Analysis of Factors Affecting Theunderpricing of Common Shares *on Initial Public Offering (IPO) In Indonesia Stock Exchange (IDX)*

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Abstract: This research was aimed to examine the empirical effect of the Underwriterreputation, Financial Leverage (DER), ROA, and Earning per Share on under pricing companies which are listed in the Indonesian Stock Exchange. The analysis was basedon the Underwriter Reputation, Financial Leverage (DER), ROA, and Earning per Share as independent variables and under-pricing as dependent variable. Samples of this research are companies which are listed in Indonesian Stock Exchange.Samples were taken by purposive sampling method. Documentation method was used as data collection technique.Normality test, classical assumption test, multiplied analysis linear regression, with hypotheses testing of statistic t-tests and statistic f-test were used as statistical methods.The results of statistic t-tests showed that Financial Leverage (DER) and ROA had no effects on under-pricing while Underwriter Reputation and Earning per Share were affecting under pricing.

Keywords: [**Under-pricing, Under-writer, DER, ROA, EPS**]

1. INTRODUCTION

The era of globalization that hits each country in the world in this 21st century requires us to always keep up with the changes. Inability to follow the changes will leave us behind. Changes occur every day, sodoesit occur in the business world. Theinability of a company to follow technological developments will mean thecompany lags behindother companies. Competitive business environment demands all companies have more power to compete.

The current existence of capital market in a country is now becoming a benchmark in the view of a country's business capabilities. The development of capital market in Indonesia is improving rapidly, and information technology is very helpful in this improvement of capital market in Indonesia.

Corporate parties in this era of globalization begin flocking to register their companies into the Indonesian stock exchange, so that their companies would gain recognition. The main benefit that a company gains after it goes public is its recognition to obtain funding for a new development, which also makes it attractive for banks to offer generous loans.The companies thus gain a competitive advantage in their future business developments, which enhances their image and value of a company. The main objective of a company going public is to offer an Initial Public Offering or IPO in a primary market. The price of share that is sold in the primary market is determined by an agreement between the issuer and underwriter of a company, whilst the price of shares inthe secondary market is determined based on market mechanism which includes supply and demand. The difference between the bid price in the primary market and the secondary market is accentuated and is a feature affecting

most companies. Overpricing and underpricing are two common events occurring in stock trading phenomena ofthe primary market. Based on previous studies, underpricing is the most common factor that occurs in IPO.

Previous studies have indicated different results on some variables (i.e: gap research). These differences have encouragedresearcher to examine those variables, i.e underwriter reputation, financial leverage/ debt to equity ratio, return on assets and earning per share.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 Literature Review

The underwriters will guarantee the company's performanceto enable it to go public, this assessment will vary between oneunderwriter to another.

Financial leverage is using a source of funds that will give a fixed cost.The use of these funds will provide greater additional advantages than the cost itself so this will increase the benefits that are provided for shareholders. Adding income and bigger advantages for shareholders are two of the strong reasons in the use of funds along with that of the fixed cost.

Return on Assets (ROA) is one form of profitability ratios to calculate the company's capability in generating income gains by comparison with existing assets total net profits of a company. (Bambang, 1997)

Earning per share is providing an amount of money based on the profit earned by company that would be given to shareholders.

2.2 Issues

A research by Suyatmin & Sujadi (2006) indicated that Underwriter reputation affected Underpricing, while research by Adhiati (2015) and Pahlevi (2014) claimed that Underwriter reputation had no effect on Underpricing

Researches bySuyatmin & Sujadi (2006), Hu & Sundberg (2014), Adhiati (2015), Pahlevi (2014), Mumtaz & Ahmed (2014) and Agathee, Sannassee, & Brooks (2012) declared that DER affected Underpricing while research by Handayani (2008) claimed DER had no effect on Underpricing.

Research by Handayani (2008), and supported by Adhiati (2015) claimed that ROA had effect on Underpricing while a research by Pahlevi (2014) was claimed that ROA had no effect on Underpricing.

Researchperformed by Suyatmin & Sujadi (2006) and supported by Handayani (2008) claimed that EPS affected Underpricing while a research by Agathee, Sannassee, & Brooks (2012) claimed that EPS had no effect on Underpricing.

2.3 Theoretical Framework
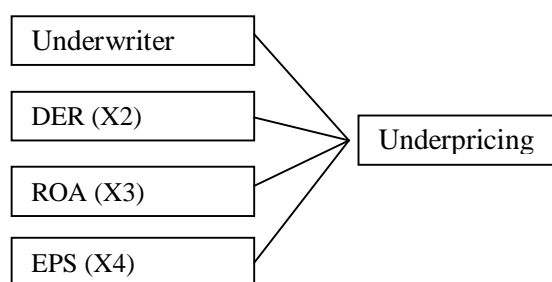
2.4 Hypothesis

H1 : Underwriter Reputation affects Underpricing

H2 : Financial leverage / DER affects Underpricing

H3 : Return on Assets (ROA) affects Underpricing

H4 : Earning per share affects Underpricing

3. RESEARCH METHODS

3.1 Types of research

This types of research used quantitative research method.

