Almumani, 2018). Stock market growth is measured by market capitalization (Widiatmoko et al.,2020). Market capitalization is the value is widely traded on a exchange and is one of the factors that investors consider when making investment decisions (Widiatmoko et al., 2020).

Investors can gain insight into the company's future prospects and whether or not to invest (Kumar & Kumara, 2020). Market capitalization growth is driven either by volume such as stock issuance or by price (Kuvshinov & Zimmermann, 2022). The importance of market capitalization in determining stock market returns has encouraged researchers to consider the relationship between these two variables. Several studies have shown that market capitalization has a positive effect on stock market returns (Alshubiri, 2021; Hasanah et al., 2021; Hidayati & Sukmaningrum, 2020; Silalahi & Putra, 2020; Taslim & Wijayanto, 2016; Wahyudi, et al., 2020; Wibowo & Hendratno, 2019). According to studies with mixed results presented by Idris & Bala (2015) and Tahmat et al. (2021), market capitalization has a negative effect on stock returns.

A well-organized and well-managed stock market creates investment opportunities (Shahbaz et al., 2016). Several previous studies examined the factors that affect market capitalization. Profitability has a positive and significant effect on market capitalization (Sitorus et al., 2020). Return on Investment (ROI), Return on Equity (ROE) and Return on Asset (ROA) have a positive and significant effect on the market capitalization (Al-Nimer & Alslihat, 2015). ROE and Earning per Share (EPS) have a positive and significant effect on market capitalization (Prasad & Shrimal, 2015). EPS and ROA have a significant effect on market capitalization (Almumani & Almazari, 2021). Study with different results presented by Pavone (2019) found that ROA and ROE had a negative and insignificant effect on market capitalization. The exchange rate had a significant negative effect on market capitalization, interest rates and inflation had a negative and insignificant relationship with market capitalization in Nigeria Etale & Tabowei (2019). Inflation, and the exchange rate of the rupiah against the US dollar have a major impact on Islamic stock prices (Mashudi et al., 2020). Yahya (2020) found that there was a significant influence both in the long and short term on inflation, Bank Indonesia interest rates, money supply, and inflation with the Jakarta Islamic Index. Research with different results was put forward by Ologunde et al. (2006) who found that interest rates had a positive effect on the level of stock market capitalization. (Khrawish et al., 2010) found a positive and significant relationship between the prevailing interest rate and the stock market capitalization rate. Febriyanto (2016) found that the Indonesian Crude Price did not significantly affect the Jakarta Islamic Index. Hidayati & Sukmaningrum (2020) found that oil prices have a positive but not significant effect on the Jakarta Islamic Index (JII) both in the long and short term. Real Effective exchange rate impacted positively on the market capitalization (Ewubare et al., 2022). Based on the phenomena and gaps of previous research, it is necessary to examine the factors that influence market capitalization and its relationship with stock returns in Jakarta Islamic Index companies so that investors can invest with more accurate estimates of Jakarta Islamic Index stock returns.

2. Literature Review

The main reason people invest is to make a profit. In the context of wealth management, investments are called returns. Returns is factors that motivate investors and reward risk-taking investors (Tandelilin, 2010). Return on equity is the amount of return that investorsreceive and enjoy on their invested capital. This is because long-term and short-terminvestment activities usually aim to generate profits (Widagdo et al., 2020). The source ofinvestment income has two main components, namely income and investment income. Theshare price can rise enough to provide capital for its holders. You may also experience adecline known as a capital loss. A capital gain or loss is the current investment relative to the price of the previous period (Jogiyanto, 2015). Market capitalization describes the multiplication of the

number of shares with the closing price of the market (Almumani, 2018; Farooq et al., 2022; Kumar & Kumara, 2020). Large-cap stocks can provide a higher rate of return than medium-cap or small-cap stocks (Gajera et al., 2015).

In Agency Theory, principal is a shareholder or investor and agent is a manager who runs a company. The point of power of attorney is the functional division between shareholder ownership and business control (Jensen & Meckling, 1976). Signal theory explains that companies should send signals to potential investors. Signals contain information about what the agent has done to achieve the client's or investor's wishes. Investors can calculate the growth of company earnings on the number of company shares through financial statements (Tandelilin, 2010). Earning per share reflects the amount of profit that investors will get from shares per share. The higher the earning per share, the greater the impact of the stock price on a large market capitalization. Earning per share has a positive effect on market capitalization (Al-Afeef, 2020; Prasad & Shrimal, 2015). Price earning ratio describes the value of a stock compared to earnings per share (Tandelilin, 2010). Companies with a high PER can be said to have a high profit growth rate. PER has a positive effect on market capitalization (Al-Afeef, 2020; Pavone, 2019).

