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Underpricing in Indonesia non financial companies

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Abstract. The purpose of this research is to determine the effect of financial variables (ROE, DER, firm size) and non-financial variables (underwriter reputation, offer size, firm age) to underpricing rate. This research was conducted on non-financial companies that conduct IPO in Indonesia Stock Exchange in the period 2010-2016. Data collection techniques used are literature study and observation. Sampling is collected by using purposive sampling method that obtained 91 companies as research sample from population 156 companies. The model used to test the relationship between independent variables with dependent variable is multiple regression model. The results of multiple regression analysis showed that firm size variables affect the underpricing rate. While other independent variable have no effect on underpricing rate.

Keywords. component; IPO; Underpricing; Financial Variabel; Non-Financial Variabel; Underwriter

Introduction

Initial Public Offering (IPO) is an activity of general offer which is done in primary market in the context of selling shares (S. Aini, 2009). The thing that always be highlighted is, the price of the shares that is offered in this primary market can affect the amount of fund that will be received by the emitten (Kristiantari, 2010).

The price fixing of the shares can be a problem that cannot be faced easily. This matter happen because before fixing the price of the offer, the market price which becomes as reference is not available (S. N. Aini, 2013). The company wants a high stock selling price so that the funds raised from the IPO activity is also high. In the other hand, the investors want that the stock price that is offered in IPO is in the low price. If the stock price is low, the investors will get a high initial return (Putra & Damayanthi, 2013).

Positive return happens because there is a price gap when processing transaction in the secondary market with the bid price in the primary market (Sardju, 2014). This underpricing condition is considered as less profitable to the emitten because the result that has been received in the initial offer becomes not maximal. In the 2006 until 2016 there are 223 companies in Indonesia doing IPO, 180 of them undergo u underpricing. Meanwhile 15,7% of the company undergo overpricing , and 3,59 %of them does not experience a single change.

The result of the some research conducted, regarding underpricing show that there is inconsistency in the result so that reviews are needed regarding to the factors that affect underpricing. The focus in this study is for all of the listing company in the Indonesia stock exchange except those which run in the financial field. This matter is needed because the financial company is considered to have a high DER so it will not be suitable with the DER from the non-financial company. High DER is owned because most of the fund resources is controlled by the financial company which the source is from the third party which is in accounting the fund from the third party is considered as liabilities (debt). As we all know for financial company, the bigger the fund from the third party, the bigger operating profit the company owned (Rizka, 2015). The research conducted in 2010-2016, this period is chosen because in this period the trend of the companies undergo underprice is decreasing.

The objectives of this study are to determine the effect of the variables (ROE, DER, the company size) and the variables of non-financial (company's reputation, the size of the offer, the company's lifespan) partially towards the underpricing level. The benefit of this study can be used as consideration material for the companies when deciding to do IPO, other than that this study can be used as a consideration when we are going to invest in in the secondary market.

Literature Review

Signaling Theory

Signaling theory according to Brigham & Houston (2014:186) is an activity which is done by a company's management to give a signal to the investors about the company's thought about the company's future. The given signal can be a form of financial or non-financial information. Financial signal can be ROE, DER, Companies age, etc. Meanwhile the non-financial information can be a underwriter reputation, the age of the company, the size/amount of the offer, etc.

This signaling theory can explain the background reason of the company's encouragement to explain the information regarding to their financial report to the outsiders. The reason why a company gives their information away is because there is an asymmetry information between the company and the external parties as a result of more information regarding the prospect that owned by the company than the outsiders (investors and creditors). This matter causes the company and the underwriter sending the signal to the market. Underpricing and the other signals (ROE, DER, underwriter reputation, company's size, the offer's size, and the age of the company, etc.) are positive signals which are sent by the issuer to give some depictions about the company's quality when doing IPO.

