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The Factors That Influence the Level of Underpricing of Shares in Non-Financial Companies That Conduct IPO (Initial Public Offering) on the Indonesian Stock Exchange

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A B S T R A C T

Underpricing is also often defined as the positive difference between the share price in the secondary market and the share price in the primary market or during the initial public offering (IPO). This price difference is known as the initial return (IR) or positive return for investors. Underpricing is a common phenomenon that often occurs in the capital market and when companies conduct an initial public offering (IPO). This research was conducted to analyse the factors that affect the level of stock underpricing in non-financial companies. These factors are Return on assets, financial leverage, underwriter reputation, and company size. The population of this study is non-financial companies that conducted IPOs on the Indonesia Stock Exchange in 2015-2019. Sampling using purposive sampling, namely sample selection with certain criteria, so that 30 companies were obtained as research samples. The research method uses multiple linear regression, classical assumption test, t test and f test. The results showed that only company size has a significant effect on underpricing. While return on assets, financial leverage and underwriter reputation have no significant effect on underpricing. Simultaneously and significantly return on assets, financial leverage, underwriter reputation and company size affect underpricing.

1. Introduction

The funds needed by the company are getting bigger as the company develops. These needs encourage managers to choose one or more funding alternatives that will be used by the company. Alternatives that companies have for funding, some are from within the company (internal), which can be obtained through retained earnings, own capital, and accumulated depreciation of fixed assets, while funds obtained from outside the company (external) can come from creditors in the form of debt, issuance of debt securities, and through increasing the number of share ownership by issuing new shares. One of the funding alternatives obtained from outside the company is through an investment mechanism, which is generally carried out by selling company shares to the public, also often referred to as going public (Retnowati, 2013). The capital market will make more and more companies go public. If more companies go public, the higher the quality produced by the company. According to Law Number 8 of 1995, the capital market is defined as an activity of securities trading and public offerings, as well as institutions, companies, and professions related to the securities they issue.

Initial public offering (IPO) is the process of going public before shares are traded on the secondary market. Shares of companies that will go public are sold in the primary market. The initial public offering transaction or initial public offering (IPO) is carried out by the company for the first time in the primary market with the aim that the company gets funds for the shares offered, then traded in the secondary market, which aims to organize stock trading that is already in the hands of investors, so investors who want to sell or buy a number of shares are carried out (Aini, 2013). However, the share price determined based on the agreement between the company and the underwriter at the time of the initial public offering (IPO) is often different from the share price when traded on the Stock Exchange. The share price at the time of the initial public offering (IPO) tends to be lower when compared to the share price on the Stock Exchange on the first day (closing price). This phenomenon is called underpricing.

Underpricing is a condition where the closing price of shares in the primary market is lower than the share price in the secondary market (Firdaus, 2020). According to Retnowati (2013), this underpricing phenomenon often occurs because there is information asymmetry. Information asymmetry between investors is caused by informed investors who have better information than other investors about the company's prospects (Rock, 1986 in Aryapranata, 2017). Investors who have complete information about the company can make favourable choices. Information asymmetry can occur between companies and underwriters or between investors. The existence of information asymmetry can be reduced by publishing a prospectus by the company containing information from the company concerned. The information contained in the prospectus consists of financial and non-financial information. The information contained in the prospectus can assist investors in making rational decisions regarding the risk of the actual share value offered by the company (Retnowati, 2013). Underpricing is also often defined as the positive difference between the share price in the secondary market and the share price in the primary market or during the initial public offering (IPO). This price difference is known as the initial return (IR) or positive return for investors. Underpricing is a common phenomenon that often occurs in the capital market and when companies conduct an initial public offering (IPO).

Table 1. IPO data in 2015-2019.

Year	**IPO**	**Underpricing**	**Percentage**
2015	17	13	76,5 %
2016	15	13	86,7 %
2017	36	30	83,3 %
2018	58	51	88 %
2019	55	50	91 %
Total	181	157	86,8 %

In Table 1, it is known that of the 17 companies that conducted IPOs in 2015, 13 companies, or 76.5%, experienced underpricing. In 2016 of the 15 companies that conducted IPOs, there were 13 companies, or 86.7% of companies that experienced underpricing, in 2017 of the 36 companies that conducted IPOs there were 30 companies or 83, 3% of companies experiencing underpricing, in 2018 from 58 companies conducting IPOs there were 51 companies or 88% of companies experiencing underpricing, and in 2019 from 55 companies conducting IPOs there were 50 companies or 91% of companies experiencing underpricing. Based on the data above, it can be concluded that many non-financial companies IPO on the IDX, and the value of underpricing companies is fairly large.