DuPont theory explains that investors can find out where the profits for shareholders or the Return on Equity of a company come from. In DuPont Theory ROA is the ratio or ratio between the profits earned and the total assets of the company (Soetiono, 2016). Higher ROA means higher profit and therefore higher stock price and higher market capitalization. ROA has a positive effect on market capitalization (Al-Nimer & Alslihat, 2015). ROE measures how well a company can generate returns on its shareholders' equity (Tandelilin, 2010). A high return on equity reflects a company's high net income. ROE influences market capitalization (Prasad & Shrimal, 2015). The higher the Return on Investment, the greater the profit obtained, so that the stock price will be higher which has an impact on high market capitalization. Return on investment has a positive effect on market capitalization (Al-Nimer & Alslihat, 2015; Qurashi & Zahoor, 2016).

The time value theory of money is the concept of the present value of money becoming more valuable than the future value of money, or the difference in the value of money caused by a time lag (Soetiono, 2016). In calculating the present value and future value, we must also take into account the length of time and the rate of return. Inflation is the rate at whichthe general price level of goods and services increases and the willingness to purchasemonetary power decreases (Awadzie & Garr, 2020). A relative rise in inflation is a negative signal for capital market investors, because inflation increases corporate costs, lowers corporate profitability, and leads to a decline in stock prices (Sunariyah, 2013). Higher inflation drives prices higher, which means consumers can no longer afford to buy goods and services on the same scale as before. This reduces revenues and profits, ultimately leading toa stock market decline (Etale & Tabowei, 2019). Inflation have an intangible and undesirable effect on capital market capitalization (Omodero, 2020).

Interest parity theory explains that money inflows increase when the increase in domestic interest rates is greater than the increase in foreign interest rates (Iskandar & Suseno, 2004). The interest rate describes the rate at which lenders are willing to lend to borrowers (Etale & Tabowei, 2019). When Low interest rates provide investors with very high returns (Etale & Tabowei, 2019). Investors can switch to other types of investments that provide better returns. Increase in interest rates has a negative effect on market capitalization (Ardana, 2016; Carolin, 2019; Islam et al., 2014).

An exchange rate is the value for converting one currency into another (Etale & Tabowei, 2019). Sharp changes in exchange rates lead to large fluctuations in market return volatility (Etale & Tabowei, 2019). A rise in the exchange rate Rupiah against foreign currencies such as USD will have a direct impact on rising payments for imported goods, especially raw materials and equipment required by enterprises, which will raise production costs (Ekananda, 2019). Thus, an increase in the value of the rupiah exchange rate against the USD can reduce stock prices so that market capitalization also decreases. Higher interest rates reduce capital market performance (Awadzie & Garr, 2020). Interest rates have a severe negative impact on market capitalization (Omodero, 2020).

Commodity prices will affect the operating costs of a company. The increase in oil prices will also reduce the amount of public consumption of other commodities (Murhadi, 2009). Thus, the higher the price of the Indonesian Crude Price increases, the lower the market capitalization. The negative effect of oil prices on stock values (Ardana, 2016). Based on above literature review and the relationship between the constructs, the framework of research concept is depicted in Figure 1.

