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Analysis on Underpricing Stock Price at The Time of Initial Public Offering (IPO) In BEI (a Case Study in The Period of 2013-2017)

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Abstract: *The objective of the research was to analyze and to test what factors which influenced underpricing, a dependent variable, while debt to equity (DER), earning per share (EPS), underwiter reputation, and auditor reputation were independent variables. The research was done in all companies which did IPO in BEI in the period of 2013-2017. The population was 114 companies, and 68 of them were used as the samples. The data were processed by using multiple linear regression analysis in order to find out the correlation between independent variables and dependent variable. The result of the research showed that, partially, DER had negative and insignificant influence on underpricing, EPS had negative but significant influence on underpricing, underwriter reputation had positive but insignificant influence on underpricing, and auditor reputation had negative and insignificant influence on underpricing at the time of IPO in BEI. Simultaneously, DER, EPS, Underwiter Reputation, and Auditor Reputation had significant influence on underpricing at the time of IPO in BEI, in the period of 2013-2017.*

Keywords: *Underpricing, Debt to Equity Ratio (DER), Earning Per Share (EPS), Underwriter Reputation, Auditor Reputation*

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I. Introduction

Companies that are developing, certainly make their capital needs also increase. The company's capital requirements, the company must make several alternative choices to meet their needs. One way that companies do to obtain additional funds in the context of business development and developing companies is to go public. Go public is a method by which companies collect funds that are used as additional funds through the process of selling bonds, shares, or other securities to the public in the capital market. Funds obtained from going public are expected to improve the company's financial position and also can strengthen the company's capital structure.

When going public, the Indonesia Stock Exchange has an important role, as an institution that conducts or provides system facilities (markets) to bring together securities buying and selling offers. In general, the Indonesia Stock Exchange is a place or market for trading securities or long-term securities. Indonesian Stock Exchange is the only stock exchange in Indonesia. Stock exchanges generally have two important roles, namely as a facilitator and control of securities trading activities in Indonesia.

In the process of going public before the shares are traded on the secondary market, the shares are sold first on the primary market which is often called an IPO. An Initial Public Offering or often called an IPO is the first time a company conducts a transaction selling its shares to the public through the capital market. The stock price at the time of the IPO is determined by the agreement between the issuing company or issuer and the underwriter, while the stock price on the secondary market is determined by market demand and supply. For issuing companies and underwriters, the determination of share prices at the time of the Initial Public Offering (IPO) is a very important factor, because it relates to the amount of additional funds that will be obtained by the issuer and the risks that will be borne by the underwriter.

In the initial public offering the term autorejection is known. Autorejection is a limitation of the percentage up and down of the price of a stock within 1 trading day. The purpose of autorejection is to avoid the volatility of overdose in stock prices. Referring to the Board of Directors of PT Indonesia Stock Exchange Decree No.00168/BEI/11-2018, the share price of Rp50-Rp200 can go up and down to 35% in a day While the share price of Rp 200-Rp 5,000 can go up and down to 25% a day . As for the share price above Rp.5,000, it can rise and fall by more than 20%. Especially for stocks that conduct IPOs, the increase in each faction is multiplied by two.

The difference in interests between the issuing company or issuer and the underwriter results in differences in shares when traded on the stock exchange. During the IPO the stock price offered by the fund will be obtained by the issuer. In addition to determining the stock price at the time of the IPO, the underwriter and issuer also carry out the allotment process. In the allotment process, there are terms undersubscribed. Undersubscribed the number of requests for initial shares ordered by investors is less than the number of shares to be issued. In this situation, investors tend to get shares less than the amount ordered, maybe not even at all. Conversely, if the number of initial stock requests ordered by investors exceeds the number of shares offered, in this situation investors will definitely get shares in accordance with the amount ordered. This situation is called oversubsribed. If oversubscribed occur, then more funds belonging to the investor will be returned.

