INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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ANALYSIS OF FACTORS AFFECTING UNDERPRICING STOCK IN INITIAL PUBLIC OFFERING IN INDONESIA STOCK EXCHANGE

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ABSTRACT
Underpricing is a phenomenon of the stock price when the supply in the primary market is always lower than the closing price on the first day of trading in the secondary market. This study aims to determine the factors that affect the level of underpricing stock in Initial Public Offering in Indonesia Stock Exchange (IDX). Data analysis uses multiple linear regression method with significance rate of 5%. The objective of this research is to test the impact of variabel such as Debt to Equity Ratio (DER), Return on Assets (ROA) and Return On Equity (ROE) to underpricing stock. The sampling technique is purposive sampling method with total sample 57 out of 79 IPO companies in IDX in 2011-2013. The test result of Test-t and Test-F proves that all of the independent variables in this study namely Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) have not partially and simultaneously significant effect on the level of underpricing stock.

KEYWORDS
Underpricing, Debt to Equity Ratio

OVERVIEW

The economic developmennt now give the effect for the strength competition between one company and others it makes increasing of the effort from the company to developing the company and do act to get fund for business expansion. Go Public is one of the alternatif by the company used to get new income that is sell shares of the company to public. The named "go public" (Public offering) means law term of the activity of an Emiten to marketing, offering, and than selling the effects of published, in the stocks, obligation, and other effect for public in generally. Therefore , Public Offering is the activity of emitten to sell the effects for public which is expected deal and than give the new income for Emitten to developing the company, pay debts, and for the other activity that desired. (Gunawan and Wulandari, 2009:6). In the process of Go Public, before trading in the secondary market, stocks previously sell in the primary market. The stocks which already sell to public than written on Stock Exchange and this activity called as "Initial Public Offering ". As for Sitompul (2000), Initial Public Offering be expected can increasing the net income of the company, without need to pay back or asking additional loan.

As for Ritter (1991) in Johnson (2013), the stock's price determined of depend on deal between Emiten (Issuer) with Underwriter in Initial Public Offering often exist the differnce of the Stock's Price. In the treading on Stock Exchange. Stock's price in time of IPO tend to lower than compared with the stock's price on Stock Exchange at the first day (closing price). This phenomena "called" underpricing and out performed"

Underpricing is a Phenomena of Stock's price when the offering in the prime market always lower than at the closing price in the first day of selling on secondary market. While overpricing or "underpricing negative" is a condition when the first price higher than the closing price in the first day in secondary market. (Yasa, 2008).

If there's underpricing, Company which spend the stocks will loss the chance to get the maximum fund. Otherwise if overpricing, so the company will get maximum fund because a company can accumulating the fund cheaper.

The underpricing phenomena are interesting to be exploration because as we know that the underprincing point which in the theory can be minimalize but, in the implementation still many companys have underpricing.

There is so many kind of method to analize the financial perfomance in the company. On of them is by analitation of ratio in the emiten financial report.

Debt to Equity Rasio (DER) is one of the laverage ratio. DER shows about the capability of company in meet all the obligation that asked by part of the equity that used to pay the liability. The high Financial leverage showing the financial risk or the company's eror to return the loan will higher or contrarily. (Ang, 1997 by Handayani dkk, (2008). Wulandari (2011) and Tyagita (2009) Research get if as high as financial leverage in the company so that higher in the initial reutrn. Handayani et.all (2008), Retnowati (2013), and Kurniawan (2006) who show that Variabel in Debt Equity Ratio didn't give significant impact for initial return.

Return on Assets (ROA) is the size of profitability of the company. The high Companys probability will dicrease the uncertainty IPO so that can decrease level of stock's underpricing. As Shendy et.all (2012) and Suyatman et.all (2006) that the variable ROA give the significant impact for Underpricing Stocks. Otherwise as Astuti et.all (2013), Retno (2013), and Handayani et.all (2008) said that there is no corelation between ROA level with initial return.

Return on Equity (ROE) is a net profit for Stock holder devide with the total equity of the stock holder. The Stock holder of course want to get the high return level for the capital which invested by them, and ROE show the level that got by them. (Brigham Houston, 2010:133) The ROE level determine investor to investation. The research by Yolana et.all (2005) and Tyagita (2009) how that ROE has significant impact positive for underpricing. Otherwise as Muna Amalia et.all (2007) that there is no significant impact between ROE level with Stock Underpricing level. By Johnson Research (2013) not significant ROE result can cause by many factor that is the capability of each Industry to produce the high profit are different. Other reason why ROE didn't give impact of the purpose of buying stock is the speculation purpose not investation, for speculan ROE is not too important because they will not keep their Stock for a long time. Although ROE Variable didn't have significant , the negative point of of regretion coefisien is appropriate with the result of the Research. As high as ROE means lower the level of underpricing Stock. Because ROE is one of indicator of company eficiency in poduce the capital.