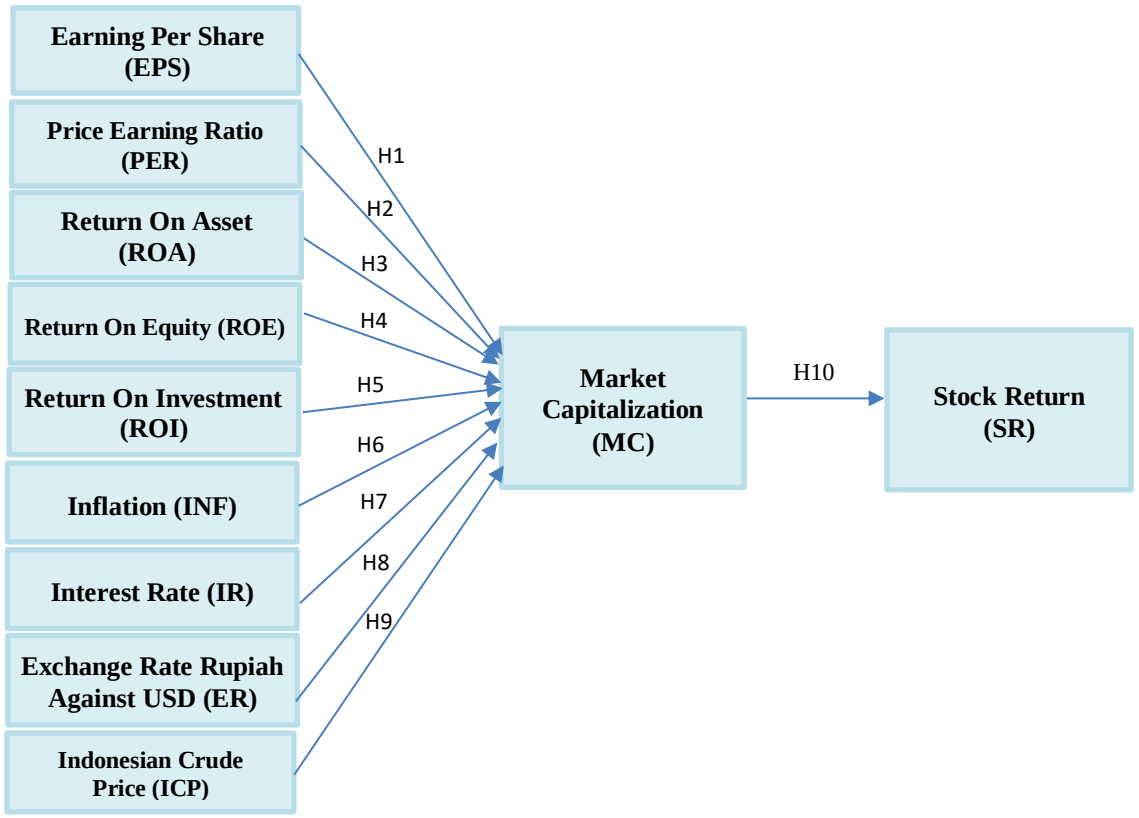

Figure 1. Research Conceptual Framework

The aims of this study is to test and obtain empirical evidence regarding the effect of EPS, PER, ROA, ROE, ROI, inflation, interest rate, exchange rate of Rupiah Against USD and Indonesian Crude Price on market capitalization and the mediating effect of market capitalization on stock returns Jakarta Islamic Index. The novelty is that the market capitalization value is used as a mediating variable between microeconomic and macroeconomic influences on stock returns. In addition, the calculation of stock returns is carried out every quarter which is adjusted to the financial statements published by the company every quarter. This is to overcome the snapshot condition where previous research used time-

series data every year which only described the condition of the companies at a time of year and that time was too long to predict stock returns. The Following hypotheses are determined based on the model depicted in Figure 1 are:

H1: EPS has a positive effect and significant on Market Capitalization.
H2: PER has a positive effect and significant on Market Capitalization.
H3: ROA has a positive effect and significant on Market Capitalization.
H4: ROE has a positive effect and significant on Market Capitalization.
H5: ROI has a positive effect and significant on Market Capitalization.
H6: Inflation has a negative effect and significant on Market Capitalization.
H7: Interest Rate has a negative effect and significant on Market Capitalization.
H8: Exchange Rate Rupiah Against USD has a negative effect and significant on Market Capitalization.
H9: Indonesian Crude Price has a negative effect and significant on Market Capitalization.
H10: Market Capitalization has a positive effect and significant on Stock Returns.

3. Research Method

The research conducted is a causal research and quantitative aimed at testing the hypotheses of the Effect of EPS, PER, ROA, ROE, ROI, inflation, interest rate, exchange rate Rupiah Against USD and Indonesian Crude Price on Market Capitalization. In addition, to testhypotheses about the effect of market capitalization on Shariah stock return in JII for the firstquarter of 2019 to the first quarter of 2022. Companies listed on the Jakarta Islamic Index arethe population while the sample is selected by purposive sampling according to the criteriafor companies that are consistently registered, not new companies and have never been de-listed from the Jakarta Islamic Index and companies have not merged during the study period.From the selection results, obtained a sample of 15 companies so that the research data is thenumber of samples multiplied by the observation period: 15 companies x 13 quarters = 195 data.