3.2 Data Source And Respondents

These research studies initiated the IPO for companies which were listing in IDX 2014-2016 periods as research samples. There were 56 companies that were presenting an Initial Public Offering on IDX.

3.3 Population And Sampling

There were only 9 companies that didnot experienceunderpricing, The remaining 47 companies experienced underpricing, One company had incomplete data whilst 5 companies which were analyzed had outdated data and had to be eliminated. This research took thepopulation of firms that did IPO on IDX from 2014-2016. During those years there were 56 companies which were doing IPO on IDX. Sampling taken by using Purposive Sampling method, i.e. samples predetermined based on the intent and purpose of research.

The findings made by researcher are shown below :
- The company did IPO in 2014 – 2016.
- The bid price of shares in a company at IPO is lower when compared to closing price on first day of secondary market
- Completeness of data are required, price of shares offers at IPO, closing price of secondary market on first day, underwriter's reputation,

financial leverage/DER, ROA and EPS.

3.4 Data Analysis Methods

Data Analysis Methods on this research was conducted using; Normality test, Classical Assumption Analysis test (Autocorrelation, Multi-collinearity, and Hetero-scedasticity), Multiple regression analysis and hypothesis test using F-test and t-test.

4. RESULTS AND DISCUSSION

4.1 Normality test

One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual	Standard	Description
Asymp. Sig. (2-tailed)	.200[c,d]	.05	Accepted

Normality test was using *Kolmogorov-Smirnov* test. It can be seenon the table, level of significance *(Asymp. Sig)* is 0.200. The significance is 0.200, had bigger value than 0.05so H0wasaccepted. It can be concluded that this residual data was distributed normal.

4.2 Autocorrelation

	Unstandardized Residual	Standard	Description
Asymp. Sig. (2-tailed)	.057	.05	Accepted

Run test can be used to examine autocorrelation. (Raharjo, 2017). The result of run testshowed that value of *Asymp. Sig.* (2-tailed) was 0.057 > 0.05 which means this regression model failed to be rejected. Data were quite random so

data had no problems of autocorrelation.

4.3 Multicolinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	UW	.942	1.061
	DER	.839	1.192
	ROA	.671	1.490
	EPS	.701	1.427

Based on test result of Multicollinearity on table, it showed UW *Tolerance* (X1) value was 0.942, DER (X 2) was 0.839, ROA (X 3) was 0.671 and EPS (X 4) was 0.701. *Tolerance* values on all variables were greater than 0.10. While the value of UW *VIF* (X 1) was 1.061, DER (X 2) was 1.192, ROA (X 3) was 1.490 and EPS (X 4) was 1.427. *VIF* values on all variables were less than 10.00. So that it can be inferred there was no Multicollinearity took place.

4.4 Heteroscedasticity

	Model	Sig.	Standard
	UW	.152	>0.05
1	DER	.192	>0.05
	ROA	.539	>0.05
	EPS	.760	>0.05

Based on the result of Heteroscedasticity test using *Spearman Test*, significance value (Sig) of UW was 0.152, significance value (Sig) of DER was 0.192 significance value (Sig) of ROA was 0.539 (Sig) and significance value of EPS was 0.760. The value of significance (Sig) on all the variables showed bigger than 0.05 so it showed that the four variables had no heteroscedasticity symptoms.

4.5 Multiple regression analysis

Model	Unstandardized Coefficients B	Description
1 (Constant)	.512	
UW	-.220	If UW increased 1 point then level UP decreased
DER	-.048	If DER increased 1 point then level UP decreased
ROA	-.189	If ROA increased 1 point then level UP decreased
EPS	-.002	If EPS increased 1 point then level UP decreased

The regression equation obtained in mathematical analysis were as shown below:

Underpricing = 0.512 – 0.220 UW – 0.048 DER – 0.189 ROA – 0.002 EPS + e

The results of the regression equation can be explained:

- Constant showed 0.512 that means if UW, DER, ROA and EPS have 0 value (constant) then Underpricing of a companyis valued at 0.512
- The regression coefficient -0.220 showed that if Underwriter reputation increased 1 point then Underpricing of a company will decrease 0.220
- The regression coefficient -0.048 pointed out that ifDER increased1 point then Underpricing of a company will decrease 0.048
- The regression coefficient -0.189 pointed out that if ROA increased1 point then Underpricing companies will decrease 0.189
- The regression coefficient -0.002 showed that if EPS increased 1 point then Underpricing of a company will decrease 0.189

4.6 F-test

F Count	F Table	Sig.	*Standard*	Description
3.724	2.634	.012		Decent Model

The result value of F count was 3.724 and F table was 2.634 showed F count had bigger value than F-table 3.724 > 2.634 and level of significance < 0.05 (0.012 < 0.05) then H0 was rejected (Ha was accepted). It can be concluded that UW, DER, ROA, and EPS together had effect on Underpricing.

