

Growth of Shariah compliant equities in Indonesia



INDONESIA

By Farouk Abdullah Alwyni

The Jakarta Islamic Index (JII) consists of 30 Shariah compliant shares that have the largest market capitalization and are the most liquid. In general, members of this index are made up of companies whose core business is in the infrastructure, consumer and commodity sectors. The index is reviewed every six months in the months of January and July. The JII accounts for 67.8% of total capitalization of the Indonesian Shariah Equity Index (ISSI).

As of June 2016, there are 306 companies listed in the ISSI, constituting all Shariah compliant shares in the country. As at the end of July 2016, the total market capitalization of the ISSI stood at IDR3.17 quadrillion (US\$242.2 billion).

The ISSI accounts for 58.4% of the total Indonesia Stock Exchange (IDX) composite (formerly known as the Jakarta Composite Index (JSX), or known by its Indonesian abbreviation, IHSG or Indeks Harga Saham Gabungan — the JSX is an index of all stocks that are traded on the IDX.

During the first half of 2016, the Shariah compliant equities performed well. In terms of return, as shown in Table 1, the JII outperformed all stocks listed on the IDX. It also outperformed the IDX 45 most liquid shares (LQ45).

LQ45 represent around 65% of the total market capitalization of Indonesian listed shares. The JII is only slightly below Pefindo-25 (a grouping of 25 companies considered to be SMEs in terms of assets, but with an above-average return on



equity, unqualified accounts and good liquidity).

Other indices outperformed by the JII include the SRI-KEHATI Index which still performed better than the IDX composite and LQ45. The SRI-KEHATI Index is basically an index that takes into consideration companies having an awareness of socially responsible investing.

Since early 2015, Indonesia's Otoritas Jasa Keuangan (OJK) has endeavored to promote Islamic capital market instruments. Around the end of 2015, OJK issued seven regulations relating to the Islamic capital market aimed at providing a more solid framework for the growth of Shariah compliant instruments in the country.

In addition, more investment management companies now go to the retail market to sell their Shariah compliant products including Shariah compliant equities. It is reported that there are now at least 12 securities companies that have online Shariah trading systems and this is expected to facilitate people in investing in Shariah compliant shares.

According to OJK's July 2016 data, the total capitalization of Shariah compliant equities of US\$242.2 billion make it the largest Shariah compliant capital market instrument, followed by sovereign Sukuk (US\$29.5 billion), corporate Sukuk (US\$848.1 million) and Shariah compliant mutual funds (US\$757.3 million).⁽²⁾

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Table 1: Performance of selected Indonesian indices (30th December 2015 to 8th June 2016)

Index	Return
Pefindo-25	11.2%
JII	10.9%
SRI-KEHATI	7.55%
IHSG	7.03%
LQ45	6.66%

Source: www.infovesta.com