EPS is measured to see how net profit after interest and tax compares to the Number of Share Outstanding. Net income is obtained from the company's profit and loss statement for the quarterly period and Total Shares Outstanding is obtained from the Balance Sheet or Notes to Financial Statements for the quarterly period published by the Indonesia Stock Exchange. EPS measured using formula (1) as follows:

$$\text{EPS} = \frac{\text{Net Profit After Interest and Tax}}{\text{Number of Share Outstanding}} \qquad (1)$$

PER is measured to see the comparation between share price per share and EPS. Share Price per Share is obtained from the Balance Sheet or Notes to Financial Statements for the quarterly period published by the Indonesia Stock Exchange. Price Earning Ratio measured using formula (2) as follows:

$$\text{PER} = \frac{\text{Price of Shares per Share}}{\text{Earning Per Share}} \qquad (2)$$

ROA is measured to see the comparation between Profit Before Interest and Tax with Total Assets. Profit Before Interest and Tax obtained from the company's profit and loss statement in the quarterly period and Total Assets is obtained from the Balance Sheet for the quarterly period published by the Indonesia Stock Exchange. Return on Assets measured using formula (3) as

follows:

$$\text{ROA} = \frac{\text{Profit Before Interest and Tax}}{\text{Total Assets}} \qquad (3)$$

ROE is measured by looking at the comparation between Net Profit After Interest and Tax with Total Equity. Net Profit After Interest and Tax is obtained from the company's profit and loss statement in the quarterly period and Total Equity is obtained from the Balance Sheet for the quarterly period published by the Indonesia Stock Exchange. Return on Equity measured using formula (4) as follows:

$$\text{ROE} = \frac{\text{Net Profit After Interest and Tax}}{\text{Total Equity}} \qquad (4)$$

ROI is measured by looking at the comparison between operating profit after tax with the amount of equity and long-term loans. Operating Profit After Tax is obtained from the company's profit and loss statement in the quarterly period and Total Equity and Long-Term Loans is obtained from the Balance Sheet for the quarterly period published by the Indonesia Stock Exchange. Return on Investment measured using formula (5) as follows:

$$\text{ROI} = \frac{\text{Operating Profit} - \text{Tax}}{\text{Equity} + \text{Long-Term Loans}} \qquad (5)$$

The Inflation value used is the quarterly inflation rate during the research period issued by Bank Indonesia. The Interest Rate used is 7-Day Repo from Bank Indonesia. The exchange rate used is the average Exchange Rate Rupiah Against USD issued by Bank Indonesia. Indonesian Crude Price is the basic price of crude oil used in the State Budget and is the average price of Indonesian crude price on the international market which is used as an indicator for calculating oil profit sharing. Indonesian Crude Price used in this study The Indonesian Crude Price determined by the Minister of Energy and Mineral Resources each month in a unit price of US$/barrel. Market capitalization is measured by multiplying thestock price by the number of shares outstanding. Stock returns are measured by comparing the end-of-month stock price to the stock price over the past three months, and the stock price over the past three months.

Data analysis using panel data regression. Research data with different units need to be transformed into logarithmic form in order to produce data that can meet the assumptions in the study with regression equation is a follow:

1. EPS, PER, ROA, ROE, ROI, inflation, interest rate, exchange rate Rupiah Against USD and Indonesian Crude Price against market capitalization with the following model:
   $\text{LOGMC} = \alpha+\beta1\text{LOG(EPS)it}+\beta2\text{LOG(PER)it}+\beta3\text{LOG(ROA)it}+\beta4\text{LOG(ROE)it}+\beta5\text{LOG(ROI)it}+\beta6\text{LOG(INF)it}+\beta7\text{LOG(IR)it}+\beta8\text{LOG(ER)it}+\beta9\text{LOG(ICP)it}+\varepsilon\text{it}$ (6)
   Where ε = Error term; i = Company; t = Time
2. Market capitalization of stock returns with the following model:
   $\text{SR} = \alpha + \beta10\text{LOGMCit} + \varepsilon\text{it}$ (7)
   Where ε = Error term; i = Company; t = Time

4. Results and Discussion

4.1 Results

The result on the initial normality test using the Jarque-Bera test indicate that the data are not normally distributed as the Jarque-Bera probability value is below the significance level of 0.005 (Ghozali, 2016). Data that are not normally distributed can be transformed into normal form by transforming to the natural logarithm. From the observation data obtained negative data as many as 4 observations. The data cannot be transformed into natural logarithmic form. In addition, there are 2 outlier data that have extreme values and cause the data in a variable cannot be normally distributed so that it needs to be removed from the research data. The total observations issued in the sample are 6 observations, so that the number of observations made after the test results are normally distributed is 189 observational data.