From several previous studies that I analyzed, there are factors that influence the level of underpricing of companies at the time of IPO (initial public offering). The first factor, namely return on asset (ROA), is profitability, which is used to measure the company's effectiveness in generating profits by utilizing its assets (Gunawan, 2015). The higher the return on asset (ROA) value, the better the company's value in the eyes of investors. A large return on asset (ROA) describes the company's higher profitability. If a company's return on asset (ROA) is high, the company's underpricing should be low because investors will assess the company's performance better and are willing to buy its initial shares at a higher price. The results of research conducted by Marofen (2015), Aini (2013), and Zuliardi (2020) have proven that return on asset (ROA) has a significant negative effect on underpricing, while research by Gunawan (2015) shows that return on asset (ROA) has a significant effect on underpricing.

The second factor that is thought to affect underpricing is financial leverage, which is a ratio that compares the company's debt with total equity (Gunawan, 2015). In this study, financial leverage is measured using DER (debt to equity ratio). A large DER (debt to equity ratio) describes the company's high risk, resulting in investors avoiding stocks that have a high DER (debt to equity ratio) value.

The third factor that also affects underpricing is the underwriter. The underwriter is a party that makes a contract with the issuer to work together for the benefit of the issuer, with no obligation to buy the remaining unsold securities. In the initial public offering, the underwriter has a very large role, and the underwriter is believed to be a consideration for investors to buy shares of a company because the underwriter has better information than the issuer regarding the demand for the issuer's shares.

The fourth factor affecting underpricing is company size. Company size can indicate the total assets owned by the company. A company with a higher and larger economic scale is considered capable of surviving for a long time. The purpose of this research is to analyze the factors that influence the level of underpricing of shares in non-financial companies that IPO on the Indonesia Stock Exchange.

2. Literature Review

Capital market

The capital market is all activities related to the public offering and trading of securities, public companies related to the securities they issue, and institutions and professions related to securities.

Investment

Investment can be defined as a commitment of a certain amount of money and other resources with the aim of obtaining future profits (Tandelilin, 2010). The term investment relates to a variety of activities, namely investing a number of funds in real assets such as land, gold, machinery, or buildings as well as financial assets such as deposits, stocks, or bonds, which are investment activities carried out in general. Parties who make investments are referred to as investors. Investors are generally divided into two groups, namely individual investors (individual/retail investors) and institutional investors (institutional investors).

Initial public offering (IPO)

According to Samsul (2006) and Nadia (2017), a company that first time will sells shares or bonds to the general public, called an initial public offering, requires certain stages.

Underpricing

Underpricing is the phenomenon that the share price in the primary market is significantly lower than the closing price of shares in the secondary market

(Adam, 2015). Underpricing is also defined as the difference between the closing price on the first day of the secondary market and the public offering price. Underpricing is also often found in initial public offerings. According to Yolana (2015), the formula for calculating underpricing is:

$$Underpricing = \frac{Closing\ Price - Offering\ Price}{Offering\ Price} \times 100\%$$

Return on asset (ROA)

Return on assets is profitability used to measure the company's effectiveness in generating profits by utilising its assets (Gunawan, 2015).

$$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Asset}$$

Financial leverage (DER)

Financial leverage shows the proportion of debt used to finance its investments. According to Kasmir (2010), DER (debt to equity ratio) is a ratio used as an assessment of debt to equity.

Underwriter reputation

The technique used for measuring underwriter reputation uses a dummy, where companies that use the best underwriter services will be given a value of 1 (one). Otherwise, if the company does not use the best underwriter services, it will be given a value of 0 (zero).

Company size

According to Nurcahyani (2020), company size is a measure of the size of a company that is addressed or assessed by total assets, total sales, total profit, tax burden, and others.

Hypothesis

H1: Return on assets (X1) has a significant effect on underpricing (Y). H2: Financial leverage (X2) has a positive effect on underpricing (Y). H3: Underwriter reputation (X3) negatively and significantly affects underpricing (Y). H4: Company size (X4) negatively affects underpricing (Y).

3. Methods

The population in this study were all companies that conducted IPOs and were listed on the Indonesia Stock Exchange. In total, there were 181 companies that IPOed in 2015-2019. The sampling technique in this study used purposive sampling method by sampling based on certain criteria needed in the study, and the sample in this study was 30 companies. The regression analysis used for this research is multiple regression analysis with data processing through SPSS software. Multiple regression analysis methods include descriptive statistics, classical assumption tests, regression model estimation tests, and hypothesis testing. Multiple linear regression analysis: $Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$ Information: Y = Underpricing; $\beta 0$ = Coefficient constant; $\beta 1\text{-}4$ = Coefficient independent variable regression; x_1 = ROA; x_2 = DER; x_3 = Underwriter reputation; x_4 = Company size; ε = Error.