In other research we can see that still high the phenomena of underpricing in companys that doing IPO in 2011-2013 and there's the unconsistent of the reaserch result about the factors that influence underpricing Stock.

LITERATURE REVIEW

UNDERPRICING

Underpricing is a phenomena of stock's price in a offering at the prime market as sicnificant its's lower than the closing price of stock in secondary market. In Chastina Yolana and Dwi Martani (2005) definition of underpricing is there's positive difference between stock's price in secondary market with stock's price in prime market or at IPO time. The price difference which is known as initial return (IR) or positive return for investor.

The underpricing phenomena often make a problem in the company, that is Between a company which sell their stock in prime market with investor who will do in incestation. That is the reason why the owner want to minimalize underpricing :

1. If stock sell in underpricing condition , means company loss a chance to get fund as maximal.
2. underpricing will make transfering of fund between owner to investor. Especially who buy a stock in prime market will get capital gain

Otherwise investor want to underprincing being bigger because as big as underpricing will make capital gain bigger which is accepted when stock sell in secondary market (Hapsari, 2012). Underpricing reflected from initial return that is a difference between stock price in secondary market wth the prime price in primary market. In this research underpricing stock count with formula :

$$\text{Initial Return} = \frac{P1 - P0}{P0} \times 100\%$$

Remarks :
P0 = Offering Price
P1 = Closing Price

INITIAL PUBLIC OFFERING (IPO)

Initial Public Offering (IPO) or prime general offering is the sell of stock by the company for first time. This is done by company to get additional fund with find other partner who want invest the capital for company (Sitompul, 2000 : 11)

THE FACTORS WHICH INFLUENCE UNDERPRICING

Phenomena of underpricing affected by many factors and this is the study of factor which be variabel in this research:

DEBT TO EQUITY RATIO (DER)

DER is one of the ratio leverage or Solvabiity. DER count the capability of the company which fulfill the obligation in long time. The company which not solvabel is the company which the liability bigger than total of asset. (Hanafi, 2004:40). DER show between leverage level than the own capital of the company. DER also give warranty about how big the liability of company kept by own capital of the company which used as Company Fund. (Ang, 1997 in Handayani et.al, 2008) the formula from DER Variabel is:

$$DER = \frac{Total\ \text{Liability}}{Total\ \text{Equity}} \times 100\%$$

RETURN ON ASSETS (ROA)

Return on Asset (ROA) is one of the ratio profitability. Profitability is a net return from the policy and decision. Profitability ratio show the influence between liquidity, activa manager, liability manager of the operation result (Brigham, Weston: 1994). ROA used to counting ability of the company to make a net profit based on the asset level. The high Ratio show the efisience and efectivity of asset manager are better (Hanafi, 2004:42). This Ratio show the capability of profit in the future (Brigham Houston, 2010:148). ROA count with the formula:

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

RETURN ON EQUITY (ROE)

Return on Equity (ROE) is one of profitability ratio. Return On Equity (ROE) is a ratio which often use to count the level of the refund of investation by stock holder. This ratio used to compare the net profit with total equity. (Brigham Houston,2010:149). ROE used to counting ke capability of the company to make a net profit by the capital. This ratio is a profitability see from stock holder's point of view. (Hanafi,2004:43).

ROE can count with the formula:

$$ROE = \frac{Net\ Profit}{Total\ Equity} \times 100\%$$

FIGURE. 2.1 THE THEORY STRUCTURE

Based on the mindset grafic show that the hypotesis:

Ha (1) : DER, ROA and ROE as a partial give the sicnificant influence for the underpricing stock level.
Ha(2); DER, ROA, and ROE in common give sicnificant influence for underpricing stock level.