The Chow test is carried out by estimating the regression equation using the common effect model and the fixed effect model first, then fixed/random effect testing using the redundant fixed effect-likelihood ratio. In this test, the significance level used is 5% or 0.05. The results of the Chow test with a Chi-square Cross-section probability value of 0.0000 < 0.05, so that H0 is rejected and H1 is accepted, which means that the best model is the fixed effect model and the model testing continues with the Hausman test. The Hausman test was performed by estimating the regression equation using the random effects model and the fixed effect model, then fixed/random effect testing using the correlated random effect– Hausman test. In this test, the significance level used is 5% or 0.05. The results of the Hausman test with a random cross-section probability value of 0.9058 > 0.05, so that H0 is accepted and H1 is rejected, which means that the best model is a random effect model, sothat model testing is continued to the Lagrange Multiplier Test. The Lagrange Multiplier test is carried out by estimating the regression equation with the random effects model and the common effect model, then fixed/random effect testing is performed using the committed random effect-lagrange multiplier. In this test, the significance level used is 5% or 0.05. The results of the Lagrange Multiplier test with a Breusch-Pagan probability value of 0.0000 or < 5%, then H0 is rejected and H1 is accepted, meaning that the best model is the random effect model. From the three test results, it shows that there are 2 tests that produce a random effect model, namely the Hausman Test and the Lagrange Multiplier Test. Based on this, it can be concluded that the best regression model approach is the random effect model.

Table 1 show Linear Regression Test Data Panel I. Table 1 can be interpreted that if all independent variables are constant, market capitalization is obtained at the natural antilogarithm value of 27.938 or Rp. 1,360,250,513,750. The $F_{statistic}$ value is 101.364, Sig. of 0.000 < 0.05. This shows that there are simultaneously EPS, PER, ROA, ROE, ROI, inflation, interest rate, exchange rate of Rupiah Against USD and Indonesian Crude Price against Market Capitalization. Adjusted-R^2 value is 0.8227 meaning is EPS, PER, ROA, ROE, ROI, inflation, interest rate, exchange rate of Rupiah Against USD and Indonesian Crude Price can explain Market Capitalization of 82.27%.

Table 1. Linear Regression Test Data Panel I

	β	**t**	**Sig. Value**	**Sig. Value (one tailed)**	**Conclusion**
C	27.938	3.841	0.0002	0.0001	
LOG(EPS)	0.2278	8.148	0.0000	0.0000	H1 Accepted
LOG(PER)	0.8372	25.857	0.0000	0.0000	H2 Accepted
LOG(ROA)	0.1306	2.141	0.0336	0.0168	H3 Accepted
LOG(ROE)	0.6726	15.288	0.0000	0.0000	H4 Accepted

LOG(ROI)	-0.1990	-3.236	0.0014	0.0007	H5 Rejected
LOG(INF)	0.0592	1.159	0.2480	0.1240	H6 Rejected
LOG(IR)	-0.3874	-4.244	0.0000	0.0000	H7 Accepted
LOG(ER)	-0.0894	-0.120	0.9039	0.4510	H8 Rejected
LOG(ICP)	0.0150	0.344	0.7308	0.3650	H9 Rejected
R^2	0.8359				
Adjusted-R^2	0.8227				
F	101.364				
Prob. F	0.000				
Dependent Variable: LOG(Y1)					