Underpricing

Underpricing according to Ross *et al*., (2016:56) is a condition which is when after doing an initial offer there is a positive return when processing transactions on the secondary market. This underpricing level is counted by counting the gap between the closing price in the first day of trading in the stock floor and the price when bidding in the past primary market compared to the stock price in the IPO.

Return On Equity (ROE)

Gitman & Zutter (2009:69) stated that *Return On Equity* (ROE) reflects how many return level which is received by the investors for their investment in the company by comparing the net income after tax with equity.

Debt To Equity (DER)

Debt to equity (DER) is a size which has a function to count the capacity of a company in paying off all of their debt using the capital that is owned by the company. Riyanto (2013:333) stated that DER is a ratio for counting the proportion from the capital that has been guaranteed for all total liabilities by comparing total liabilities with equity.

Firm Size

S. N Aini (2013) stated that the company size is a value from the calculation of total assets of a company that can be used to determine the company size that will later describe the capacity of company in the activity of cash flow acquisition and information access activities can be increased. The measurement of the company size by using In total assets which are felt to be better and stable than total sales and are able to reflect the wealth of the company that is used to achieve the company goals ,S. N Aini (2013).

Underwriter Reputation .

Underwriter according to Linazah & Setyowati (2015) is a member of capital market which is on duty to do an agreement with the company in order to do initial offering for the needs of the company both by having to buy the remaining shares that are not sold or not. The underwriter reputation can be defined as a quality measurements of underwriter in doing a stock offering of a company. The better the rank that is achieved by the underwriter, the better the company value. This reputation is calculated by giving score to the companies based on the underwriter's rank.

Offering size.

Bidding size is a percentage of the total shares that is offered comparing to the shares that are hold by the company. When the total shares that are hold by the company is more than the percentage of shares offered to the public showing that the company is sure that there is a good prospect of their company in the future (Jeanne & Eforis, 2016). The Percentage of the comparison of the nominal shares offered with the placed nominal shares is used to claculate the offering size (Jeanne & Eforis, 2016)

Company age

The age of the company according to Wahyusari (2013) is the age starting when the company is established until doing IPO. The variable of the company's age is measured using annual interval scale. The calculation of the company age is calculated by calculating the gap between the company starting doing IPO and the year of establishment of the company (Jeanne & Eforis, 2016)

The effect of Return On Equity (ROE) tonward Underpricing

The high level of ROE can describe the capacity of the company in gaining more benefits in the future (Risqi & Harto, 2013). The higher the value of the ROE of a company the higher its profitability, so that the level of possibility of uncertainty in stocks prices will decrease. The uncertainty of the stock price in the form of uncertainty of initial pricing can cause underpricing. When the level of the uncertainty stock price is decreasing, the level of underpricing of a company will decrease as well (S. N Aini, 2013).

H_1: *Return On Equity* (ROE) affects the underpricing level on the non-financial company which has done IPO in 2010-2016.

The effect of Debt To Equity Ratio (DER) towards Underpricing

When the DER value of a company is low, so it will reflect the low risk that a company has. When the DER value of a company is high, so that the obligation to pay the liabilities of a company is high which reflects the high risk of a company has. When a company has a high risk, the uncertainty of stock price will increase. The uncertainty of stock price in initial prive

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fixing can cause underpricing. When the uncertainty of stock price is high, the level of underpricing of stock price will also increase (Kristiantari, 2013).

H_2= *Debt To Equity Ratio* (DER) affects the underpricing level on the non-financial company which has done IPO in 2010-2016.

The Effect of the company size towards Underpricing

The size of the company is related to the availability of the company's information, a bigger company will have more information if it's compared to the smaller company and it's expected to decrease information asymmetry (Kristiantari, 2010). It has an impact on the bigger the size of the company, the bigger the assets that the company has so that the risk that the company receive will be low so its uncertainty. uncertainty in fixing the initial price can cause underpricing. When the level of uncertainty of the stock price is low, the underpricing level will also be low, ao its the stock price (S. N. Aini, 2013).