Throughout 2017 there were approximately 36 companies registered in the capital market. The number of companies conducting IPOs shows that the real sector in the Indonesian capital market has begun to be trusted. In addition, this shows that the performance of the capital market in Indonesia continues to progress and has become an investment destination, both for local and international entrepreneurs.

If the share price at the time of the Initial Public Offering (IPO) is lower than the share price at the secondary market on the first day, underpricing will occur. Conversely, if the stock price at the time of the IPO is higher than the stock price that occurs in the secondary market on the first day, overpricing will occur. According to Aggarwal et al (1994) the phenomenon of underpricing almost always occurs and dominates every initial public offering on the capital market throughout world.

The reputation of the stock underwriter company (underwriter) is measured based on the total trading value of the securities company that conducts trade transactions for one year before the testing period of the company conducting the IPO. The total trading value reflects how active the underwriter is in activities on the Indonesia Stock Exchange for a certain period. In the Jakarta Stock Exchange Statistics there is a ranking list (ranking) Top 50 underwriters that are active in trading activities are hunted every year. If the company that conducts the listing in that year is guaranteed by one of the underwriters in the Top 50, it will be given a good score, on the contrary if it is not guaranteed by one of the underwriters in the Top 50 it will be given a bad score.

One of the information that can be used to assess companies that go public is through fundamental analysis originating from financial statements. Financial statements are one of the information that can be used by potential investors and underwriters in assessing companies that go public. Audited financial statements will reduce uncertainty in the future. One of the conditions in going public is that the company's financial statements must be audited by KAP that has permission from the OJK (Minister of Finance Decree No.85/KMK.01/1997). Auditors in the process of going public have a function as parties given power by the company. to conduct financial statement checks.

Some of the ratios that are often used in measuring company performance are leverange ratios and profitability ratios. One leverage ratio is Debt to Equity Ratio (DER). DER shows the ability of a company to fulfill all its obligations as indicated by the share of its own capital used in paying debt.

While Earning Per Share (EPS) is one of the profitability ratios. EPS is an important component of the company that must be considered in analyzing a company. EPS information of a company describes the size of the company's net profit that can be shared with shareholders.

According to Sulistio (2005) EPS ratios are ratios that are used to determine risk and compare earnings per profit of company shares with other companies. The higher Earning Per Share (EPS) will reflect the bigger picture of profit per share assuming outstandingshares remain. This means that the greater the company in earning profits, the more likely the company in paying dividends, or can it be retained earnings which are expected to obtain greater results in the future. This causes an increase in EPS will increase stock revenue.

Although research on underpricing has been done a lot, but research on underpricing is still considered a quite interesting problem to be studied, due to the inconsistency between the results of the research that has been done. So that researchers are motivated to do research again in order to obtain results that are expected to provide benefits to interested parties.

II. Theoretical Review

2.1 Initial Public Offering

IPOs or initial public offerings are generally interpreted as activities for offering shares to the public for the first time. Initial offers are often also known as go public (Arifin, 2010). According to the Law of the Republic of Indonesia Number 8 of 1995 concerning capital markets, public offerings are defined as bidding activities carried out by issuers to sell securities to the public based on the procedures stipulated in the laws and regulations for their implementation. Securities in this case can be in the form of securities, namely recognition of debt, shares, commercial securities, bonds, units of participation in collective investment contracts (such as mutual funds, futures contracts for securities, or any derivatives of securities). In this study, the IPO was set aside in the form of an initial public offering. Before conducting an Initial Public Offering, the company will publish a brief prospectus announced in the mass media.

2.2 Underpricing

Underpricing is a situation where the price of securities offers is below the market price. Underpricing occurs when the share price at the initial offering is lower when traded on the secondary market. So, underpricing is the positive difference between the price of shares in the secondary market and the price of shares in the primary market or during the IPO. This difference is known as initial return (IR) or positive return for investors. Underpricing can be interpreted as a situation in which, on average, the market price of a company goes public, usually in a matter of days or weeks higher than the first offering. The opposite of underpricing is overpricing, which is a condition where the market price of new shares offered on average tends to be low compared to the price of the offer.