Based on Table 1, the first hypotheses (H1), the effect of earning per share on Market Capitalization, beta coefficient is 0.2278 and one tailed significant value less than 0.05, so the H1 is accepted. Therefore, EPS has a positive effect and significant on Market Capitalization. Beta coefficient of the EPS is 0.2278, meaning that if a 1% increase in EPS results in an average quarterly market capitalization increase of 0.2278%. The second hypotheses (H2), the effect of Price Earning Ratio on Market Capitalization, obtained the beta coefficient of 0.8372 and a significant one tailed less than 0.05, so the H2 is accepted. Therefore, PER haspositive and significant on Market Capitalization. Beta coefficient of the PER is 0.8372,meaning that if a 1% increase in PER results in an average quarterly market capitalizationincrease of 0.8372%. The third hypotheses (H3), the effect of ROA on Market Capitalization,obtained a beta coefficient of 0.1306 and one tailed significant value less than 0.05, so the H3 is accepted. Therefore, ROA has positive effect and significant on Market Capitalization.Beta coefficient of ROA is 0.1306, meaning that if a 1% increase in ROA results in anaverage quarterly market capitalization increase of 0.1306%. The fourth hypotheses (H4), theeffect of Return on Equity on Market Capitalization, obtained a beta coefficient of 0.6726 andone tailed significant less than 0.05, so the H4 is accepted. Therefore, ROE has a positiveeffect and significant on Market Capitalization. Beta coefficient of ROE is 0.6726, meaningthat if a 1% increase in ROE results in an average quarterly market capitalization increase of 0.6726%. The fifth hypotheses (H5), the effect of Return on Investment on Market Capitalization, obtained a beta coefficient of -0.1990 and one tailed significant value less than 0.05, so the H5 is Rejected. Therefore, ROI has negative effect and significant on MarketCapitalization. Beta coefficient of ROI is -0.1990, meaning that if a 1% increase in ROIresults in an average quarterly market capitalization decrease of 0.1990%.

The sixth hypotheses (H6), the effect of Inflation on Market Capitalization, obtained a beta coefficient is 0.0592 and one tailed significant value more than 0.05, so the H6 isrejected. Therefore, Inflation has a positive effect and insignificant on Market Capitalization.Beta coefficient of Inflation is 0.0592, meaning that if a 1% increase in Inflation results in anaverage quarterly market capitalization increase of 0.0592%. The seventh hypotheses (H7),the effect of the Interest Rate on Market Capitalization, obtained the beta coefficient of - 0.3874 and one tailed significant value less than 0.05, so the H7 is accepted. Therefore,Interest Rate has a negative effect and significant on Market Capitalization. Beta coefficient of Interest Rate is -0.3874, meaning that if a 1% increase in Interest Rate results in an averagequarterly market capitalization decrease of 0.3874%. The eighth hypotheses (H8), the effectof the Exchange Rate Rupiah against USD on Market Capitalization, the beta coefficient value is -0.0894 and one tailed significant value more than 0.05, so the H8 is rejected.Therefore, Exchange Rate Rupiah against USD has a negative effect and insignificant on Market Capitalization.

The beta coefficient of Exchange Rate Rupiah against USD is -0.0894, meaning that if a 1% increase in Exchange Rate Rupiah against USD results in an average quarterly market capitalization decrease of 0.0894%. The ninth hypotheses (H9), the effect of Indonesian Crude Price on Market Capitalization, obtained a beta coefficient value of 0.0150 and one tailed significant value more than 0.05, so the H9 is rejected. Therefore, Indonesian Crude Price has a positive effect and insignificant on Market Capitalization. Beta coefficient ICP is 0.0150, meaning that if a 1% increase in ICP results in an average quarterly market capitalization increase of 0.0150%.

Based in Table 2, the tenth hypotheses (H10) the effect Market Capitalization on Stock Returns, the beta coefficient value is -0.0091 and one tailed significant value more than 0.05, so the H10 is rejected. Therefore, Market Capitalization has a negative effect and insignificant on Stock Returns. Beta coefficient of Market Capitalization is -0.0091, meaning that if a 1% increase in Market Capitalization results in an average quarterly Stock Returns decrease of 0.0091%.

