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## #12085 Review

[SUMMARY](#) [REVIEW](#) [EDITING](#)

### Submission



Authors	Sartini Wardiyono, Moch Imron 
Title	What Determines Corporate Sukuk Ratings in Indonesia?
Section	Articles
Editor	Editor SHARE  Riza Azhary 

### Peer Review

#### Round 1

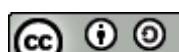
Review Version	12085-33190-2-RV.DOCX 2022-05-15
Initiated	2022-05-15
Last modified	2022-05-29
Uploaded file	Reviewer A 12085-37160-1-RV.DOCX 2022-05-17

### Editor Decision

Decision	Accept Submission 2022-08-03
Notify Editor	 Editor/Author Email Record  2022-08-03
Editor Version	12085-37137-1-ED.DOCX 2022-05-15
Author Version	12085-39078-1-ED.DOCX 2022-06-29 <a href="#">DELETE</a>
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Subject: [SHARE] Editor Decision - Revision Required

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Dr. Sartini Wardiwiyo:

We have decision regarding your submission to Share: Jurnal Ekonomi dan Keuangan Islam, "The Determinants of Sukuk Rating in Indonesia". After considering the reviewers' feedback, and coming from the editor in charge, we decided to have your article be revised to improve its overall quality.

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Reviewer A:

The significance of this article to the field of Islamic Economics and Finance?:  
excellent

Is the topic relevant to the journal area of interest? Is it contemporary and interesting for research?:  
excellent

Are all required components (introduction, goals, methods, findings, and conclusions) included in the abstract?:  
excellent

Are the keywords appropriately chosen?:  
very good

Does the introduction already contain the background problem which proper citations?:  
good

Is the goal explicitly stated in the Introduction?:  
very good

Is the paper's structure coherent? Is it in coherence with the goal of the paper?:  
very good

Are methods the author uses adequate and well described?:  
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Does the author utilize relevant literature?:  
very good

Are the findings expressed clearly?:  
very good

Are the tables, figures, pictures, if any, arranged and explained well?:  
very good

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Does the conclusion already contain relevant and meaningful recommendations?:  
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Are the references current and sufficient?:

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Is writing style clear and understandable?:

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Do you consider the results presented as coherent with the stated problem?:

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Reviewer B:

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Identifying research gaps, what have been done and left?; what are the shortcomings of previous studies? What gaps of previous studies the present study would like to fill up? What is the novelty of the

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## THE DETERMINANTS OF CORPORATE SUKUK RATING IN INDONESIA

#12085

**ABSTRACT** - Along with the dynamic development of the Islamic capital market, sukuk is rapidly developing into an Islamic financial instrument that is increasingly in demand. However, because every investment contains risks, investors must be careful when buying sukuk. One information that investors can consider in purchasing sukuk is sukuk rating. However, because there are more than one sukuk rating agency with different rating methods, investors need to understand what factors are determining sukuk rating. This study aims to analyze the factors influencing corporate sukuk rating in Indonesia. It is specifically designed to answer three research questions on whether: 1) financial performance; 2) sukuk maturity; and 3) sukuk structure; have impact on sukuk rating. 67 sukuk representing 14 different nonfinancial sukuk issuers from 2014 to 2020 were selected to achieve the objectives. Secondary data related to profitability, leverage, liquidity, firm size, sukuk maturity, sukuk structure and sukuk rating issued by PT PEFINDO were analyzed using ordinal logistic regression to test six research hypotheses. The analysis results show that firm size and sukuk maturity positively impact corporate sukuk rating in nonfinancial sukuk issuers in Indonesia. The finding support signalling theory and agency theory.

**Keywords:** Sukuk rating, financial performance, sukuk maturity, sukuk structure, Islamic finance

**ABSTRAK** - Seiring dengan dinamisnya perkembangan pasar modal syariah, sukuk berkembang pesat menjadi instrumen keuangan syariah yang semakin diminati oleh masyarakat baik di tingkat nasional maupun internasional. Namun demikian, karena setiap investasi mengandung risiko, investor tetap harus berhati-hati dalam membeli sukuk. Salah satu informasi yang bisa menjadi pertimbangan para investor dalam membeli sukuk adalah peringkat sukuk yang dikeluarkan oleh lembaga pemeringkat sukuk. Namun demikian karena lembaga pemeringkat sukuk yang jumlahnya lebih dari satu menggunakan metode yang berbeda-beda dalam melakukan pemeringkatan, investor perlu memahami faktor apa saja yang menjadi determinan dari peringkat sukuk. Penelitian ini ditujukan untuk menganalisis faktor-faktor yang mempengaruhi peringkat sukuk. Secara lebih khusus, penelitian ini didesain untuk menjawab tiga pertanyaan penelitian tentang apakah: 1) kinerja keuangan, 2) maturitas sukuk, dan 3) struktur sukuk berpengaruh terhadap peringkat sukuk. Untuk menjawab rumusan masalah tersebut, penelitian ini menggunakan data sekunder dari 67 sukuk korporasi yang diterbitkan oleh 14 perusahaan non keuangan dari tahun 2014-2020. Data berkaitan dengan profitabilitas, leverage, likuiditas, ukuran perusahaan, maturitas sukuk, struktur sukuk dan peringkat sukuk yang diterbitkan oleh PT PEFINDO dianalisis dengan menggunakan analisis regresi logistik ordinal untuk menguji enam hipotesis penelitian. Hasil analisis menunjukkan bahwa ukuran perusahaan dan maturitas masing-masing memiliki pengaruh positif terhadap peringkat sukuk. Temuan ini mendukung teori sinyal dan teori agensi.