H_3= The size of the company affects the level of the underpricing towards the non-financial company that has done IPO.

The effect of underwriter's reputation towards underpricing

The high underwriter rank reflects the low risk of the company so that the uncertainty of the stock price will be decreasing. The uncertainty of the stock price in fixing the initial price can cause underpricing. When the level of the uncertainty stock price is low, the underpricing level of the stock price will also be low (S. N. Aini, 2013).

H_4= Underwriter affects the underpricing level on non-financial company that has done IPO in 2010-2016.

The effects of offering size towards Underpricing

When the total stock that is offered to the market is more than the amount of the stock that os held by the company, so that this information shows that the company is unsure on the company's future prospect. The bigger the size of the offer, the more the company gains the uncertainty. When the uncertainty of the stock price increases, the underpricing of the stock price will also increase (S. Aini, 2019).

$H_{5=}$ (*Offer*) The size of the offer affects the underpricing level on the non-financial company that has done IPO 2010-2016.

The effects of the company age towards underpricing

The longer a company can run, the more information that the public can absorb so that it can reduce the asymmetry information and lower the uncertainty of the stock. When the level of uncertainty of the stock price is low, then the underpricing is also low (Kristiantari, 2013).

H_6= The age of the company affects the underpricing level on a non-financial company that has done IPO in 2010-2016

Research Methods

This study is a study of causality because its objectives aim to gain proof regarding the effect of the independent variables namely, ROE, DER, the company size, underwriter reputation, the size of offering, and the age of the company towards dependent variable namely, underpricing. The data used in this study were secondary data. The needed data is the data of several companies names which has done IPO in 2010-2016. The population of this data were all the companies which has done IPO in BEI until the end of 2016 with population 545 companies in total. Meanwhile, purposive sampling was used to determine the sample of this study. There were 91 companies that was chosen to become samples.

Underpricing

Underpricing level is calculated by calculating the difference between the closing price in the first day of the stock floor and the offering price in the primary market which will ne compared to the IPO stock prive itself (S. Aini, 2009). Formula for calculating the underpricing percentage:

$$UP=\frac{P1\text{-}P0}{P0}X100\%$$

Return On Equity (ROE)

ROE is measured by using percentage of the total net profit after being reduced by the tax towards the equity of the company by using the last data. The formula of the ROE according to Brigham & Houston (2014:149) is described as follows:

$$ROE=\frac{\text{Net profit}}{\text{Equity}}X100\%$$

Debt To Equity Ratio (DER)

DER is calculated ny percentage the total amount of liabilities which is compared to the available equity of the emitten when initial offering has not been done, in this matter the last data is used. Based on the explanation, the formula for DER namely:

$$DER=\frac{\text{Debt}}{\text{Equity}}X100\%=\text{Debt/Equity}X100\%=\text{Debt/Equity}X100\%$$

company Size

The size of the company is calculated by using Ln from the total assets in the last year before that company doing IPO (S. N. Aini, 2013). Based on the explanation, the formula for the company size namely:

Size= Ln *Total Asset*

Underwriter Reputation

The calculation used is by giving score 1 for top 10 underwriter which is grouped in 20 most active brokerage house monthly that is based on the total selling frequency, and score 0 for the underwriters who ate not categorized in the top 10 (Riaqi & Harto, 2013). The 20 most active brokerage house monthly data in 2010-2016 can be gotten from IDX monthly statistics which is issued by BEI when the company does listing.

Offering size

The size of the stock offering according to Jeanne & Eforis (2016) is the percentage of the offered total shares compared to the stock that is held by the company. Jeanne & Eforis (2016) statec that the formula for the company size namely:

$$Offer=\frac{\text{Nominal shares offered to the public}}{\text{full paid capital amount}}x100\%$$

Company age

The age of the company is calculated by calculating the gap between the listing year and the establishment year (Jeanne & Eforis, 2016). The formula can be described as follows:

The age of the company= IPO year-company establishment year

Data analysis techniques

Data analysis techniques in this study is by using classic assumption test with normality test, multicolinerity, autocoleration, heteroscedasticity and linierity. After that, multiple linear regression analysis is done with equation as follows:

$$Y_t = \alpha + \beta_1 X_{1t-1} + \beta_2 X_{2t-1} + \beta_3 X_{3t-1} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + e$$

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Hypothesis testing that has been done using F test, and t test, and coefficient determination.

