



Analysis of Factors Affecting Underpricing in Initial Public Offerings

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Abstract

This research was conducted on companies that made initial public offerings on the Indonesia Stock Exchange in 2013-2017 with the aim of knowing how much influence the level of underwriter reputation, return on assets, company size and earnings per share had on the level of underpricing by using the debt to equity ratio as a moderating variable. . In this study using several analytical techniques including: descriptive analysis, classical assumption test, multiple linear regression analysis and hypothesis testing. The results obtained based on the Partial Test (t) obtained: There is a significant influence between underwriter reputation and return on assets on the level of underpricing. There is no significant effect between firm size and firm size on the level of underpricing. Debt to equity ratio cannot moderate the relationship between underwriter reputation, return on assets, firm size and earnings per share to the level of underpricing. Then based on the results of the Simultaneous Test (Test F) it can be seen that the underwriter's reputation, return on assets, company size and earnings per share have a significant and significant effect on the level of underpricing.

Keywords: Underwriter Reputation, Return on Assets, Company Size, Earnings per Share, Debt to Equity Ratio, Underpricing

1. Introduction

Issuance of shares in the capital market has become an alternative for companies to obtain additional funds for expansion activities or company operations. Issuance of shares will begin with the listing of initial shares in the primary market, or often called Initial Public Offering (IPO). The company's performance before the IPO is information for investors about the next company's performance growth after the company conducts the IPO. Investors hope that the next company's performance after the IPO can be maintained or even improved. Thus, the decision to go public or become a closed company is something that needs to be considered carefully, including the type of shares to be issued, what price is set for each share, and when is the most appropriate time.

In the stock offering there will be Overpricing/ Underpricing. Overpricing occurs when the stock price in the primary market is higher than the stock price in the secondary market, whereas underpricing occurs when the stock price in the primary market is lower than the stock price in the secondary market. This underpricing condition is not profitable for the company, because as a party that

needs funds, the company requires a maximum IPO price. On the other hand, investors will benefit from underpricing because they can receive an initial return. With underpricing, investors will have an interest in a stock.

The occurrence of underpricing in companies that are underpricing for the first time is influenced by several factors, one of which is the reputation of the underwriter. In the Baron model, the underwriter is the party who makes a contract with the issuer to conduct a public offering for the issuer's interest with or without the obligation to buy the remaining unsold securities. Underwriters in this case obtain better information about the demand for the shares of the issuer, compared to the issuer itself. Therefore, the underwriter will take advantage of the information he has to obtain an optimal agreement with the issuer. It can be said that a higher underwriter's reputation is expected to get higher income also because of the provision of better services from underwriters. This is evidenced by Hestyitia, Ahmad and Eni (2014) in their research which shows that underwriter reputation has a significant influence on underpricing.

According to Wijayanto (2009) the EPS variable is a proxy for the company's earnings per share which is expected to provide an overview for investors regarding the share of profits that can be obtained in a certain period by owning a share. In general, shareholders and potential investors will be interested in EPS, because EPS describes the amount of money earned for each share and large EPS is an indicator of the success of the issuer. By paying attention to the growth of earnings per share, it can be seen the company's prospects in the future so that it will influence investors' decisions to invest. Empirical results show that the higher the EPS, the higher the stock price (Alma'wa and Komalasari, 2014).

An initial public offering (IPO) according to Hadi (2015) is an activity for the first time that a company's securities (shares or bonds) are offered or sold to the public or the public. Initial Public Offering is one of the easiest and cheapest ways for companies to meet their funding needs as a consequence of the growing company and increasing the need for investment funds.

Underpricing is the result of the uncertainty of stock prices at secondary prices (Asrini, 2017). Underpricing is the difference between the issue price and the closing price of the first day of listing on the stock market. If the closing price is higher than the issuing price, then this money left available, which could have accrued for the seller (Mayes and Alqahtani, 2014).

According to Alma'wa and Komalasari (2014), information asymmetry is a condition in which there is a gap in information between the information held by the company (insider) and other parties (outsidher). There is a difference in the information held between investors and company agents. Investors have incomplete information while company agents have complete information.