**Kata Kunci:** Peringkat sukuk, kinerja keuangan, maturitas, struktur sukuk, keuangan syariah



## INTRODUCTION

Islamic finance is one of the fastest-growing financial sectors today. Along with the development of the Islamic economy and finance, the innovation of Islamic financial products has become diverse. One of the most demanding Islamic financial products is sukuk, often known as Islamic bonds. As Islam prohibits usury, sukuk provides an alternative solution for investors who want to invest through bonds but do not want to deal with usury.

Similar to bonds, sukuk are relatively safe securities for investors. However, they still have some risks. The most considerable risk of corporate sukuk is default risk. This risk may happen when the sukuk issuer fails to repay the principal of their outstanding sukuk and its promised return. To anticipate default risk, investors must be careful when choosing sukuk for their investment. In this regard, sukuk rating can be considered as it indicates whether a sukuk is at investment grade or not. Sukuk that are at investment grade suggest that it is feasible for investment.

There are many sukuk rating agencies with different rating methods. To optimize sukuk rating information for decision-making, investors need to understand the factors influencing sukuk ratings. By understanding the determinants of sukuk rating, investors will be able to choose sukuk with good ratings so that their investments will be safe and provide high returns. Understanding the determinants of sukuk rating will also help potential sukuk issuers manage the company to obtain a good sukuk rating. A good sukuk rating will ensure investors so that it will be easier for companies to get funds from them.

According to signaling theory, sukuk rating can be associated with firm's financial information and sukuk characteristics. A company with healthy level of profitability, leverage, liquidity and other financial information send a good signal that the company have the ability to pay off the sukuk principle and sukuk yield. Thus, rating agency will give better rating for the sukuk issued by the company. Additionally, management's choices in designing sukuk characteristic may also effect sukuk rating.

Information about the determinants of sukuk rating can also be obtained from several sources. One of the sources is the results of empirical studies. The studies could provide the actual pictures of sukuk in the capital market. However, previous studies on sukuk determination still give a mixed picture.



Some prior studies reported that sukuk rating was determined by profitability (Elhaj, Muhamed and Ramli, 2015; Astuti, 2017; Pebruari, 2017; Haraqj and Ningsih, 2018; Borhan and Ahmad, 2018; Rofi, 2020, Rukmana and Laila, 2021), but some other studies did not (Sihombing and Rachmawati, 2015; Kustiyaningrum, Nurani and Wijaya, 2017; Utami, Anitasari, Endhiarto, 2017; and Suratmi and Rahmawati (2020). Similarly, some prior studies, such as Ni'mah *et al.* (2020), Pebruary (2016), Astuti (2017), and Utami *et al.* (2017), found liquidity as a significant determinant of sukuk rating. Still, Elhaj *et al.* (2015) did not find liquidity as a significant variable. In the case of firm size, a mixed finding was also observed in prior studies. Some earlier studies observed that firm size significantly impacted sukuk rating (Ni'mah *et al.*, 2020; Rofi, 2020; Suratmi and Rahmawati, 2020; Sihombing and Rachmawati, 2015). Nevertheless, Borhan and Ahmad (2018) and Utami *et al.* (2017) could not determine the impact of firm size on sukuk rating.

In addition to the mixed findings of prior studies, data used in previous studies were not the latest ones. The most current study by Rukmana and Laila (2021) still utilized data from 2018. Moreover, the data period used in prior studies only ranged from 2 to 5 years. In terms of the sample selection process, previous studies did not report the sample selection process step by step.

Hinge on the current state of research on the determinants of sukuk rating; further research needs to be carried out to obtain an updated and more comprehensive picture. Therefore, this study aims to identify factors influencing sukuk rating in Indonesia, especially corporate sukuk. As stated earlier, understanding the factors that affect sukuk ratings will benefit investors and issuers alike. This research will also be helpful for the development of Islamic finance literature. As the relatively new Islamic financial system, the innovation process in developing sharia securities, including sukuk, continues. Furthermore, research updates on sukuk ratings must always be carried out to highlight the latest findings.

Besides utilising the newest data for the analysis observed from seven consecutive years, this study also reports the sample selection process step by step. Using a more extended data period and step by step sample selection process might provide additional information on the development of corporate sukuk in Indonesia.

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In line with signaling theory and the mixed findings of the previous studies, sukuk rating may be affected by issuer companies' financial performance and the characteristics of the sukuk. Therefore, this study was designed to answer three research questions with a more specific objective. Firstly, do financial performances affect sukuk rating? Secondly, does sukuk maturity affect sukuk rating? And lastly, does sukuk structure affect sukuk rating?

Parallel to the specific objectives of this study, six research hypotheses were developed based on signaling theory and the findings of prior studies. Those hypotheses are stated as follow: 1). Profitability positively affect sukuk rating; 2). Leverage negatively affects sukuk rating; 3). Liquidity positively affects sukuk rating; 4). Firm size positively affects sukuk rating, 5). Sukuk maturity positively affects sukuk rating, 6). Sukuk structure has a significant impact on sukuk rating.

