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Analysis of Financial Ratios and Economic Condition Impact on Islamic Bank Stock Price: Study Case in Malaysia

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Abstract

This research is motivated by the rapid development of the Islamic capital market as a key pillar in promoting a sustainable and sharia-compliant financial system, where Islamic banking plays a dominant role in asset contribution and integration with the capital market. Despite this growth, the performance of Islamic bank stocks remains vulnerable to macroeconomic shocks such as the COVID-19 pandemic and economic slowdowns, making it crucial to understand the factors that influence them. Therefore, this study aims to analyze the influence of financial ratios and economic conditions on the stock prices of Islamic banks in Malaysia. This study uses a quantitative explanatory approach with secondary data from 2011–2023 analyzed using multiple linear regression with the help of SPSS and supported by classical assumption tests. The results show that Return on Assets (ROA) has a positive and significant effect on stock prices, confirming that profitability is a strong signal for investors, in line with signaling theory. Meanwhile, Capital Adequacy Ratio (CAR), Gross Domestic Product (GDP), and inflation showed positive and negative effects but were not significant partially, although simultaneously they had a significant effect on stock prices based on the F test. This finding indicates that internal financial performance is more dominant than macroeconomic factors in determining the stock prices of Islamic banks in Malaysia. The implication of this study is that investors should prioritize profitability indicators in decision-making, while policymakers and bank management need to improve financial performance and institutional resilience to maintain stock market stability and growth.

Keywords: Capital Adequacy, Economic Conditions, Financial Ratios, Islamic Banking, Stock Prices.

1. Introduction

The development of Islamic financial markets over the past decades has demonstrated significant progress, particularly through the strengthening role of the Islamic capital market as a strategic instrument in promoting a sustainable Shariah-compliant financial system [1]. The Islamic capital market not only serves as an alternative to the conventional system but also integrates investment interests with Islamic values that prohibit riba, gharar, and maysir [2]. Various instruments such as sukuk, Islamic equities, and Islamic mutual funds have contributed substantially to facilitating efficient and ethical fund mobilization. In this context, the growth of the Islamic equity market as a primary asset class in Islamic investment portfolios has shown a competitive trend compared to its conventional counterpart [3]. Nevertheless, this development is not immune to global fluctuations, as evidenced by the significant decline in Islamic indices during the COVID-19 pandemic in 2020 and the downturn in the technology sector in 2022 [4], which adversely affected Islamic market performance [4].

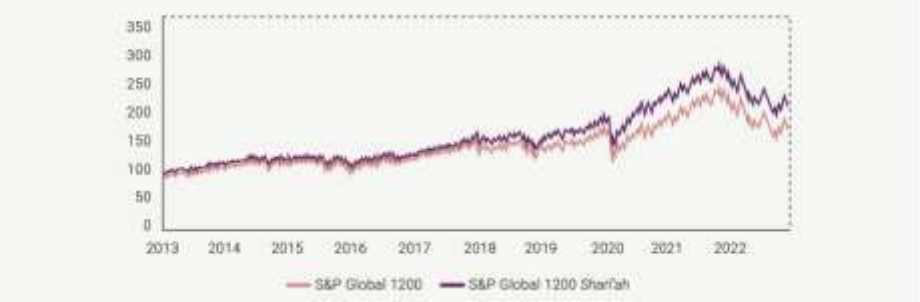

Figure 1: Islamic Equity Indices and Conventional Indices

Within the Islamic financial system, Islamic banking plays a pivotal role as the backbone of financial stability and growth. According to the Islamic Financial Services Board, Islamic banking accounts for approximately 69.3% of total Islamic financial assets globally, equivalent to USD 2.25 trillion in 2022. Malaysia, as one of the leading countries in Islamic finance development, recorded an 11.1% growth in Islamic banking assets, making it the largest in Southeast Asia. To strengthen capital structures and support business expansion, Islamic banks in Malaysia have increasingly utilized the Islamic equity market as a source of funding [5]. This integration enables Islamic banks to raise Shariah-compliant capital while maintaining adherence to Islamic principles and fostering innovation.