4.7 t-test

Model	t count	t Tabel	Sig.	Standard
(Constant)	7.303			
UW	-2.832	-2.028	.008	0.05
DER	-1.864	-2.028	.71	0.05
ROA	-.332	-2.028	.742	0.05
EPS	-2.415	-2.028	.021	0.05

Hypothesis 1:

The result of hypothesis 1 test indicated t count 2.832 and t-table -2.028. This showed that the-t count < -t table -2.832 < -2,028 significance value of UW was 0.008 < 0.05 so H0 was denied and Ha was accepted, it can be concluded that UW had effect to Underpricing

Hypothesis 2:

The result of hypothesis 2 test indicated t count -1.864 and t-table -2.028. This showed that the-t count. -t table -1.864 > -2.028 significance value of DER was 0.71 > 0.05 so H0 was accepted and Ha was denied, it can be concluded that DER had no effect to Under-pricing

Hypothesis 3:

The result of hypothesis 3 test indicated t count -0.332 and t-table -2.028. This showed that -t count < -t table -0.332> -2.028 significance value of ROA was 0.742 > 0.05 so H0 was accepted and Ha was denied, it can be concluded that ROA had no effect to Under-pricing.

Hypothesis 4 :

The result of hypothesis 4 test indicated t count was 2.415 and t-table was -2.028. This showed that the-t count < -t table -2.415 < -2.028 significance value of EPS was 0.021 < 0.05 so H0 was denied and Ha was accepted, it can be concluded that EPS had effect to Under-pricing

4.8 Coefficient of Determination

Model	Adjusted R Square
1	.214

Based on the result Coefficient of Determination test's output showed that Adjusted *R* Square was 0.214, it means 21.4% of underpricing variation could be explained from these 4 independent variables, i.e underwriter reputation, DER, ROA and EPS, while 78,6% of underpricing variation could be explained by another factors aside from model.

5. CONCLUSION

5.1 Underwriter Reputation affects Underpricing

The high reputation of Underwriter will give a higher price on shares with consideration to quality. The use of the high reputation of Underwriter by a company will provide a good signal to investors, providing high price on shares in secondary market. The Underwriter reputation is also a good signal in terms of markets assuming that shares which are traded are of good quality, and it could increase the bidding price of shares in secondary markets, so that it will

have a positive effect onthe occurrence of Underpricing. Submission of research H1 which said Underwriter Reputation affects the occurrence of underpricing could be accepted.

5.2 Financial leverage / DER has no effect to Underpricing

Investors and Underwriter know that the analysis of DER is necessary but there are also factors which have to be taken into consideration, such as which type of industry the company is represented in, because different types of industries will draw attention to different dependency towardsamount of capital used to operatea company andthe use of capital flow. These industries vary from each other. High DER might seem normal and acceptable in particular industry, but low DER might also seem reasonable on other industries. For example, capital-intensive industries such as car manufacturers tend to have DER above 2 while computer manufacturers are usually not very capital-intensive, and these types of companies much often have DER values under 0.5. So DER is used by investors to analyze the same types of industries.

The submission of H2 which stated that Financial Leverage/ Debt to Equity Ratio (DER) affects the occurrence of under-pricing could not be accepted.

5.3 Return on Assets (ROA) has no effect Underpricing

The prospective investors have assumed that the financial statements of a company have been on the mark-up to show that the company is performing better at the present time which initiated the company to go public, so that potential investors tend not to pay attention to the ROA presented in the financial statements of the company when the IPO is put forward, but tend to pay more attention to the ROA on the previous years before the company went public. Submission of research H3 which said ROA affects the occurrence of underpricing could not be accepted.

5.4 Earning per share affects underpricing

Potential investors, company parties and shareholders are usually very interested on EPS data, as this illustrates the amount of capitalthat will be acquired per share. This indicates the outlook for earnings and is good indicator of a company's future success. The higher value of EPS concludes progressively higher profitsprovided to investors, so this will please investors. Submission of research H4 which said EPS affects the occurrence of underpricing could be accepted.

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