## LITERATURE REVIEW

### Theoretical Review

#### *Capital Market, Sukuk and Sukuk Rating*

The capital market is indispensable in the modern financial system to efficiently allocate financial and nonfinancial resources for various purposes (Iqbal and Mirakhor, 2011). It is essential to bring together two different needs parties (Midge & Burn, 1977). The first parties need funds to carry out value-added activities, whereas the second parties need additional income from their excess resources. The capital market allows companies to obtain external funding for their business development. Along with the increasing awareness of Muslims to run the economic transaction under sharia, the need for an Islamic capital market is undeniable. An Islamic capital market provides companies with usury-free funding (McMillen, 2006). In line with that, it also provides opportunities for potential investors to obtain a halal return from their invested funds.

One of the securities in the Islamic capital market that can be used to mobilize financial resources and become a key instrument in developing an Islamic economy is sukuk (Ni'mah, Laila, Rusmita, and Cahyono, 2020). The term sukuk comes from the Arabic word *sakk*, which means certificate or proof of ownership (Borhan and Ahmad, 2018). Sukuk are certificates issued to investors/potential investors as proof of ownership of assets, projects, or other



assets supporting sukuk. To obtain sukuk, investors must submit funds/net assets in the amount stated in the certificate. Meanwhile, the sukuk issuer should provide return/yield to sukuk holders through profit-sharing, margin, or fees and repay the principal funds at maturity. For the public, sukuk are often referred to as Islamic bonds or certificates/debt securities free from any elements prohibited by Islam, such as usury, gharar, maysir, and falsehood.

Sukuk can be used as a funding source for the government in carrying out infrastructure development. Additionally, sukuk can also be used by business companies to expand their business as a source of funds. Therefore, sukuk in Indonesia can be divided into two types: state sukuk and corporate sukuk. Apart from being a source of funding, sukuk may enhance investor diversification. Suppose Muslims who were previously obedient to Islamic law were unwilling to invest through the capital market. In that case, the existence of sukuk provides an opportunity for them to invest in the capital market with a peaceful mind.

In contrast to ordinary bonds, which are only in the form of certificates as proof of debt from the bond issuer, sukuk requires an underlying asset as the basis for issuing sukuk (OJK, 2018). OJK Regulation No. 18 of 2015 concerning Issuance of Sukuk states that the underlying assets or assets supporting the issuance of sukuk can be in the form of tangible assets, the value of asset benefits, services, projects or investment activities that have been determined. Underlying assets are needed in the issuance of sukuk because in Islam, all financial transactions must be related to the real sector (Chapra, 2000).

Although sukuk are relatively safe compared to other securities, they still carry risks. The most significant risk that may occur in corporate sukuk is default risk. Sukuk default risk is the risk that arises when the sukuk issuer is unable to pay off the sukuk obligations and the promised sukuk return.

To anticipate default risk, investors can rely on the sukuk issuing company's financial information to assess its accountability in managing funds from investors (Pebruary, 2016). Based on signaling theory, a company with a healthy financial condition indicates that it will be able to carry out its obligations, including the obligation to pay off sukuk. From the agency theory perspective, companies with good governance tend to have good performance and try to maintain investors' trust, including sukuk holders.



In addition to using financial performance information as a basis for investors' consideration in buying sukuk, investors can also use the ratings issued by sukuk rating agency. According to Bapepam (2012), sukuk rating is an opinion on the issuer's ability to pay obligations related to sukuk promptly. Furthermore, Hamida (2017) states that sukuk rating indicates the timeliness of repayment of principal funds and sukuk returns that reflect the risk scale of all traded sukuk. By referring to sukuk rating, investors can measure the level of risk and return on their investment.

There are three international securities rating agencies and two domestic securities rating agencies recognized by the OJK to rate securities, including sukuk in Indonesia. The international institutions are Fitch Rating, Moody's Investor Service, and Standard and Poor's, while the two domestic institutions are PT Fitch Indonesia and PT Pemeringkat Efek Indonesia (PEFINDO). Each of these institutions uses a different method of ranking. However, the ultimate goal of all rating agencies is the same, which is to determine whether the sukuk is at investment grade or non-investment grade. Sukuk in investment grade indicates that investment through the sukuk is feasible because the issuer can pay off its obligations on time. On the other hand, sukuk in non-investment grade is not suitable as an investment option because the issuer of the sukuk may not be able promptly pay obligations related to sukuk. PT Pefindo is the rating agency of the five institutions most often used by previous empirical research on sukuk ratings.

Sukuk and bonds are securities with many similarities, and both market reaction is relatively similar. It is proven by Alam *et al.* (2013), who found that bonds and sukuk experienced similar market reactions during the global financial crisis. In addition, Ayturk, Asutay, and Aksak (2017) also found that the determinants of sukuk and bond ratings can be compared. Therefore, research on sukuk also uses a lot of theory and findings from studies on bonds as a reference.