METHODS

TABEL 3.1: SUMMARY OF OPERATIONAL DEFINITION AND VARIABEL INDICATOR

Variabel	Definisi	Pengukuran	Satuan
Initial Return	*Difference between the closing of stock price at first day in secondary market with stock price on the prime offering devide by prime offering stock price*	$= \dfrac{P1 - P0}{P0}$ X 100 %	*Ratio*
Debt to Equity Ratio(DER)	*Percentage of Company's liability to total of Equity (own Capital)*	$= \dfrac{Total\ liability}{Total\ Equity}$ X 100 %	*Ratio*
Return On Assets (ROA)	*Percentage of net profit of the company with total of Company's Assets*	$= \dfrac{Net\ Profit}{Total\ Assets}$ X 100 %	*Ratio*
Return On Equity (ROE)	*Percentage of clear profit from company to Equity tottal (Own Capital)*	$= \dfrac{Net\ Profit}{Total\ Equity}$ X 100 %	*Ratio*

Source: Secondary Data on,2014

TYPE AND SOURCE OF DATA

In this research writer use the quantitative data type that is report from finance and ratio of finance data (Debt to Equity Ratio, Return On Assets, and Return On Equity) Company year 2011-2013.

The source of the data are secondary data from www.idx.co.id dan www.e-bursa.com

Secondary data needed in this research are :

1.   List of the company's which doing IPO in 2011-2013
2.   List of the prime stock price in first day in market secondary find from www.e-bursa.com in 2011-2013.

POPULATION AND SAMPLE

In this research writer take population from all company which doing IPO in BEI in 2011-2013. In periode 2011-2013 there's 79 companies which doing IPO in Indonesian Stock Exchange.

The technique to take a sample by Purposive sampling. Samples have a characteristic

1.   Sample must be a company which doing Initial Public Offering and listing in indonesian Stock Exchange in 2012-2013
2.   The company didn't delisting
3.   The company didn't overpricing/accuratepricing
4.   The company didn't outlier
5.   Have the financial data a year before IPO
6.   The company's stock didn't underpricing

From 79 IPO Companies in 2011-2013 only 57 companies doing underpricing. 4 companies accuratepricing, 15 companie overpricing, 3 companies out off because outlier.

Based on this requirement this 79 companies which doing IPO in Indonesian Stock Exchange in 2012-2013. But only 57 companies which appropriate with the requirement.

DATA ANALYSIS METHODS AND DISCUSSION

Data analysis methods used in this research is multiple linear regression analysis with SPSS for Windows. The aim of this study was to obtain empirical evidence variables influence Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) to underpricing stock.

To test the method of multiple linear regression analysis used the model is:

UP = a+b1DER+b2ROA+b3ROE+e

Remarks:

UP = Underpricing first day as the dependent variable

a = constants

b1, b2, b3 = regression coefficient of each independent variable

e = error term

The Results of Regression

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-1.524	.315		-4.831	.000		
Debt to Equity Ratio	-.011	.007	-.251	-1.534	.131	.671	1.489
Return On Assets	-1.741	2.903	-.128	-.600	.551	.393	2.546
Return On Equity	.035	.079	.101	.448	.656	.356	2.806

Coefficientsa

a. Dependent Variable: LnUP

From the result of regression analysis over the first hypothesis or Ha (1) states that, based on the statistical test known variable t DER does not positively and significantly effect on underpricing. It can be seen from the result of the testing parameters t value 1.534 <t table 1.674 and views of the significance value of 0.131 which is greater than 0.05 so that H0 is accepted. These findings do not support the result of research conducted by Wulandari (2011) and Tyagita (2009), which states that the higher a company's financial levverage the higher its initial return. However, these findings support the result of research conducted by Handayani (2008), Retnowati (2013), and Kurniawan (2006) which states that the DER does not significantly effect on underpricing.

Thus Ha (1) which states DER significantly effect on underpricing, can not be accepted.

DER variable does not significantly effect on underpricing because the higher the value of DER signifies the company uses high debt. The use of high debt will increase profitability, on the other hand high debt will also increase the risk. As a result, investors tend to avoid stocks that have a high DER value.

Based on the statistical test t is known that ROA does not positively and significantly effect on underpricing. It can be seen from the result of the testing parameters t value of 0.600 <1.674 and views of the significance value of 0.551 which is greater than 0.05 so that H_0 is accepted. These findings do not support the result of research conducted by Shendy et al (2012) and Suyatmin et al (2006), which states that the variable ROA significantly influence underpricing. However, these findings support the result of research conducted by Astuti et al (2013), Retnowati (2013), and Handayani (2008) that there is not relationship between the magnitude of the initial return ROA.

Thus Ha (1) which states ROA positively and significantly effect on underpricing, can not be accepted.

ROA does not significantly effect on underpricing as investors have alleged that the financial statements of companies that conduct an IPO has been marked up to show better performance. Thus investors do not pay attention ROA presented in the prospectus, but tend to refer to the ROA for several years before the company Go Public.