Previous research has extensively examined the correlation between macroeconomic variables, bank-specific factors, and stock prices, both in conventional and Islamic banking contexts [6]. Studies have shown that macroeconomic indicators such as interest rates, inflation, exchange rates, and GDP growth significantly influence bank stock prices by affecting investor expectations and market conditions. In parallel, bank-specific variables such as return on assets (ROA), return on equity (ROE), non-performing loans (NPLs), and capital adequacy ratios have also been found to impact stock performance, reflecting the financial health and risk profile of individual banks.

Meanwhile, there are significant gap regarding previous literature in factors affecting Islamic bank stock price in Malaysia. Specifically, existing studies rarely discussed the development of Islamic bank stock in this country. While some countries put a lot of concern on how Islamic bank can support their expansion and innovation through Islamic equity market, limited attention has been given to Malaysia. Indeed, some challenges might be faced by researchers as Malaysia has limited sample size of full-fledged Islamic banks [7]. Where Bank Negara Malaysia reported that Bank Islam Malaysia Berhad (BIMB), Malaysia Building Society Berhad and Bank Muamalat Malaysia Berhad are the only full-fledged Islamic banks in this country. On the other hand, other Islamic banks (e.g. Maybank Islamic, CIMB Islamic etc) served as subsidiaries and Islamic windows of conventional banks. In order to address this significant gap, the present study amin to provide detail analysis of financial ratios and economic condition in determining Islamic bank stock price in Malaysia.

Financial ratios, those reflecting the performance of a firm, are essential in determining the stock price in Islamic bank. Generally, investors rely on this ratios to ensure whether the firm fit their investment target highlighted that ratios such as Return on Asset (ROA) and Return on Equity (ROE) depict how well Islamic banks utilizing their asset and equity, which then determine investors confidence in the market [7]. In addition, another ratio like Capital Adequacy Ratio (CAR) also can describe the capital strength and the ability of absorbing losses in Islamic banks (Wibien & Yusup, 2025). Where it enables investors to see the long-term stability of the Islamic banks (Handri et al., 2024). Accordingly, sound and stable financial ratios will thus render Islamic bank shares more appealing, influence demand in the equity market, and ultimately have effects on stock price volatility.

The economic situation of the country is a determining factor in the Islamic banks' stock price since it has direct effects on the performance of the banking sector. Wahid et al. (2024) mentioned that key macroeconomic parameters such as GDP growth, inflation, interest rates (or benchmark rates like OPR in Malaysia), and exchange rates determine the demand for financing, investment, and consumer sentiment [8]. During economic expansion, higher demand on Shariah financing normally leads to higher profitability of Islamic banks thus enhancing stock valuations. In contrast, economic recession usually increases risk uncertainty leading to erosion of investor confidence and stock price [9]. Therefore, investors closely monitor economic conditions as a principal driver of Islamic bank share performance, utilizing macroeconomic trends as a basis for earnings potential estimation and market risk assessment [8].

The objective of this study is to conduct a quantitative analysis on factors influencing Islamic bank stock price in Malaysia. This study constructs comprehensive analysis both financial ratios and economic condition factors in determining stock price of Islamic bank. Through this analysis, the study will provide academics, practitioners, and policymakers insightful literature regarding sustained growth of Islamic bank stock price.

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2. Literature Riview

2.1 Underpinning Theory

Signalling Theory

Signalling theory is a basic concept in understanding the relationship between financial information and stock prices, especially in the context of Islamic banks. This theory states that the company's management has more accurate and complete information about the company's internal value and future prospects than external parties or investors [10].To bridge this information gap, management relays signals to the market primarily through the disclosure of financial statements and performance indicators such as profitability ratios, capital adequacy, and other key metrics.

According to signal theory, positive financial information such as strong profitability, good capital adequacy, or favourable economic conditions serves as a positive signal to investors, indicating the bank's financial health and growth potential. Conversely, negative financial results or poor economic indicators will give a negative signal, which has the potential to lower investor confidence and stock prices [10]. For Islamic banks, these signals are very important because of the unique characteristics of Islamic finance, where transparency and ethical considerations are highly upheld.