#### *Signaling Theory and The Determinants of Sukuk Rating*

The signaling theory often used for research in the capital market is also applicable for explaining the determinants of sukuk rating. This theory is based on the assumption that information is unavailable for all parties at a similar time, resulting in asymmetric information. Therefore, every company listed in the capital market must publish its annual report to minimize the



problem of asymmetric information. As proxied by a healthy level of profitability, leverage, liquidity, and other financial ratios, sound financial performance can be considered a signal from the manager to investors that the company is of good quality. Thus, investment in the company could be favourable. In the case of sukuk rating, sound financial performance indicates that the company will fulfill its obligation to distribute sukuk yield and pay off sukuk principal. Thus, a sukuk issued by a healthy company will likely have a better rating.

Determinants of sukuk rating may also be associated with sukuk characteristics such as maturity dan sukuk structure. Based on the signaling theory maturity model proposed by Flannery (1989), managers will choose to issue sukuk with maturity the market appears to overvalue most. In response, an investor will rely on insider information produced by managers through financial information that signals the firm's quality. Sukuk with longer maturity usually offers a better return for the sukuk holders. Therefore, it may signal good news, increasing the probability of earning a better rating.

Concerning sukuk structure, Ghozali (2020) opined that, with the assumption of asymmetric information existence, a good quality company tends to use its capital structure to differentiate itself from a less quality one. Though the signal may be costly, it may attract investors. Only managers who understand how to prevent financial distress from a risky capital structure will choose this approach. From an investor's perspective, such a manager is worth being supported as they may lead the company into a better quality company. In terms of sukuk structure, fixed return-based sukuk such as ijarah, murabahah, or profit-sharing based sukuk such as mudharabah or musyarakah will influence the sukuk issuer's capital structure. Again, how the manager chooses sukuk structure may signal the company's quality. In turn, it may affect the sukuk rating agencies in rating the sukuk issued by the company.

### **Empirical Review on the Determinants of Sukuk Rating**

In general, prior studies on the determinants of sukuk ratings found that sukuk ratings were influenced by financial and nonfinancial factors. The most frequently found financial factors influencing sukuk ratings are profitability, leverage, liquidity, and firm size.

Elhaj *et al.* (2015), Astuti (2017), Pebruari (2017), Haraqhi and Ningsih (2018), Borhan and Ahmad (2018), Rofi (2020) and Rukmana and Laila



(2021) reported that profitability has a positive impact on sukuk rating. Only a few previous studies found that profitability has no effect on sukuk rating such as Sihombing and Rachmawati (2015), Kustiyaningrum, Nurani & Wijaya (2017), and Suratmi & Rahmawati (2020).

In addition to profitability, Elhaj *et al.* (2015) also reported that financial leverage negatively impacts sukuk rating. This finding was supported by Ni'mah *et al.* (2020) and Pebruary (2017), confirming that as the financial leverage of sukuk issuer company gets higher, the probability of attaining a high rating decreases.

The following financial performance that was found to impact sukuk rating was liquidity. Ni'mah *et al.* (2020), Pebruary (2016), Astuti (2017) dan found that the current ratio as a proxy of liquidity has a positive impact on sukuk rating. However, Elhaj *et al.* (2015) did not find such a relationship.

With regard to the effect of firm size on sukuk rating, several previous studies report that firm size had a positive impact on sukuk rating (Ni'mah *et al.*, 2020; Rofi, 2020; Suratmi and Rahmawati, 2020; Sihombing and Rachmawati, 2015). However, studies like Borhan and Ahmad (2018) did not find any significant impact of firm size on sukuk rating in Malaysia.

For nonfinancial factors, sukuk ratings' determinants include the maturity and the sukuk's structure. Several prior studies reported that sukuk with long maturity had a higher probability of getting a good rating (Ni'mah *et al.*, 2020; Haraqi & Ningsih, 2017).

In relation with sukuk structure, studies on sukuk in Indonesia found that ijarah sukuk has positive impact on sukuk rating (Ni'mah *et al.*, 2020). Earlier studies on sukuk in Malaysia provided more diverse findings on sukuk structure. Sukuk based on murabahah, ijarah, mudharabah, musyarakah and istihmar contract were found to be positively significant in influencing sukuk rating in Malaysia (Elhaj *et al.*, 2015; Borhan and Ahmad, 2018).

In conclusion, prior research on sukuk rating determinants has already portrayed the actual picture of sukuk rating determination based on empirical data. However, the findings of the preceding studies are still mixed. The mixed findings suggest that further research needs to be conducted to gather more refined and updated results. The more refined and updated findings might be useful for investors and sukuk issuers.

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The research gap has already been discussed in the introduction part.



**Theoretical Framework and Hypotheses**

Based on signaling theory and the results of prior empirical studies as discussed earlier, this study's conceptual framework and hypotheses are illustrated in Figure 1.