4. Results and Discussion

Several classic assumption tests used to assess the regression equation used do not occur or are free from classical assumptions, namely, free from symptoms of normality, multicollinearity, autocorrelation, and heteroscedasticity. Based on regression data analysis, the equation is obtained;

$$Y = 1{,}377 - 0{,}509x_1 + 0{,}031x_2 - 0{,}053x_3 - 0{,}039x_4$$

The results of the t statistical test for the variable return on assets (X1) obtained a variable t value of 0.867 with a significance of 0.394, which is greater than 0.05 as the standard sig. that has been determined. It is concluded that H0 is accepted, which means that there is no effect of return on assets on the level of underpricing.

The results of the t statistical test for the financial leverage variable (X2) obtained a variable t value of 0.922 with a significance of 0.365, which is greater than 0.05 as a predetermined sig. standard. It is concluded that H0 is accepted, which means that there is no effect of financial leverage on the level of underpricing.

The t statistical test results for the underwriter reputation variable (X3) obtained a variable t value of - 1.148 with a significant value of 0.262, which is greater than 0.05 as the predetermined sig. standard. It is concluded that H0 is accepted, which means that there is no effect of the underwriter's reputation on the level of underpricing.

The results of the t statistical test for the company size variable (X4) obtained a variable t value of - 2.681 with a significance of 0.013, which is smaller than 0.05 as a predetermined sig. standard. It is concluded that H0 is rejected, which means that there is an effect of company size on the level of underpricing.

Return on assets (ROA) is profitability used to measure the company's effectiveness in generating profits by utilising its assets (Gunawan, 2015). Return on assets (ROA) has no significant negative effect on underpricing. Return on assets (ROA) has no effect on underpricing because investors not only pay attention to return on assets (ROA) in the profectus, but investors also pay attention to return on assets (ROA) for several years before the company conducts an IPO. So investors know whether the financial statements are marked up or not.

Financial leverage is a ratio that compares company debt to total equity (Gunawan, 2015). Financial leverage has no significant positive effect on underpricing. The lack of effect of financial leverage on underpricing is because the ratio that shows the debt ratio is more reflective of the company's relatively high risk. Thus, it causes uncertainty in the share price and has an impact on the stock return that will be received by investors, as a result, investors tend to avoid stocks that have high financial leverage. Investors will also consider this ratio before buying the company's initial shares.

Underwriter reputation is a party that makes a contract with a company to conduct a public offering for the benefit of the company with or without the obligation to buy the remaining unsold securities. Measurement of underwriter reputation using the method used by Ramadana (2018), which is based on data from the top 50 active IDX members in total trading frequency, then the data is taken top 20. If the company uses the best underwriter services or enters the top 20, a value of 1 is given and a value of 0 for underwriters who do not use the best underwriter services or do not enter the top 20. Underwriter reputation has no significant negative effect on underpricing because highly reputable underwriters are more experienced and professional in handling IPOs. Thus, they are brave in providing high prices for initial share pricing and quality as a consequence of the quality of the underwriter.

Company size is a measure of the size of a company which is addressed or assessed by total assets, total sales, total profits, tax burden and others. Company size has a significant negative effect on underpricing. Most of the dominant investors choose to invest their capital in companies that have a higher economic scale because investors consider that the company can return its capital and investors will get high profits as well. Large-scale companies tend to be better known to the public than small companies.

5. Conclusion

Return on assets (ROA), financial leverage, underwriter reputation, and company size simultaneously and significantly affect the level of underpricing at the time of the initial public offering (IPO) in non-financial sector companies listed on the Indonesia Stock Exchange in 2015-2019.

Return on assets (ROA) has no significant effect with a negative direction on the level of underpricing at the time of initial public offering (IPO) in non-financial sector companies listed on the Indonesia Stock Exchange in 2015-2019.

Financial leverage has no significant effect with a positive direction on the level of underpricing during the initial public offering (IPO) of non-financial sector companies listed on the Indonesia Stock Exchange in 2015-2019.

Underwriter reputation has no significant effect with a negative direction on the level of underpricing during the initial public offering (IPO) of non-financial sector companies listed on the Indonesia Stock Exchange in 2015-2019.

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