In practice, investors interpret these signals when making investment decisions. For example, a high Return on Assets (ROA) or Capital Adequacy Ratio (CAR) is generally seen as a positive signal, indicating efficient management and financial stability, which can boost the stock price. Conversely, poor signals such as declining profitability or weak economic conditions can lead to a decline in stock valuations [11].

In summary, signal theory explains how information asymmetry between management and investors can be reduced through financial reporting and performance indicators, which ultimately affects the share price of Islamic banks in the market.

2.2 Factors contributed to Islamic bank stock price

2.2.1 ROA and Islamic Bank Stock Price

Return on Assets (ROA) is a financial performance indicator that measures management's efficiency in using a company's assets to generate profits. A higher ROA indicates that an Islamic bank can manage its assets efficiently and generate high profits, which positively affects investors' perception of the value of the stock [12].

In the context of Islamic banking, ROA is often used as a key profitability benchmark, given that sharia principles prohibit the use of interest-based instruments. Therefore, profitability measured through ROA provides a clear picture of the bank's management success in managing assets based on sharia principles.

Several empirical studies show that there is a significant positive relationship between ROA and the share price of Islamic banks. For example, research by Safiullah & Shamsuddin (2019) shows that ROA has a significant effect on the return of shares of Islamic banks in OIC member countries [13]. Yusof & Majid (2007) in a study in Malaysia also found that ROA is one of the main determinants of the share price of Islamic banks [14].

2.2.2 CAR and Islamic Bank Stock Price

Capital Adequacy Ratio (CAR) is an important indicator that reflects a bank's ability to absorb potential losses and maintain financial stability. This ratio measures the adequacy of a bank's capital in dealing with risks inherent in banking activities, such as credit risk, operational risk, and market risk. In this context, the higher the CAR indicates that the bank has strong capital reserves and is considered more stable by investors [15].

Previous research has shown a positive relationship between CAR and the stock price of banks, including Islamic banks. Abdallah & Ismail (2017) found that CAR has a significant influence on the value of Islamic bank companies in the Gulf region (GCC) [16]. They concluded that sufficient capital not only protects banks from the risk of losses but also reflects good risk management, which is appreciated by the stock market.

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Meanwhile, Jaapar et al. (2025) in their research on Islamic banks in Malaysia stated that CAR is one of the factors that determine long-term performance and stability, although its direct influence on stock prices can vary depending on market conditions. On the other hand, Hassan & Bashir (2005) stated that investors view CAR as a signal of the bank's ability to survive and grow, especially in the midst of economic fluctuations [15].

2.2.3 GDP and Islamic Bank Stock Price

Gross Domestic Product (GDP) is a key macroeconomic indicator that reflects a country's economic growth. The increase in GDP indicates economic expansion which is generally followed by an increase in financial and banking activities. In a study by Hussin et al. (2012), it was found that Malaysia's GDP growth has a positive effect on the stock performance of Islamic banks. This is due to the increasing demand for Islamic financial products in line with the increase in income and business activities in the economy [17].

Mustafa et al. (2015) in their research using the VAR model found that the Islamic stock index in Malaysia (KLSI) cointegrates with several macroeconomic variables, including GDP proxied through *the Industrial Production Index (IPI)* [18]. The results of the study show that GDP has a significant and positive effect on the movement of sharia stock prices in the long term.

Similar research by Abdullah et al. (2018) also found that there is a positive and unidirectional long-term relationship of GDP to sharia stock indices. This shows that economic growth is one of the main factors driving up stock prices in the Malaysian sharia market [19].

2.2.4 Inflation and Islamic Bank Stock Price

Inflation is one of the important macroeconomic indicators that can affect the performance of the capital market. In the context of Islamic banking stocks, inflation can affect investors' perception of the real value of returns obtained from investments [20].

Previous research has shown that inflation tends to have a negative impact on the price of sharia stocks**.** A study by Rahman et al. (2009**)** that analysed the influence of macroeconomic variables on the Malaysian Sharia Stock Index (KLSI) found that the Consumer Price Index (CPI) as a proxy for inflation has a negative relationship in the long term with the Sharia stock index. This is also supported by Mustafa et al. (2015)**,** who stated that inflation has a negative impact on Islamic stock indices in the long term through its influence on consumption levels and business activities.