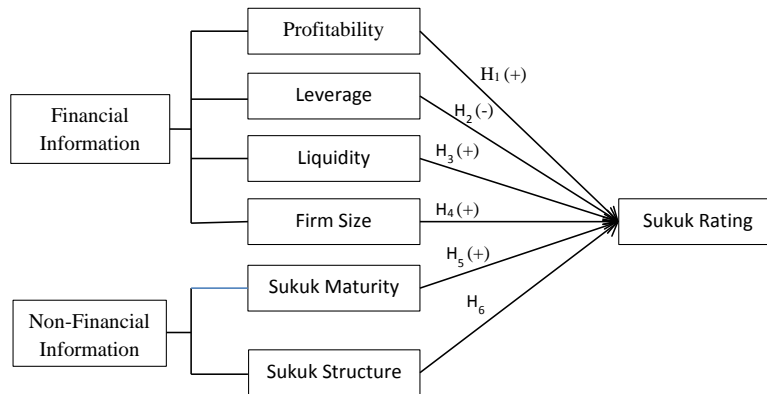


Figure 1. Theoretical Framework and Hypotheses

**METHODOLOGY**

This study was classified as an experimental study through hypotheses testing. It involved all outstanding corporate sukuk registered in the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) as the study population. At the end of every month, OJK publishes the accumulation number of sukuk and the number of outstanding sukuk. Each sukuk issuing company did not only issue one type of sukuk in each period. At the end of each year, one company could have various sukuk. For example, at the end of 2020, PT Indosat had 12 types of outstanding sukuk. But, there were also only one or two types of sukuk, such as PT Tiga Pilar Sejahtera and PT Elnusa, which only had two and one outstanding types of sukuk at the end of 2020. Because some of the data used in the study were company-related, one type of sukuk was only selected to represent each company. As a result, the sample of this study was selected based on the purposive sampling method. The criteria used for choosing the sample were as follows: 1). The sukuk had to be registered by OJK; 2). One sukuk represented one company; 3). The issuer company was nonfinancial companies listed on the IDX; 3). The sukuk was rated by PT



Pefindo. Based on the criteria, the final sample selected for this study was 60 sukuk. The sample selection process is presented in Table 1.

Table 1. Sample Selection Process

Year	Accumulation of sukuk registered by OJK	Number of Outstanding sukuk at the end of the year	Number of sukuk issuer at the end of the year	Number of sukuk issuer selected
2014	71	35	14	7
2015	87	47	16	8
2016	100	53	19	8
2017	137	79	19	9
2018	177	104	19	10
2019	232	143	23	11
2020	274	162	26	14
Total sukuk available for selection (6 years)			136	
Total sukuk selected (final sample of the study)				67

Source: OJK (2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021) and Pefindo (2018, 2019, 2020, 2021)

Table 1 indicates that at the end observation period (the year 2020), 274 sukuk registered on OJK in the last seven years, and 162 were still in circulation. The 162 outstanding sukuk were issued by 26 companies. Because the researcher only took one type of sukuk for each company, the total sukuk available for being selected as the study sample during seven years of observation was 136 sukuk. Of the 136 sukuk, 69 sukuk could not be used as research samples because these sukuk issuers were not listed in the IDX or issued by financial companies. Therefore, the number of sukuk met the criteria as the study's final sample was 67 sukuk.

Secondary data related to financial performance were documented from the financial statements of each sample company, and data on sukuk information were documented from Pefindo's end-year newsletter. The dependent variable of this study is sukuk rating issued by PT PEFINDO. The sukuk rating issued by this institution, measured by an ordinal scale from zero to seven, was the rating used by most previous studies. Table 1 below shows the measurement of the sukuk rating variable.

Tabel 2. The Measurement of Sukuk Rating

Rating Given by PEFINDO	Measurement (Ordinal Scale)	Category
D	0	Non-investment Grade
CCC	1	Non-investment Grade
B	2	Non-investment Grade
BB	3	Non-investment Grade
BBB	4	Investment Grade



A	5	Investment Grade
AA	6	Investment Grade
AAA	7	Investment Grade

With regard to the independent variables, there were six variables in this study. Those variables were profitability, leverage, liquidity, firm size, sukuk maturity, and sukuk structure. The measurements of each independent variables are presented in Table 2.

Table 3. The independent Variables and their Measurement

No.	Independent Variables	Measurements	Symbol
1	Profitability	Return on assets ratio	ROA
2	Leverage	Debt to equity ratio	DER
3	Liquidity	Current ratio	CR
4	Firm Size	Total asset	TA
5	Sukuk Maturity	Sukuk maturity in years	MAT
6	Sukuk Structure	Variable one if the sukuk was based on ijarah contract and 0 otherwise.	IJR

All data from the final sample were then analyzed using descriptive statistics and ordinal logistic regression. The current researchers summarised the data using descriptive statistics to overview the sample companies' financial performances and the sample sukuk's information in seven years of observation. Ordinal regression was used to test the six research hypotheses and, in the end, to answer the research questions. An ordinal logistic regression model was formulated based on the research hypotheses. The model is presented in the following equation

$$Logit(i) = \alpha(i) + \beta_1 ROE + \beta_2 DER + \beta_3 CR + \beta_4 LogTA + \beta_5 MAT + \beta_6 IJR$$

where:

Logit(i): Probability of corporate sukuk for rating *i*

$\alpha(i)$ : Constant for rating category *i*

*i*: rating category AAA, AA, A, BBB, BB, B, CCC, D

$\beta$ : Coefficient

## RESULT AND DISCUSSION

As stated in the introduction part, the specific objective of this study was to analyze the impact of financial performances as proxied by profitability (ROA), leverage (DER), liquidity (CR), and firm size, as well as sukuk maturity and sukuk structure on corporate sukuk rating in Indonesia. The





current study utilised descriptive statistics and ordinal logistic regression for data analysis. The results of the analysis are presented and discussed as follows.