Results and Discussion

The results of classic assumption test

The result of Kolmogorov-Smirnov test with Asymp.Sig (2-tailed) is 0,003 which the value is <0,05. That result shows that the residual data is not normally distributed. Since the result of residual normality test on this study is not normally distributed, so a treatment is needed by doing transformation towards the variables which are not normal until the variablescan be normally distributed (Ghozali, 2016:34).

The classic assumption test is done once again after the treatment is given to make sure that the data is passed the classic assumption test and is ready to do a regression. The variables used in the assumption test are LnUnd, SqrtDER, company size, underwriter reputation, SqrtOffer, and SqrtAge. After that, normality test, multicolinerity, autocoleration, and heteroscedasticity.

The result of multiple linear regression

Table 1. The analysis of multiple linear regression

Model	**Unstandardized Coefficients**		**Standardized Coefficients**		**ig.**
		td. Error	**Beta**		
(Constant)	,803	,062		,568	121
SqrtROE	,374	552	- ,078	,677	500
SqrtDER	,314	220	- ,165	1,424	158
CCOMPANY'S SIZE	,205	102	- ,222	2,004	048
UNDERWRITER REPUTATION	,123	279	- ,046	,441	660
SqrtOFFER	494	,303	,041	379	705
SqrtAGE	,125	085	- ,149	1,469	146
a. Dependen Variable: LnUND b. F-statsisfik ,021					

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The Equation of multiple linear regression for this study is: Y= 4,803–0,205X_3 + e

The significant value from the explained linear regression is 0,021 which this value <0,05 so that the independent Variable affects the dependent variable. The t test shows that the significant value feom ROE, DER, underwriter reputation, offering size, and the age of the company >0,05 it shows that H_0 is acceptable. The result of this study is not suitable with the study's hypothesis, namely ROE, DER, underwriter reputation, offering size, and the age of the company partially affect the underpricing level. The size of the company has significant value 0,048 which is <0,05 soit shows that H_0 is unacceptable, and H_3 is acceptable. This result suits the study's hypothesis that thw size of the company affects the underpricing level.

TABEL 2. THE RESULT OF COEFFICIENT DETERMINATION TEST

odel		*Square*	*Adjusted R Square*	*Std. Error of the Estimate*
	399[a]	159	,099	1,20329

Table 2 shows that the variables ROE,DER, company size, underwriter reputation, offering size, and the age of the company can explain underpricing level variable is 9,9%, meanwhile the other 90,1% is explained by other variables besides this study.

The effect of return on Equity (ROE) towards the underpricing

This study shows that there is no effect between ROE towards the underpricing level. It is because there are skill differences in each industry in order to get higher profit [16]. According to Zirman and Darlis (2016). It usually happens in mining industry which is hard to get a high profit consistently each year, because this kind of investment is a long term investment. However, the manufacturing industry is the kind of short and medium term investment. In this case the price of mining industry commodity kept going weaker since 2012 until 2014 even drop at 48%. Mining sector lose 30% of their income [17]. Just like a company with a company code MBAP which is a mining company that can reach ROE at 18,54%. Meanwhile the other manufacture sector consumption sub-sector company is still growing at 12,37% [18] as on CINT company which is a manufacturing company that can reach ROE at 67,10%.