Underpricing is an indirect cost for companies that carry out Initial Public Offering. That is, if the stock price can be received in the market at a higher price, why not sell it at that price, that is the price at the closing of the first day on the secondary market. The company owners want to be able to minimize underpricing because the occurrence of underpricing will cause the transfer of prosperity from the owner to investors. Mc Donald and Fisher (1973) in Nyoman and Suad (2004) say that at the time of underpricing, the difference between the offering price and the market price after the initial offering is "rent" or payment distributed by the underwriter to the initial buyer of the shares, so the IPO will increased sharply after trading on the secondary market.

2.3 Factors Affecting Underpricing

It has been explained that when a company carries out an Initial Public Offering then on average, usually the first share price in secondary trading tends to experience underpricing. The phenomenon of underpricing can be found in almost all capital markets in the world. There are several factors that influence the occurrence of underpricing, namely:

a. Underwriter reputation

According to (Sitompul 2004) the underwriter must at least have several skills including:

1. Experience in the field of marketing, this is needed in structuring the offer and forming an indication with the underwriter and brokers (sales agents) to support the company's securities offerings after the registration process.
2. Extensive experience, underwriters are required to have extensive knowledge of market conditions and various types/types of investors.
3. Experienced in setting prices for securities, thus making the company look attractive (attractive) and also generating maximum profits for investors.
4. Ability to provide support, a good underwriter must have the ability to assist the company in the subsequent securities offering.
5. Has a research and development section with its scope of work and assists companies in analyzing their client companies, competitors, markets, and also economically on a macro and micro basis.

b. Debt to Equity Ratio (DER)

DER is one of the leverage ratios. DER shows the ability of the company to fulfill all its obligations as indicated by some part of its own capital which is used to pay off debt. DER shows the comparison between the level of leverage (use of debt) and the company's own capital. Ang (1997) said that DER also guarantees how much the company's debt is guaranteed by its own capital which is used as business funding.

c. Auditor's reputation

The company hires independent auditors to check the suitability of the financial statements prepared by management and provide opinions on their validity. Unconditional reasonable opinions from reputable auditors play a role in increasing public confidence in the accuracy of the information presented in the prospectus, as a basis for analysis in investment decision making. High reputed auditors have a greater commitment to maintaining audit quality so that the company reports that are examined have greater confidence in investors in the quality of information presented in the prospectus and company financial statements.

d. Earning Per Share

Earning per Share which is shared is one of the important information for investors in the capital market in making investment decisions. EPS is the net income available for outstanding common shares. So

EPS shows the amount of rupiah earned for each ordinary share or net profit per share of ordinary shares. The amount of profit obtained for shareholders is profit after deducting income tax.

Positive Earning Per Share growth has a greater share of profit in the future for each share it has. Earning Per Share variable is a proxy of earnings per share of the company which is expected to provide an overview to investors regarding the share of profits that can be obtained in a given period by owning a share.

III. Materials and Method

3.1 Types of Research

This study uses a type of causal associative research. Causative associative research is research that aims to identify causal relationships between various variables according to Erlina (2008). This study aims to examine the effect of dependent variables, namely debt to equity ratio, earnings per share, underwriter reputation, and auditor reputation on the independent variable underpricing stock prices at the time of the initial public offering to companies listed on the Indonesia Stock Exchange from 2013 - 2017.

3.2 Location and Time of Research

The location of this research was conducted at the Medan Indonesia Stock Exchange. Data can be obtained by accessing www.idx.co.id, and using data from the prospectus and data from the factbook. The object of the research used in this study is all companies that conduct IPOs on the Indonesia Stock Exchange for the period of 2013 - 2017.

3.3 Analysis of Panel Data Regression

Panel data regression model According to Sugiyono (2007), in the regression model estimation method using panel data can be done through three approaches, including common effect model, fixed effect model, random effect model.