Table 2. Linear Regression Test of Data Panel II

	β	**t**	**Sig. Value**	**Sig. Value (one tailed)**	**Conclusion**
C	0.3092	0.516	0.606		
LOG(MC)	-0.0091	-0.484	0.628	0.314	H10 Rejected
R^2	0.0011				
F	0.2077				
Prob. F	0.6490				
Dependent Variable: SR					

Table 3. Sobel Test of Mediation Effect

	S_{ab}	ab	$t_{statistic} = ab/s_{ab}$
EPS→MC→SR	0.0043	-0.0021	-0.4799
PER→MC→SR	0.0158	-0.0076	-0.4839
ROA→MC→SR	0.0028	-0.0012	-0.4299
ROE→MC→SR	0.0127	-0.0061	-0.4831
ROI→MC→SR	0.0040	0.0018	0.4581
INF→MC→SR	0.0015	-0.0005	-0.3496
IR→MC→SR	0.0075	0.0035	0.4686
ER→MC→SR	0.0156	0.0008	0.0524
ICP→MC→SR	0.0010	-0.0001	-0.1435

Table 3 show Sobel Test of Mediating Effect. In Table 3 it can be seen that all $t_{statistic}$ are smaller than t_{table} of 1.653, so market capitalization has not been able to mediate the relationship of the influence of all independent variables on stock returns. Based on the Sobel test, it is concluded that H11 is rejected or EPS, PER, ROA, ROE, ROI, Inflation, Interest Rate, Exchange Rate of Rupiah against USD and Indonesian Crude Price have no effect on stock returns through Market Capitalization.

4.2 Discussion

EPS has a positive effect and significant on Market Capitalization. These result indicate that an increase in EPS will result in an increase in market capitalization. This is possible because the company in the first quarter of 2019-first quarter of 2022 produced an average EPS of Rp.

253,109. Increase in EPS indicates that the company has successfully raised the wealth level of its investors, thereby encouraging them to increase the amount of capital they invest in the company. The company's ability to offer investors a return on each share has spurred Sharia's share price appreciation (Tandelilin, 2010). The result are inconsistent study by Wahyudi et al. (2020) but consistent with research by Prasad & Shrimal (2015) and Al-Afeef (2020). Differences in research results are possible due to differences in time, research objects and data analysis.

PER has a positive effect and significant on Market Capitalization. These result indicate that in a increase in PER will result in an increase in market capitalization. This is possible because the company's average PER in the first quarter of 2019-first quarter of 2022 is 136.06 times. Companies with high PER also have high growth rates. A high PER indicates that investors expect higher net income growth from the company and that they are attracted to earnings growth (Tandelilin, 2010). The result of this study are in agreement with the study conducted by Pavone (2019) and Al-Afeef (2020), but not consistent with research by Prasad & Shrimal (2015). Differences in research results are possible due to differences in time, research objects and data analysis.

ROA has a positive effect and siginificant on Market Capitalization. This is possible because the company's average ROA in the first quarter of 2019-first quarter of 2022 is 7.398% every quarter. The higher the ROA indicates the better the productivity of assets in earning a profit. A high ROA will provide positive issues to investors because the company is able to generate profits with certain assets (Tandelilin, 2010). The result of this study are in agreement with the study conducted by Al-Nimer & Alslihat (2015), but not consistent with research by Pavone (2019). Differences in research results are possible due to differences in time, research objects and data analysis.

ROE has a positive effect and significant on Market Capitalization. This is possible because the company's average ROE in the first quarter of 2019-first quarter of 2022 is 11.626% every quarter. The higher ROE indicates that the company is trusted by investors to be able to manage net income from the capital invested by shareholders. The ROE value is a signal for potential investors to compare the ROE of other companies when they are going to invest or buy shares. Therefore, Return on Equity has a positive effect on stocks so that it has an impact on increasing the value of market capitalization (Tandelilin, 2010). The result of this study are in agreement with the study conducted by Prasad & Shrimal (2015) but not consistent with research by Pavone (2019). Differences in research results are possible due to differences in time, research objects and data analysis.

ROI has a negative effect and significant on Market Capitalization. This is possiblebecause the company's long-term loans in the first quarter of 2019-first quarter of 2022 tendto increase. The increase in corporate loans can make investors less interested in buyingshares because profits will be reduced to pay off loans. What companies must do to increase ROI is to increase profits to pay off long-term loans. The result not support study by Al-Nimer & Alslihat (2015) and Qurashi & Zahoor (2016).

Inflation has a positive effect and significant on Market Capitalization. The result of this study are in agreement with the study conducted by Shahbaz et al. (2016), but not consistent with research by Hidayati & Sukmaningrum (2020) and Mashudi et al., (2020). Changes inflation will not have a serious effect for investors to invest in the capital market by understanding that inflation will not harm their funds in the capital market. Government intervention in controlling inflation rate and improving economic conditions provide high confidence for investors to continue investing in the capital market. This result do not support

the theory of Tandelilin (2010), Hakim (2010) and Sunariyah (2013) that the relative increase inflation is a negative impact for the capital market.