According to Pahlevi (2014) the underpricing phenomenon is a positive signal for investors which indicates that the company has the possibility of providing profits in the future. Investors who buy shares during the initial offering hope that their share price will increase in the secondary market. This shows that under underpricing conditions, investors will get an initial return.

The underwriter is one of the main activities of a securities company, which enters into a contract with the issuer to conduct a public offering through the capital market for the benefit of the issuer. The underwriter is the underwriter for every company that will issue its shares in the capital market (Fahmi, 2013).

Return on assets (ROA) is one of the profitability ratios that can measure the company's ability to generate profits from the assets used (Fahmi, 2015). ROA is able to measure the company's ability

to generate profits in the past and then projected in the future.

Company size describes the size of a company. The size of the company can be seen from the field of business that is run. The determination of the size can be determined based on total sales with total assets, average sales levels and average total assets (Pahlevi, 2014).

Earning per Share which is abbreviated as EPS is a form of profit sharing given to shareholders (Fahmi, 2016). Earnings per share or Earnings per Share is the most widely used indicator to assess the profitability of a company.

Financial Leverage is the use of assets and sources of funds by companies that have fixed costs (fixed expenses) with the aim of increasing the potential profits of shareholders (Musthafa, 2017). One of the financial leverage is the Debt equity ratio. Debt equity ratio is a ratio used to measure the proportion of debt to capital. This ratio is useful for knowing the magnitude of the comparison between the amount of funds provided by creditors and the amount of funds originating from the owner of the company. This ratio provides a general indication of a debtor's creditworthiness and financial risk. The higher the debt to equity ratio, the smaller the amount of owner's capital that can be used as debt collateral (Hery, 2015).

The conceptual framework used in this study is as follows:

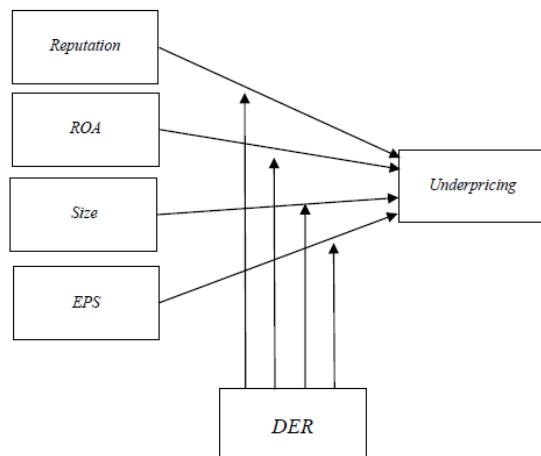


Figure 1. Conceptual Framework

Based on the conceptual framework above, the research hypothesis is as follows:

- H₁: It is suspected that underwriter reputation affects the level of underpricing
- H₂: It is suspected that ROA has an effect on underpricing
- H₃: It is suspected that the size of the company affects underpricing

- H₄: It is suspected that EPS has a significant effect on underpricing
- H₅: It is assumed that underwriter reputation, return on assets, company size and earnings per share have a significant effect on underpricing together
- H₆: It is suspected that underwriter reputation and debt to equity ratio affect the level of underpricing
- H₇: It is assumed that ROA and debt to equity ratio have a significant effect on underpricing
- H₈: It is assumed that company size and debt to equity ratio affect underpricing
- H₉: It is suspected that EPS and debt to equity ratio have an effect on underpricing

2. Method

The underwriter is one of the main activities of a securities company, which enters into a contract with the issuer to conduct a public offering through the capital market for the benefit of the issuer. The underwriter is the underwriter for every company that will issue its shares in the capital market (Fahmi, 2013). Measurement of underwriter reputation by giving a value of 1 for underwriters who are ranked 10 out of 50 most active IDX members in total trading frequency and 0 for underwriters who are not ranked 10 out of 50 most active IDX members in total trading frequency.