The Effect of Debt to Equity Ratio (DER) towards underpricing

This study shows that there is no effect of DER towards underpricing level. This result is different from the research hypothesis, namely DER affects the underpricing level. It is because there are factors outside the company that can affect the underpricing level that can be seen by the investors. Meanwhile according to Kristiantari (2012) underpricing is not affected by the DER might be because the investors do not trust the financial information that the company has published, just like the investors skepticism over the profitability information of the company (ROE) that is presented in the company's prospectus.

Based on the data, the reason why that there is no effect between the DER and the underpricing level because there is a quiet big gap on the highest DER, and the lowest DER. This big gap causes no effect between DER, and the underpricing level.

The effect of the company size towards the underpricing

The study shows that there is an effect between the company size and the underpricing level, this matter is corresponding with the research hypothesis. The bigger the size of the company, the lower the underpricing level. A big company has a big level of certainty too. The bigger the certainty level, the lower the level of the underpricing level.

The reason why there is an effect between the company size and the underpricing level is supported by the data of the study which is presented in the table 4.2 and it is caused by the gap of the underpricing level between a company that has the lowest company size at 23,3932 with the code OASA with bigger underpricing level at 0,55 and a company which has the biggest company size at 30,6786 in the company that has SIMP code with the underpricing level at 0,14. This gap causes the effect between the company size and the underpricing level.

The effect of underwriter reputation towards underpricing

This study shows that there is no effect between the reputation of underwriter towards the level of underpricing. This result is not corresponding with the hypothesis of the study, namely the underwriter's reputation has an effect on the underpricing level. The reason why there is no effect between the underwriter reputation in the level of the underpricing according to S. N. aini (2013) might be due to the usage of the underwriter service which has a bad reputation and incapable of sending a signal to the investors that can be used to estimate value of a company which has done IPO for real. This matter is caused by the convenience that all the of the company receives to get the service of the underwriter that has a good reputation, so that investors find it difficult to differentiate which company that has a good quality or bad quality with just see the underwriter from the underwriter's activities to the stock when doing IPO.

The statement that there is no effect between the underwriter reputation towards the underpricing level is supported by the data of the the study which is caused by a company that has a low underpricing data level which uses a low reputation underwriter, and vice versa. When a company has a high underpricing level, they tend to use a high reputation underwriter.

The effect of offering size towards the underpricing

This study shows that there is no effect between the offering size towards the underpricing level. According to Jeanne & Eforis (2016) this matter might be due to the investors tend to be aware at the financial information of the company than the information of the amount of the shares that is offered to the market.

The statement explained above is supported by the data of the study which is caused by the investors pay attention to the company financial information more than the information of the stock that is offered to the market.

The effect of the company age towards underpricing

This study shows that there is no effect between the age of the company towards the underpricing level. This might be caused by there is no one can guarantee that a company's financial situation is in a good condition. Every company at every age can get a trouble in their financial condition. This happens because there are some other factors that influence this matter, namely internal factor, and external factor.

Conclusion

Conclusion in this reseach is ROE does not affect the underpricing level. It is because there is a high gap among the company's ROE in the underpricing level which is caused by each industry has different abilities in producing high profit. DER does not affect the underpricing level. This is because there is a high gap between the value of the highest DER and the lowest DER which causes the value of the DER does not affect the underpricing level. The size of the company affects the underpricing level significantly. The bigger the size of the company, the lower the underpricing level. It is because a company that has a big size tends to have a high certainty level, if the certainty level is big the investors will obtain lower risk when investing in a bigger company. The underwriter's reputation does not affect the underpricing level. This is because the usage of the service of the underwriter that has a good reputation cannot give a signal to the investors that can be used to estimate the value of a company that has done IPO for real. This matter happens because it is easy to all of the company to use a good reputation underwriter. The offering size does not affect the underpricing level. It occurs because the investors pay attention to the company's financial more, than the information of the amount stock that will be offered to the market. The age of the company has no effect on the underpricing level. There is no guarantee that the longer the company is established the better their financial condition. It is because all companies could get trouble in their financial condition and even they could go bankrupt.

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