### Descriptive Statistic Results

Table 4 summarises the descriptive analysis results of the variables. It shows that the average ability of sukuk issuing companies to generate profit (profitability) as measured by ROA was 16.3%. This figure shows a healthy level of profitability for the sample companies. PT Indosat, the first and largest sukuk issuer to date, achieved the highest ROA (250%) in 2019. On the other hand, PT Sumberdaya Sewatama experienced the lowest ROA value in 2018.

Tabel 4. Descriptive Statistic of the Variables

Variables	Min	Max	Mean	Strd Dev
ROA (%)	-10.00	250.00	16.33	45.60
DER (times)	-38.66	483.55	7.92	59.32
CR (times)	-0.65	4.72	1.17	.89
Size (trillion IDR)	1,814	31,608.916	1,389.058	5.604.43
Maturity (year)	2	12	5,27	1.96
Rating	0	7	5,3	1.78

Source: Secondary data processed (2021)

Furthermore, the average leverage value as measured by DER is 7.92 times. This figure shows an unhealthy level of leverage as the debt of the sukuk issuing company is almost eight times its total capital, on average. A company is classified as having a healthy level of leverage when it has DER of less than one. The lower DER, the better for the company. PT Sumberdaya Sewatama experienced the lowest DER (-38.6 times) in 2017, when the company was experiencing a capital deficiency of 156,587 billion rupiahs.

For the companies' ability to meet their short-term obligations (liquidity) as measured by the current ratio, the average CR value of the sample companies was 1.17 times. It indicated that, on average, the sample companies were in an unhealthy level of liquidity as the value was below 1.5. PT Tiga Pilar Sejahtera Food achieved the highest CR value in 2017, while PT Angkasa Pura experienced the lowest in 2020.

Table 4 also shows the size of the sukuk issuing company as measured by total assets. The average value of total assets is 1.358 trillion. The largest sukuk issuing company was PT Angkasa Pura I in 2020, while the smallest company was PT Sumberdaya Sewatama in 2019.



In relation to sukuk maturity, Table 4 indicates that the average maturity of sample sukuk was 5.27 years. The maturity ranged from 2 years to 12 years. In addition to Table 4, the descriptive statistic also summarized the frequency distribution of sukuk structure and sukuk rating variables. The summary is presented in Table 5.

Tabel 5 The Frequency of Sukuk Rating and Structure

Rating	Frequency	Percentage	Structure	Frequency	Percentage
D	4	6.0	Ijarah	54	80.6
BB	4	6.0	mudharabah	11	16.4
BBB	4	6.0	Wakalah	2	3.0
A	25	37.3	Total	67	100.0
AA	8	11.9			
AAA	22	32.8			

Source: Secondary data processed (2021)

Table 5 indicates that most of the sample sukuk were structured with ijarah contracts (80.6%). There were only two other contracts in the sukuk sample, which were mudharabah (16.4%) and wakalah (3%). The table also indicates that most of the sample sukuk (88%) were in investment grade with AAA, AA, A, and BBB ratings. There were four companies rated the highest rating (AAA): PT Indosat, PT PLN, PT Angkasa Pura 1 and PT Telkom. The remainders (12%) were in non-investment grade, with the rating of BB and D experienced by PT Sumberdaya Sewatama and PT Tiga Pilar Sejahtera in 2014 and 2018, respectively. None of the sukuk in this sample earned a CCC rating.

### Ordinal Logistic Regression Results

As stated earlier, ordinal logistic regression was used to test the six research hypotheses and, in turn, was used to answer the research questions. However, before discussing the hypotheses testing using Wald test, the researchers conducted a model fitting test, the goodness of fit test, and a pseudo-R-Square test to ensure that the regression model fit for hypotheses testing. Those tests were run using SPSS for Windows version 23. Table 6 summarizes the results of the tests.

Tabel 6 Model Fitting, Goodness of Fit, and Pseudo R-square

Model Fitting	-2 Log Likelihood	Chi-square	df	Sig
Intercept Only	195.571			



<i>Final</i>	140.025	55.546	6	0,000
<b>Goodness of Fit</b>	<b>Chi-Square</b>	<b>df</b>	<b>Sig</b>	
<i>Deviance</i>	140.025	314	1.000	
<b>Pseudo R-square</b>				
<i>Cox and Snell</i>	0.564			
<i>Nagelkerke</i>	0.595			

Source: Secondary data processed (2021)

### *Model Fitting*

The model fitting was used to compare the regression model with an intercept only and the regression model with the independent variables by calculating each model's -2 Log Likelihood value. The value of -2 Log Likelihood was used to measure the model fitting. The higher the value of -2 Log Likelihood, the better the model fits a dataset.

Table 6 indicates that the -2 Log Likelihood value of the model with an intercept only was 195.571. However, when the independent variables were put into the model, the -2 Log Likelihood decreased to 140.025. The 55.546 decreasing value was counted as Chi-square. The significance value of the Chi-square reported in Table 6 is 0.000, indicating that the regression model resulted from the analysis was a perfectly fitting model.

### *The Goodness of Fit Test*

The goodness of fit test was conducted to ensure that the model resulted from the data analysis process fit for hypotheses testing. Based on the Deviance method, a model is considered appropriate to use when the significant value of the Chi-square is more than the 5% value of  $\alpha$ .