IV. Results and Discussion

4.1 Descriptive Statistics Analysis

The IR variable average value is -1.781176, this indicates that the company estimates the initial stock price lower than the stock price on the secondary market reaching 1.781176. Issuers that experience the highest level of underpricing of -0.360000 are companies of Bank Dinar Indonesia Tbk, while the lowest is experienced by Intan Baruprana Finance Tbk amounting to -4.970000 with a standard deviation of 1.26.

The ratio of financial leverage using the type of debt to equity ratio (DER) measurement has an average value of -0.254853. This shows that ahead of its first stock offering on the Stock Exchange, sample companies think the average total debt reaches 0.254853 times compared to the own capital owned by the company. . The highest value of the Debt to Equity Ratio was obtained at 2.1200 for the Yudha Bhakti Tbk Bank company while the lowest experienced by the Service Armada Indonesia Tbk company was -3.9100 with a standard deviation of 1.22.

The ratio of Earning Per Share (EPS) has an average value of 3,390, indicating that on average the companies that conduct IPOs are able to generate profits of Rp. 3,390 for each share. The highest EPS value is obtained at Rp. 6,000 to the company Impack Pratama Industri Tbk while the lowest value is experienced by the company Bank Agris Tbk in the amount of Rp. 0.3000 with a standard deviation of 1.31.

Underwriter's reputation in this study was measured using dummy variables. The results showed that the reputation of the underwriter in the top 50 most IDX members in the active value underwriter in the idx factbook was 63 companies or 92.64% of the company, while the rest was 7.63%, the other underwriters were not in the 50 most active IDX members in total trading value based on the idx factbook.

The Public Accountant Office (KAP) that conducts financial statement audits on the latest financial statements before the IPO in this study is measured using a dummy variable. The results showed that the auditors (KAP) included in the Big Four were as many as 4 auditors or 5.89% of the sample companies while the remaining 64 auditors were audited by the Non Big Four Public Accounting Firm.

4.2 Results and Discussion

a. Effect of Financial Leverage (DER) on Underpricing

The partial test results are carried out, it is known that the financial leverage variable has a negative effect but is not significant for underpricing. This is because the debt ratio reflects the relatively high risk of the company resulting in uncertainty in stock prices, which affects investors. This result is in line with the signaling theory, where management is able to provide a positive signal regarding the condition and quality of the company. Which indicates that financial leverage managed to provide a positive signal to investors, and became one of the indicators that investors need to consider before investing because it can affect underpricing. With a high DER value, investors are reluctant to buy the company's shares because investors assume that the company's future is not good, this is due to overusing debt in the company's activities. This study supports the results of research from Made and I Gede (2013) and Indita and Puji (2013) which say that DER does not affect underpricing of shares.

b. Effect of Earning Per Share (EPS) on Underpricing

The partial test results are carried out, it is known that the EPS variable has a negative and significant effect on underpricing. This means that in making investment decisions on initial shares, investors need to consider variations in the value of EPS owned by the company. EPS is the net income available for outstanding common shares. So that EPS describes the amount of rupiah earned for each ordinary share or net income per share of ordinary shares. Positive-growing EPS receives a greater share of profits in the future for each share it has.

Signaling theory says that good information about profits will be considered by investors in investment decisions. Because earnings information is often the most important part for investors, the consideration of using EPS information in investing is considered important. EPS earnings information can be used as an estimator for investors to estimate the value of the company and the potential profit of the company in the future. With these considerations, investors will not be easily fooled by determining the value of the initial stock price determined by the underwriter so that with the EPS information information asymmetry will be even lower so that the purchase of initial share prices in the secondary market does not follow the offers made by underwriters resulting in low underpricing or the small initial return of the stock. Obtaining the direction of the negative influence of EPS on the initial return indicates that EPS for companies that will conduct an IPO will signal information to investors.