Return on assets (ROA) is one of the profitability ratios that can measure the company's ability to generate profits from the assets used (Fahmi, 2015). ROA is able to measure the company's ability to generate profits in the past and then projected in the future. ROA (Y) with the following formula:

$$ROA = \frac{\text{Net Profit}}{\text{Total Asset}} \times 100\%$$

Company size describes the size of a company. The size of the company can be seen from the field of business that is run. Determination of the size can be determined based on total sales with total assets, average level of sales and average total assets (Pahlevi, 2014). Company size, measured using the natural logarithm (ln) of the total assets owned by the company.

$$\text{Firm Size} = \text{Log Total Asset}$$

Earnings per Share or in English called Earnings per Share which is abbreviated as EPS is a form of profit sharing given to shareholders (Fahmi, 2016:83). Earnings per share or Earnings per Share is the most widely used indicator to assess the profitability of a company. Earnings per share (EPS) is the ratio between net income and the number of ordinary shares outstanding.

$$EPS = \frac{\text{Net Income}}{\text{the number of ordinary shares outstanding}}$$

Debt to Equity Ratio (DER) is used to measure the company's ability to pay debts with its capital. A high DER indicates that the financial risk or the risk of the company's failure to repay the loan will be higher, and vice versa. DER is measured by the ratio of total debt to equity owned by the company, with the formula:

$$DER = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

Underpricing is the result of the uncertainty of stock prices at secondary prices (Asrini, 2017). Underpricing is the difference between the issue price and the closing price of the first day of listing on the stock market. If the closing price is higher than the issuing price, then this money left available, which could have accrued for the seller (Mayes and Alqahtani, 2014). This variable is measured by initial return, which is the difference between the stock price on the first day of closing (closing price) on the secondary market divided by the initial offering price (offering price) multiplied by 100%. It can be formulated as follows:

$$\text{initial return} = \frac{\text{closing price} - \text{offering price}}{\text{offering price}} \times 100\%$$

The method of analysis used normality test, multicollinearity test, heteroscedasticity test, autocorrelation test and multiple linear analysis. Hypothesis test using F test and t test.

3. Result and Discussion

Based on table 1, it can be seen that the One-Sample Kolmogorov-Smirnov value indicates that the regression equation model is normally distributed because of the Asymp value. Sig (2-tailed) is greater than the significance level = 0.05, which is 0.853. It can be concluded that the residual data are normally distributed. So that the variable regression model used in this study has met the assumption of normality.

Table 1. Normality Test Result

		Unstandardized Residual	
N			76
Normal Parameters ^{a,b}		Mean	.0000000
		Std.	.22361898
		Deviation	
Most Differences	Extreme	Absolute	.070
		Positive	.059
		Negative	-.070
Test Statistic			.608
Asymp. Sig. (2-tailed)			.853

Data processed by authors

The results of the multicollinearity test are in table 2 below. Based on table 2, it can be seen that the tolerance value for each tested variable is > 0.10 and the VIF value is < 10 , so it can be concluded that the independent variables are not correlated with each other and the results of this test also describe the assumption of multicollinearity being met.

Table 2. Multicollinearity Test Result

Model	Collinearity Statistics	
	Tolerance	VIF
1 Rep_X1	.952	1.050
ROA_X2	.845	1.183
Size_X3	.875	1.143
EPS_X4	.851	1.175
DER_X5	.855	1.170

Data processed by authors

The autocorrelation test is shown in table 3. Based on table 3, it can be seen that the Durbin Watson (DW) test was in an area where there were no autocorrelation symptoms so that the regression model used had no autocorrelation symptoms.

Table 3. Autocorrelation Test Result

Durbin-Watson
2.481

Data processed by authors

Based on the classical assumption test that has been done, it can be seen that the data in this study are normally distributed and there is no heteroscedasticity, multicollinearity and autocorrelation. Then the available data has met to use multiple linear regression analysis. The results of the multiple regression analysis are listed in table 4 below:

Table 4. Results of Multiple Linear Regression Analysis Equation 1

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.814	.456		1.785	.079
Rep_X1	-.162	.064	-.270	-2.512	.014
ROA_X2	-1.063	.372	-.306	-2.784	.007
Size_X3	-.016	.016	-.118	-1.054	.296
EPS_X4	.045	.034	.151	1.332	.187

Data processed by authors

Based on the test results in table 4, then:

1. The underwriter's reputation has a significant effect on underpricing and the direction is negative on underpricing. So it can be concluded that Hypothesis 1 is accepted.
2. ROA has a significant effect on underpricing and the direction is negative on underpricing. So it can be concluded that Hypothesis 2 is accepted.