Another study by Nursyamsiah (2017) also showed that inflation hampered the performance of the Islamic stock market through negative effects on investment decisions, while Rahman and Sidek (2011) proved that rising inflation was negatively correlated with Islamic and conventional stock indices in Malaysia [21].

3. Research Methods

3.1 Research Design

This study uses a quantitative explanatory research design to examine the influence of financial ratios and economic conditions on Islamic bank stock prices in Malaysia. The research focuses on two Islamic banks listed on the Malaysian Stock Exchange, namely *Malaysian Building Society Berhad (MBSB Bank Berhad)* and *Bank Islam Malaysia Berhad*, with data covering the period from 2011 to 2023. The analysis was conducted using **SPSS version 20,** applying **multiple linear regression analysis** to test the effect of the independent variables on stock price, supported by classical assumption tests and hypothesis testing.

3.2 Measurement of Variables

This study consists of one dependent variable and four independent variables. The dependent variable is stock price, measured by the annual closing price (MYR) of each bank. The independent variables are divided into two categories: financial ratio indicators (ROA and CAR) and economic condition indicators (GDP and inflation). ROA measures profitability relative to total assets Brigham & Houston (2019), while CAR indicates the bank’s

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capital strength [22]. GDP represents Malaysia's economic growth Hussin et al. (2012), and inflation shows the rate of general price level increases [20].

3.3 Research Framework

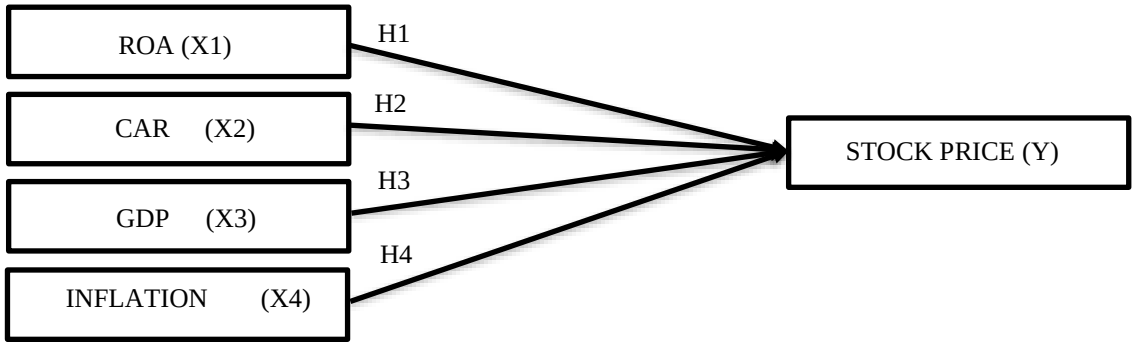

Figure 3.1 *Research Framework*

This research framework illustrates the relationship between financial ratios (ROA and CAR) and economic conditions (GDP and inflation) as independent variables affecting stock prices of Islamic banks. ROA and CAR represent internal financial performance, while GDP and inflation reflect external macroeconomic factors. **H1** states that Return on Assets (ROA) is expected to have a **positive effect** on stock prices, as higher profitability indicates efficient asset utilization. **H2** proposes that Capital Adequacy Ratio (CAR) has a **positive relationship** with stock prices because a stronger capital position improves financial stability. **H3** suggests that Gross Domestic Product (GDP) **positively influences** stock prices, supported by the notion that economic growth enhances business performance and investor confidence. In contrast, **H4** states that inflation has a **negative impact** on stock prices, as rising prices can reduce purchasing power and corporate earnings.

3.4 Data Collection

The study uses secondary data obtained from **Bursa Malaysia** for stock prices, **annual reports** of the selected banks for financial ratios, and **Bank Negara Malaysia (BNM)** along with the **World Bank** for GDP and inflation data. The observation period spans from 2011 to 2023 to capture variations in financial and economic conditions over time. Based on the research framework, this study proposes four hypotheses.

3.5 Sampling Technique

This study employed purposive sampling to select two Islamic banks, namely *Malaysian Building Society Berhad (MBSB Bank Berhad)* and *Bank Islam Malaysia Berhad*, both of which are listed on the Malaysian Stock Exchange. The selection was based on the availability of stock price data from 2011 to 2023, the banks' market influence, the credibility of their financial data, and their representativeness within the Islamic banking sector.