In other words, information asymmetry between companies, underwriters and investors is not large. This will make it easier for investors to invest in the value of the company in the future so that investors will have the right assessment of the fairness of different stock prices so that investors will not fully follow the stock price offered by the underwriter so that the investor's stock price is not much different from the stock price company premiere. Obtained the negative effect of EPS on underpricing supports the research of Ardiansyah (2004). However, this finding does not support the results of research conducted by Sulistio (2005) which states that EPS does not significantly influence underpricing.

c. Effect of Underwriter's Reputation on Underpricing

The partial test results are carried out, it is known that the underwriter reputation variable has a positive effect but is not significant for underpricing. The underwriter's reputation for underpricing is not due to the use of reputable underwriters by issuers that do not signal investors to estimate fair value for IPO companies. The reputation of underwriters signals the market to assess the quality of good or bad issuers.

A good underwriter's reputation is a positive signal for investors in assessing the shares of good quality issuers. In addition, the underwriter's reputation was not affected due to the differences in the ranking of the underwriter's reputation carried out by each researcher, because in Indonesia there were no official institutions that conducted research on the underwriters on a regular basis. This shows that actions taken by management in a company to provide information or signaling to investors by using underwriters who have good reputation or not affect the level of underpricing that occurs. So, even though the underwriter is in the top 50 at 50 most active based on the total IDX frequency, this does not affect the size of the profit received. This is supported by the reasons of Aini's (2013) research that partially the underwriter's reputation does not have a significant positive effect on underpricing.

d. Effects of Auditor Reputation on Underpricing

The partial test results are carried out, it is known that the auditor reputation variable has a negative influence but is not significant for underpricing. This indicates that the financial statements audited by a highly reputed public accounting firm do not provide a signal for investors to estimate the appropriate value for companies conducting IPOs. Independence of public accountants is needed in the audit process. But in practice the independence of public accountants is still very weak. There are also pubic accounting firms that have been involved in giving advice to clients. As stated by Fraser and Ormison (2008) in Fahmi (2012) that many companies hire accountants who come from public accounting firms to prepare financial reports and assist top management positions.

e. Effect of Debt to Equity Ratio, Earning Per Share, Underwriter Reputation, and Auditor's Reputation on Underpricing

The results of this study indicate that simultaneously, the variables Debt to Equity Ratio, Earning Per Share, Underwriter Reputation, and Auditor Reputation have a significant effect on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange. The results of this study indicate that if the Debt to

Equity Ratio, Earning Per Share, Underwriter Reputation, and Auditor Reputation variables increase, the Underpricing will also increase.

IV. Conclusion and Suggestion

Conclusion

From the discussion described in the previous chapter, conclusions can be taken as follows:

1. Debt to Equity Ratio has a negative but not significant effect on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange 2013-2017.
2. Earning Per Share has a negative and significant influence on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange 2013-2017.
3. Underwiter's reputation has a positive but not significant effect on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange 2013-2017.
4. The reputation of the Auditor has a negative but not significant effect on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange 2013-2017.
5. Debt to Equity Ratio, Earning per Share, Underwriter Reputation, Auditor Reputation simultaneously have a significant effect on Underpricing when the Initial Public Offering on the Indonesia Stock Exchange 2013-2017.

Suggestion

Based on the results of the data analysis above, suggestions that can be given by the author include the following:

1. Further research, it is recommended to use more other independent variables outside the variables in this study, namely underwriter reputation, auditor reputation, financial leverage and pershare earnings.
2. Future studies are expected to be able to conduct research using the latest research time data and use longer research time so that the results are also more accurate.
3. Further research, it is recommended to use the oversubscribe and undersubscribe variables as the variables studied.
4. Prospective investors who will conduct transactions on the Indonesia Stock Exchange should pay attention to information about earnings per shared underwriter reputation that is used by the company as a consideration in choosing the shares they want to buy, so that investors can benefit from buying shares.
5. For Capital Markets, it is expected to pay attention to the fundamental aspects which from the results of this study indicate that earnings per share has an effect on underpricing at the time of the initial public offering.

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