Interest rate has a negative effect and significant on Market Capitalization. The result of this study are in agreement with the study conducted by Islam et al. (2014) and Carolin (2019), but not support the result of research by Ologunde et al. (2006). Differences in research results are possible due to differences in time, research objects and data analysis. The result of this study show that the lower the interest rate, the higher the market capitalization. It is possible that during the study period, interest rates tended to decline, impacting the growth of the company's earnings per share every quarter. The decrease in the interest rate can increase the company's profit so that it can have an effect on stock prices.

Exchange Rate Rupiah against USD has a negative effect and insignificant on Market Capitalization. The result of this study are in agreement with the study conducted by Mashudi et al. (2020). Differences in research results are possible due to differences in time, research objects and data analysis. During the study period, the exchange rate rupiah against USD tends to fluctuate. Unstable exchange rate fluctuations will reduce the level of confidence of foreign investors in the Indonesian economy. This will certainly have a negative impact on equity transactions in the capital markets. The results of this study support the theory put forward by Sunariyah (2013) that the depreciation of the Rupiah against foreign currencieshas a negative impact on the economy and capital market.

Indonesian Crude Price has a positive effect and insignificant on Market Capitalization. The result of this study are in agreement with the study conducted by Febriyanto (2016), Hidayati & Sukmaningrum (2020) and Zahrok et al. (2021). This is possible because Indonesian Crude Price has its own price standard set by the government. Capital market investors may perceive that the increase in energy prices is a sign of increasing global demand which means that the global economy is improving.

Market capitalization has a negative effect and insignificant on stock returns. The results of this study are in agreement with the study conducted by Idris & Bala (2015), Mulyani et al. (2020) and Tahmat et al. (2021), but inconsistent with research by Taslim & Wijayanto (2016), Wibowo & Hendratno (2019), Hidayati & Sukmaningrum (2020), Wahyudi et al. (2020), Hasanah et al. (2021), Silalahi & Putra (2020), Subeniotis et al. (2011) and Alshubiri (2021). Differences in research results are possible due to differences in time, research objects and data analysis. In addition, market capitalization cannot mediate the effect of EPS, PER, ROA, ROE, inflationary ROI, interest rates, rupiah exchange rate against USD, and Indonesian Crude Price on stock returns. This means that under the conditions and research period, the market capitalization value cannot be used as a source of information for investors in predicting stock returns, because the market capitalization value is not necessarily able to provide high stock returns.

5. Conclusion

The aims of this study is to test dan obtain empirical evidence regarding the effect of EPS, PER, ROA, ROE, ROI, Inflation, Interest Rate, Exchange Rate of Rupiah against USD and Indonesian Crude Price on Market Capitalization and mediating effect of Market Capitalization on Stock Returns Jakarta Islamic Index. Based on the results of study, various empirical evidence were found. EPS, PER, ROA, and ROE has a positive effect andsignificant on Market Capitalization. ROI and Interest Rate has a negative effect andsignificant on Market Capitalization. Inflation and Indonesian Crude Price has a positive and insignificant

on Market Capitalization. Exchange Rate Rupiah against USD has a negative effect and insignificant on Market Capitalization. Market Capitalization has a negative effect and insignificant on Stock Returns. The increase in EPS, share price, company earnings from assets and equity is a good signal and has a positive impact on increasing the market capitalization of Jakarta Islamic Index companies. Change of Interest Rate can be results in significant changes in the market capitalization. Change of inflation, exchange rate Rupiah against USD and the ICP did not provide significant changes to market capitalization. This is because the Jakarta Islamic Index has the highest average market capitalization among other Islamic stock indexes in Indonesia. The market capitalization value cannot be used as a source or information signal for investors in predicting stock returns, because the market capitalization value is not necessarily able to provide high stock returns. This happens because market capitalization cannot mediate the effect of EPS, PER, ROA, ROE, ROI, Inflation, Interest Rate, Exchange Rate Rupiah against USD and Indonesian Crude Price on Sharia Stock Returns Jakarta Islamic Index. Therefore, potential investors in calculating and predicting stock returns can look at other variables that directly affect stock returns.

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