3.6 Techniques of Data Analysis using SPSS

3.6.1 Classical Assumption Tests using SPSS

Classical assumption tests were conducted using SPSS Version 20 to ensure the validity of the regression model. The normality of residuals was assessed using the Kolmogorov-Smirnov test, with a p-value greater than 0.05 indicating normally distributed data. Multicollinearity was evaluated through the Variance Inflation Factor (VIF), where VIF values below 10 confirmed the absence of multicollinearity among independent variables. Additionally, heteroscedasticity was tested using the Glejser test, with non-significant p-values indicating that the residuals have constant variance. The fulfillment of these classical assumptions supports the reliability of the regression results.

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3.6.2 Multiple Regression Analysis using SPSS

A multiple linear regression model is utilized in SPSS Version 20 to analyze the relationship between bank performance indicators and stock prices. The regression equation used in this analysis is formulated as follows:

$$SP_{it} = \beta_0 + \beta_1 \text{NPM}_{it} + \beta_2 \text{LDR}_{it} + \beta_3 \text{DER}_{it} + \epsilon$$

Where:

SP	: Stock Price (Dependent Variable)
ROA, CAR	: Financial Ratios Indicators (Independent Variables)
GDP, Inflation	: Economic Conditions Impact Indicators (Independent Variables)
β_0	: Constant term
$\beta_1 \dots \beta_3$	: Coefficients of independent variables
ϵ	: Error term

This study employed multiple regression analysis through SPSS software to evaluate the effect of independent variables on stock price variations. The analysis generated essential statistical outputs, such as the coefficient of determination (R^2) to measure model fit, the F-statistic to test overall model significance, and p-values to determine the statistical significance of each independent variable.

3.7 Hypothesis Testing using SPSS

Hypothesis testing was conducted using SPSS Version 20 through t-tests and F-tests. The t-test assessed the individual significance of each independent variable, while the F-test evaluated the simultaneous effect of all predictors on stock prices. A p-value below 0.05 indicated statistical significance. Additionally, the adjusted R^2 was used to measure the model's explanatory power, with higher values reflecting greater accuracy in explaining stock price variations.

4. Results and Discussion

4.1 Classical Assumption Tests

4.1.1 Normality Test

One-Sample Kolmogorov-Smirnov Test

		Standardized Residual
N		26
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.91651514
Most Extreme Differences	Absolute	.113
	Positive	.113
	Negative	-.085
Kolmogorov-Smirnov Z		.578
Asymp. Sig. (2-tailed)		.892

a. Test distribution is Normal.
b. Calculated from data.

The normality of the regression residuals was tested using the One-Sample Kolmogorov-Smirnov (K-S) test. The result shows that the Kolmogorov-Smirnov Z value is **0.578** with a significance value **(Asymp. Sig. 2-tailed)** of **0.892.** Since the significance value is **greater than 0.05,** it can be concluded that the residuals are **normally distributed.** This indicates that the **normality assumption** in the classical linear regression model has been fulfilled, which ensures that the statistical inferences derived from this model are reliable.

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4.1.2 Multicollinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.813	.828		2.189	.040		
	ROA	34.096	8.205	.641	4.156	.000	.921	1.085
	CAR	.335	.256	.205	1.308	.205	.896	1.116
	INFLATION	-.086	.154	-.083	-.555	.585	.986	1.014
	GDP	-3.331E-007	.000	-.096	-.635	.532	.956	1.046

a. Dependent Variable: STOCK PRICE

The multicollinearity test was conducted by examining the Variance Inflation Factor (VIF) and Tolerance values. The results indicate that all independent variables have VIF values less than 10 and Tolerance values greater than 0.1, specifically ROA (VIF = 1.085; Tolerance = 0.921), CAR (VIF = 1.116; Tolerance = 0.896), Inflation (VIF = 1.014; Tolerance = 0.986), and GDP (VIF = 1.046; Tolerance = 0.956). These results confirm that multicollinearity does not exist among the independent variables, allowing each independent variable to be interpreted individually in relation to the dependent variable without concern for redundancy or inflated variances.