Table 6 reports that the Chi-square value based on the Deviance method was 140.025 with a significance value of 1.000. The result indicated that the model fitted with the empirical/observed data. Thus, the model fitted for the hypotheses testing.

### *Pseudo R-square*

Pseudo R-square in logistic regression is acted like a coefficient determination in ordinary least squares. It reflects the model's predictive power and indicates the amount of variation in the dependent variable as explained by the independent variables. The value of coefficient determination ranges from 0 to approximately 1. As this study utilized ordinal logistic regression, the



coefficient determination can be checked on pseudo R-square represented by the value of Cox and Snell R<sup>2</sup> or Nagelkerke R<sup>2</sup>.

Table 6 shows that the value of the resulting model's Cox and Snell R<sup>2</sup> and Nagelkerke R<sup>2</sup> is 0.564 and 0.595, respectively. According to Nagelkerke, 59.5% variation of the corporate sukuk rating was explained by financial performance as proxied by ROA, DER, current ratio dan firm size, and sukuk maturity and sukuk structure. The remaining (40.5%) variation was explained by other factors not included as the independent variables. This finding suggests the model resulting from the analysis had good predictive power.

*Wald Test*

The model fitting, the goodness of fit, and the pseudo R-square indicated that the model fitted for hypotheses testing and had a moderately good predictive value. The hypotheses testing could be carried out using the Wald test. A hypothesis will be accepted if the significance value of the Wald test is less than the 5% value of  $\alpha$ . Table 7 summarises the results of parameter estimates that was run using SPSS for Windows 23 version.

Tabel 7 Summary of Parameter Estimates

Variables	Expected direction	Estimate	Wald	Sig	Decision
ROA	+	.408	.517	.472	H1 rejected
DER	-	-.004	1,017	.313	H2 rejected
CR	+	-.422	1,992	.158	H3 rejected
LogTA	+	3.795	9,543	.002	H4 accepted
MAT	+	.356	5,544	.019	H5 accepted
IJR		.482	1,917	.166	H6 rejected

Source: Secondary data processed (2021)

Table 7 shows two independent variables with Wald test significance values of less than 5%. Those variables are firm size and maturity with a significance value of Wald 0.002 and 0.019, respectively. Both variables had a positive estimated value (B), as expected in the hypotheses. The results of the analysis suggested that as the size of sukuk issuer companies gets bigger, the company's probability of earning a high sukuk rating increases. Similarly, as the maturity of sukuk gets longer, the company's probability of achieving a



high sukuk rating increases. Thus, the fourth and fifth hypotheses were supported/accepted.

Referring to Table 7, the wald test produced a significance value of more than  $\alpha$  (5%) for the remaining variables: ROA, DER, current ratio, and sukuk structure. The results indicate that ROA, DER, current ratio, and sukuk structure have no significant impact on sukuk rating of companies listed in IDX. Thus, the first, second, third, and sixth research hypotheses could not be accepted.

### **Discussion of the Findings**

As stated earlier, the current study has three research questions. For ease of reference, the three research question is presented as follow:

1. Do financial performances affect sukuk rating?
2. Does sukuk maturity affect sukuk rating?
3. Does sukuk structure affect sukuk rating?

In line with the research questions and the results of hypotheses testing, the findings are discussed in the following three sections.

#### *The Effect of Financial Performance on Sukuk Rating*

Based on signaling theory as discussed in the literature review, the publication of corporate's financial information sends a signal from corporate's managers to investors to reduce the asymmetric information between both parties. Good financial performance sends good news that the company is in good shape. Therefore, the company's probability of earning a high sukuk rating is increasing. As financial performances in this study were proxied using profitability, leverage, liquidity, and firm size, the effect of financial performance on sukuk rating is discussed based on the hypotheses testing for each proxy.

The first hypothesis stating that profitability positively affects sukuk ratings could not be accepted as the significance value of the Wald test of the ROA variable is more than 5% (0.472). It means that an increase or decrease in profitability as measured by ROA ratio will not affect the company's probability of getting a high sukuk rating. This finding does not support signaling theory in explaining the effect of profitability on sukuk rating as supported by Elhaj *et al.* (2015), Astuti (2017), Pebruari (2017), Haraqji & Ningsih (2018), Borhan and Ahmad (2018), and Rofi (2020). Theoretically,



higher profitability indicates the company's good performance in earning profit; thus, the company's probability of getting a higher sukuk rating is increasing. Though this study did not manage to support signaling theory from the perspective of profitability, several prior studies found similar findings. Among those studies were Sihombing and Rachmawati (2015), Kustiyaningrum, Nurani & Wijaya (2017), and Suratni & Rahmawati (2020).

Similar to the first hypothesis, the second hypothesis stating that leverage negatively impacts sukuk rating was not supported either. Although the estimated value had a negative direction, as expected in the third hypothesis, the significance value of the Wald test showed a value of more than 5% (0.313). It means that leverage measured by debt to equity ratio (DER) did not affect the sukuk rating during the observation period. The signaling theory supported by Elhaj *et al.* (2015), February (2017), and Ni'mah (2020) in explaining the impact of leverage on sukuk rating was not supported by the finding of this current research. Theoretically, a highly leveraged company shows that it uses more debt than equity to undertake its investment/project. This condition indicates that the company faces a high-risk situation that does not send a good signal. Therefore, the probability of a highly leveraged company getting a better sukuk rating is lower.