3. Size has no significant effect on underpricing. So it can be concluded that Hypothesis 3 is rejected.
4. EPS has no significant effect on underpricing. So it can be concluded that Hypothesis 4 is rejected.

The results of the multiple regression analysis of equation 2 are in table 5 below:

Table 5. Results of Multiple Linear Regression Analysis Equation 2

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	1.007	.726		1.388	.170
Rep_X1	-.145	.121	-.242	-1.197	.236
ROA_X2	-1.336	.565	-.395	-2.365	.021
Size_X3	-.021	.025	-.150	-.833	.408
EPS_X4	.044	.051	.148	.868	.388
DER_X5	-.122	.282	-1.161	-.432	.667
X1X5	-.016	.062	-.052	-.259	.796
X2X5	.073	.233	.057	.314	.755
X3X5	.004	.010	.986	.378	.706
X4X5	-.002	.017	-.035	-.130	.897

Data processed by authors

Based on the test results in table 5, it can be concluded:

1. Underwriter reputation and DER have no significant effect on underpricing. It can be concluded that hypothesis 6 is rejected.
2. ROA and DER have no significant effect on underpricing. It can be concluded that hypothesis 7 is rejected.
3. Size and DER have no significant effect on underpricing. It can be concluded that hypothesis 8 is rejected.
4. EPS and DER have no significant effect on underpricing. It can be concluded that hypothesis 9 is rejected.
5. From the above, it can be concluded that DER is not a variable that can moderate the relationship between underwriter reputation, ROA, size and EPS because the significance value does not meet. A variable can be said to be a moderating variable if the interaction between the independent variables shows a significant value.

The coefficient of determination test is used to see how much influence the independent variable has on the level of underpricing in table 6 below:

Table 6. Coefficient Determination Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.462 ^a	.213	.169	.23431

Data processed by authors

The value of R square contained in table 4.7 is 0.213. These results indicate that the contribution of X_1, X_2, X_3, X_4 to Y is 21.3%, while the remaining

78.7% is a contribution from other variables not examined.

The results of the F test are shown in table 7 below. The underwriter Reputation variables, ROA, Size, EPS, DER, X_1X_5 , X_2X_5 , X_3X_5 , X_4X_5 are simultaneously able to explain their effect on firm value variables and the regression equation is reliable.

Table 7. F Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.219	9	.135	2.394	.021a
Residual	3.734	66	.057		
Total	4.953	75			

Data processed by authors

4. Conclusion

Based on the results of research on the factors that influence underpricing in the initial public offering of shares in companies that conduct initial public offerings on the Indonesia Stock Exchange in 2013-2017, it can be concluded:

1. There is an influence of underwriter reputation on the level of underpricing.
2. There is an effect of return on assets on the level of underpricing.
3. There is no effect of size on the level of underpricing.
4. There is no effect of earnings per share on the level of underpricing.
5. There is an influence between underwriter reputation, return on assets, company size and earnings per share simultaneously on the level of underpricing.
6. There is no influence of underwriter reputation and debt to equity ratio on the level of underpricing.
7. There is no effect of return on assets and debt to equity ratio on the level of underpricing.
8. There is no effect of size and debt to equity ratio on the level of underpricing.
9. There is no effect of earning per share and debt to equity ratio on the level of underpricing.

The research is intended to help companies reduce the risk of lower stock prices in the primary market compared to the market, resulting in underpricing. Companies can pay more attention to factors that can affect underpricing in this study, namely underwriter reputation and return on assets. In order to maximize the funds obtained in the initial public offering of shares.

Future research is expected to use more independent variables other than this research variable, namely underwriter reputation, return on assets, size and earnings per share. Further research is also expected to use the latest research data and a longer time in order to find more accurate results.

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