4.1.3 Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.714	.382		1.869	.076		
	ROA	-1.392	3.785	-.078	-.368	.717	.921	1.085
	CAR	-.072	.118	-.130	-.606	.551	.896	1.116
	INFLATION	-.095	.071	-.274	-1.334	.197	.986	1.014
	GDP	1.012E-007	.000	.087	.418	.680	.956	1.046

a. Dependent Variable: abresid

The heteroscedasticity test was performed using the Glejser test approach, analyzing the significance of each independent variable on the absolute residuals (abresid). The significance values for ROA (0.717), CAR (0.551), Inflation (0.197), and GDP (0.680) are greater than 0.05, indicating that heteroscedasticity is not present in the model. Thus, the homoscedasticity assumption has been satisfied, affirming that the residual variances are consistent across all levels of the independent variables.

4.2 Multiple Regression Analysis

4.2.1 Coefficient of Determination (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.735[a]	.540	.453	.74062	.556

a. Predictors: (Constant), GDP, INFLATION, ROA, CAR
b. Dependent Variable: STOCK PRICE

The results of the multiple regression analysis show that the model has an **R Square (R^2) of 0.540,** meaning that **54.0% of the variation in stock prices** is explained by the combined influence of ROA, CAR, Inflation, and GDP. The **Adjusted R Square** is **0.453,** which adjusts for the number of predictors in the model and provides a

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more conservative estimate of model fit. The remaining **46.0%** of the variation is influenced by factors outside the model. These results suggest that the model has **moderate explanatory power** in predicting stock price movements.

4.2.2 Hypothesis Testing

4.2.2.1 T-Test (Individual Variable Significance)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.813	.828		2.189	.040
	ROA	34.096	8.205	.641	4.156	.000
	CAR	.335	.256	.205	1.308	.205
	INFLATION	-.086	.154	-.083	-.555	.585
	GDP	-3.331E-007	.000	-.096	-.635	.532

a. Dependent Variable: STOCK PRICE

The t-test was used to assess the individual significance of each independent variable on stock prices, and the results show that ROA has a significant positive effect on stock price (t = 4.156; Sig. = 0.000), indicating that higher profitability significantly increases stock prices. Meanwhile, CAR has a non-significant positive effect (t = 1.308; Sig. = 0.205), Inflation exhibits a non-significant negative effect (t = -0.555; Sig. = 0.585), and GDP also shows a non-significant negative effect (t = -0.635; Sig. = 0.532). Therefore, only ROA has a statistically significant influence on stock price, while CAR, Inflation, and GDP do not demonstrate significant individual contributions.

4.2.2.2 F-Test (Overall Model Significance)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.542	4	3.386	6.172	.002[b]
	Residual	11.519	21	.549		
	Total	25.061	25			

a. Dependent Variable: STOCK PRICE
b. Predictors: (Constant), GDP, INFLATION, ROA, CAR

The **F-test** was used to evaluate the overall significance of the regression model. The **F value is 6.172** with a **significance level of 0.002 (p < 0.05).** This indicates that the independent variables, when considered simultaneously, **have a significant effect** on stock prices. Thus, the model as a whole is **statistically significant** and suitable for explaining variations in stock price.

The purpose of this study was to examine the influence of financial ratios and economic conditions on the stock prices of Islamic banks in Malaysia. The analysis was conducted using multiple linear regression with SPSS Version 20, preceded by classical assumption tests to ensure the reliability of the model. The classical assumption tests confirmed that the regression model fulfilled the requirements of normality, multicollinearity, and homoscedasticity. The normality test using the Kolmogorov-Smirnov method produced a significance value of 0.892, indicating that the residuals were normally distributed. The multicollinearity test showed that all independent variables had Variance Inflation Factor (VIF) values below 10 and tolerance values above 0.1, confirming the absence of multicollinearity. Furthermore, the Glejser test for heteroscedasticity yielded significance values greater than 0.05 for all variables, indicating that the model satisfies the homoscedasticity assumption.