A similar decision was also made for the third hypothesis of this study. The hypothesis stating that liquidity positively impacts sukuk rating was not accepted either. The significance value of the Wald test for the variable current ratio, which is a proxy for liquidity, is 0.158, indicating that liquidity does not affect the sukuk rating. Again, the signaling theory that was supported by Ni'mah *et al.* (2020) February (2016), and Astuti (2017) in confirming the positive impact of liquidity on sukuk rating was not supported in this study. The company's liquidity may affect the company's ability to make large-scale, low-cost asset trade without causing significant price changes. Theoretically, this situation will signal good news. Thus, the company's probability of earning a high sukuk rating may increase. The rejection of the third hypothesis was similar to the finding of Elhaj *et al* (2015) in investigating the determinants of sukuk rating in Malaysia.

In contrast to the first to third hypotheses, which were not supported, the fourth hypothesis stating that firm size positively affects sukuk ratings was supported. The significance value of the Wald test was 0.002 with a positive direction of the estimates. It indicates that company size has a positive effect on sukuk ratings. Suppose the company's size as measured by the number of



assets increases, the probability of sukuk issuer company getting a better sukuk rating would also increase. According to signaling theory, the greater the total assets of the sukuk issuing company indicates that the company has considerable resources to manage its operations and fulfill obligations to its stakeholders.

Furthermore, the default risk of sukuk issued by the company with large assets will decrease. Then, the reduced default risk of the sukuk will increase the sukuk rating. From the agency theory perspective, large companies tend to have sound corporate governance systems. With GCG, companies will be able to increase efficiency in their company's operations and reduce the risk of default. It will improve the sukuk rating. The results of this analysis strengthen the findings of previous research conducted by Ni'mah *et al.* (2020), Rofi (2020), Suratmi and Rahmawati (2020), Pramesti (2017), Azizah (2018), and Yandi (2019).

#### *The Effect of Sukuk Maturity on Sukuk Rating*

The fifth hypothesis, which states that maturity positively affects sukuk rating, was also accepted. The results of the Wald test showed a significant p-value of 0.019, with the estimated value being positive. It means maturity positively affects the sukuk rating at the 5% level. The longer sukuk maturity, the higher the probability of the sukuk earning a good rating.

Sukuk with longer maturity usually promises a high return rate in the form of fees or profit-sharing. Therefore, it may raise the rating of the sukuk. The acceptance of the fifth hypothesis supports the signaling theory and prior studies conducted by Ni'mah *et al.* (2020) and Haraqi & Ningsih (2017).

#### *The Effect of Sukuk Structure on Sukuk Rating*

Finally, the sixth hypothesis stating that the sukuk structure positively affects the sukuk rating is not accepted. The rejection is because the significance value of the Wald test was 0.166. In Indonesia, corporate sukuk dominated with ijarah sukuk did not significantly impact sukuk rating.

The last finding was contrary to signaling theory. Theoretically, how the manager chooses sukuk structure may signal the company's quality. In turn, it may affect the sukuk rating agencies. The statement was supported by prior research, including Elhaj *et al.* (2015), Borhan and Ahmad (2018), and



Ni'mah *et al.* (2020). However, this current study failed to support this statement.

## CONCLUSIONS

This study is one of a few studies on sukuk rating determination conducted in Indonesia using ordinal logistic regression. Initially, it proposed a model of six independent variables influencing corporate sukuk rating. However, this study only supported two variables as the determinants of sukuk rating in Indonesia: firm size and sukuk maturity. Firm size and sukuk maturity positively affect sukuk rating. As explained by signaling theory and agency theory, the result showed that a larger company is more likely to earn good sukuk ratings. Additionally, the likelihood of sukuk with longer maturity achieving a good sukuk rating is better than the sukuk with shorter maturity. Therefore, this study supported the signaling theory maturity model proposed by Frannery (1986). In relation to model appropriateness, the resulting model had met the goodness of fit and model fitting criteria. It also had moderately predictive power.

These findings have several potential implications for sukuk issuers, investors, and policy-makers. For sukuk issuers, the positive effect of firm size on sukuk rating suggests that the company should consistently maintain a high total asset level to ensure that sukuk rating agencies highly rate them. Additionally, they also need to provide sukuk with long maturity. Although long maturity may require a high return for the investors, it may enhance the company's probability of earning a high sukuk rating.

For investors, they should consider buying sukuk from big companies as sukuk investment in big companies seems to be more favourable. Similarly, investor should also consider for choosing sukuk with longer maturity. Though investing in big companies or in sukuk with longer maturity may be more favourable, investors still have to consider their preference; whether they are risk-averse or risk-taker. Finally, for policy makers such as OJK, they should make every sukuk issuer get their sukuk being rated. Also, they should make it compulsory for sukuk rating agencies to publish their rating methodologies.

This study was conducted carefully following the scientific methods. However, there are some possible improvements for future researchers. This study only involved nonfinancial sukuk issuer companies. Future researchers





need to include this type of company in the future investigation to provide more comprehensive findings. The model resulted from the current study as measured moderately fit the data. Though the pseudo-R square showed that nearly 60% of the sukuk rating variation could be explained by the resulting model, some other variables still need to be considered. Therefore, future researchers need to consider other variables such as corporate governance or macroeconomics.

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