Based on the statistical test t is known that the ROE does not positively and significantly effect on underpricing. It can be seen from the result of the testing parameters t value 0.448 < t table 1.674 and views of the significance value of 0.656 which is greater than 0.05 so that H_0 is accepted. These findings do not

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support the research conducted by Yolana et al (2005) and Tyagita (2009), which states that the ROE significantly effect on underpricing. However, these findings support the research conducted by Saftiana et al (2007) found that there is not difference between the amount of ROE with the level of underpricing.

Thus Ha (1) which states ROE positively and significantly effect on underpricing, can not be accepted.

ROE does not significantly effect on underpricing as investors in buying shares in the primary market was very attentive to the company's ability to generate net income.

The second hypothesis or Ha (2) states that the alleged Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) together significantly effect on underpricing. To test this hypothesis, F test, where the result of the analysis show significance value is 0.454 greater than the predetermined significance level of 0.05. In this research note that H_0 is accepted, it indicates that the variable Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) together does not significantly affect on underpricing.

CONCLUSION

From the result of the analysis can be deduced such as:

1. Debt to Equity Ratio (DER) does not significantly effect on underpricing, it is evident from the result of the testing parameters t value 1.534 <t table 1.674 and views of the significance value of 0.131 greater than 0.05 so that H_0 is accepted and Ha rejected.
2. Return on Assets (ROA) does not significantly effect on underpricing, it is evident from the results of the testing parameters t value of 0.600 <1.674 and views of the significance value of 0.551 which is greater than 0.05 so that H_0 is accepted and Ha rejected.
3. Return On Equity (ROE) does not significantly effect on underpricing, it is evident from the results of the testing parameters t value 0.448 < t table 1.674 and views of the significance value of 0.656 which is greater than 0.05 so that H_0 is accepted and Ha rejected
4. Debt to Equity Ratio (DER), Return on assets (ROA) and Return on Equity (ROE) simultaneously effect on underpricing, this is evidenced by the value of sig F 0.454 greater than the significance level which has been determined as 0.05, thus H_0 and Ha rejected.

THEORETICAL IMPLICATIONS
POLICY IMPLICATIONS

1. The results of this study stated that the Debt to Equity Ratio (DER) does not effect on underpricing. These findings do not support the results of research conducted by Wulandari (2011) and Tyagita (2009), which states that the higher a company's financial leverage, the higher its initial return. However, these findings support the result of research conducted by Handayani (2008), Retnowati (2013), and Kurniawan (2006) which states that the DER no significant effect on underpricing.
2. The result of this study stated that the Return on Assets (ROA) does not effect on underpricing. These findings do not support the result of research conducted by Shendy et al (2012) and Suyatmin et al (2006), which states that the variable ROA significantly influence the level of underpricing. However, these findings support the result of research conducted by Astuti et al (2013), Retnowati (2013), and Handayani (2008) that there is not relationship between the magnitude of the initial return ROA.
3. The result of this study stated that the Return On Equity (ROE) does not effect on underpricing. These findings do not support the research conducted by Yolana et al (2005) and Tyagita (2009), which states that the ROE significantly effect on underpricing. However, these findings support the research conducted by Saftiana et al (2007) found that there is not difference between the magnitude of the level of underpricing ROE stocks.

PRACTICAL IMPLICATIONS

1. Investors should consider the value of ROE listed in the prospectus which is considered too high, as this could indicate that the issuer may have mark-up ROE value in the financial statements to attract investors.
2. For issuers that do an IPO in the future, it is advisable to pay attention to the Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) has an influence on underpricing. This is done so that the underpricing of shares are not too high.
3. For those who want to invest underwriter can use fundamental factors to be able to analyze the company and reduce the level of uncertainty underpricing. With this fundamental analysis, is expected to be considered for both the issuers and underwriters in determining the price of the stock, so as to achieve a fair price that is mutually beneficial.

SUGGESTIONS

Put forward suggestions below are intended to provide greater benefits for similar studies in the future:

1. For further research should add independent variables in order to be able to explain the cause of which is estimated to affect stock underpricing. Should variables used expanded using variables include non-financial variables.
2. Using a longer observation time, so it can be precisely known variables affecting the underpricing and samples obtained will be more.
3. Although this study can not prove that there is a significant effect of Debt to Equity Ratio (DER), Return on Assets (ROA) and Return on Equity (ROE) to underpricing, but for issuers and underwriters who want to invest can use fundamental factors to be able to analyze the company and reduce the level of uncertainty underpricing.

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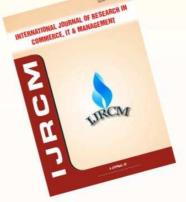
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