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The results of the multiple regression analysis revealed that the model has an R^2 value of 0.540, meaning that 54.0% of the variation in Islamic bank stock prices is explained by the independent variables ROA, CAR, GDP, and inflation. The remaining 46.0% is attributed to other factors not examined in this study. The t-test results indicated that Return on Assets (ROA) has a positive and significant effect on stock prices ($t = 4.156$; $p = 0.000$), supporting the theoretical view that higher profitability increases investor confidence (Brigham & Houston, 2019). Meanwhile, the Capital Adequacy Ratio (CAR) demonstrated a positive but non significant effect ($p = 0.205$), which aligns with findings from Rose and Hudgins (2013) [22], suggesting that while CAR reflects long term stability, its direct influence on stock prices may vary depending on market conditions [13]. Both Gross Domestic Product (GDP) and inflation showed non significant effects on stock prices, which contrasts with earlier findings (Mankiw, 2016; Firer et al., 2012) that generally indicated positive effects of GDP and negative effects of inflation on stock market performance.

Despite the non significant results for CAR, GDP, and inflation in this model, the F-test confirmed that the model as a whole is statistically significant ($F = 6.172$; $p = 0.002$), indicating that these variables collectively contribute to explaining variations in stock price movements. The significant positive relationship between ROA and Islamic bank stock prices also supports Signalling Theory, which argues that positive financial performance acts as a favorable signal to the market, reduces information asymmetry, and strengthens investor confidence (Spence, 1973; Brigham & Houston, 2019). This finding is further supported by empirical evidence from Syed et al. (2018), who emphasized that profitability is a key determinant of Islamic bank stock prices in OIC countries.

Although CAR was not statistically significant in this study, prior research supports its theoretical positive relationship with stock prices. Studies by Hasan et al. (2016)[23] and Ahmed et al. (2015) indicated that CAR contributes to long term financial stability and is often perceived positively by investors [24], even though its immediate impact on stock price may be limited. Similarly, the non significant findings for GDP and inflation diverge from the results of previous empirical studies [25], which found that GDP growth tends to enhance stock prices, while inflation generally weakens them. These discrepancies may be attributed to the specific characteristics of the Malaysian Islamic banking sector or external factors that were not captured during the study period.

Overall, the findings highlight that profitability, as measured by ROA, remains the most influential factor affecting Islamic bank stock prices, while capital adequacy and macroeconomic variables exhibit weaker or indirect impacts. These results provide practical insights for investors and policymakers by emphasizing the importance of internal financial performance in driving the valuation of Islamic banking stocks in Malaysia.

5. Conclusion

The findings of this study suggest that Islamic bank stock prices are influenced by a combination of financial and macroeconomic factors, with profitability, as measured by Return on Assets (ROA), showing a particularly strong and significant impact. While Capital Adequacy Ratio (CAR), Gross Domestic Product (GDP), and inflation did not show significant individual effects. However, the overall regression model (F-Test) was statistically meaningful, indicating that these variables collectively have relevance in understanding stock price movements. These results underscore the dominant role of internal financial performance, especially profitability, in driving investor perception and stock valuation in the Islamic banking sector. The findings of this study offer several practical and theoretical implications. For industry practitioners, particularly financial managers and investors, the results underscore the critical role of profitability in shaping investor confidence and influencing Islamic bank stock performance. This highlights the need for robust internal financial management practices aimed at sustaining strong returns. From an academic perspective, the study contributes to the literature on stock price determinants within the Islamic banking sector in Malaysia by illustrating the varying influence of firm-specific financial indicators and broader macroeconomic variables. The results suggest that profitability exerts a more pronounced and consistent impact compared to other factors such as capital adequacy, GDP, and inflation. For policymakers, the research implies that while macroeconomic stability remains vital, policies that strengthen bank-level financial performance particularly in enhancing profitability may yield more direct and observable effects on stock market valuations in the Islamic finance domain. Nonetheless, the study is subject to certain limitations. Notably, it excludes other potentially influential variables such as investor behavior, political risk, market sentiment, and global financial developments, which may also contribute to stock price fluctuations. Moreover, the scope of the analysis is constrained by the selected time period and regional focus, which may limit the generalizability of the findings. Future studies are encouraged to incorporate a broader set of

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explanatory variables and to undertake comparative analyses across different markets or longer timeframes to enrich the understanding of Islamic bank stock dynamics.

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