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Review Article

Analysis of Factors which Affect Company Shares Underpricing Level at Initial public offering (IPO) on the Indonesia Stock Exchange Period 2013-2018

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Abstract *- Alternative funding from an external company is through an inclusion mechanism that is generally done by selling company shares to the public or is often known by going public terms. If the Company has already decided to take Go Public at the beginning, it has to start its initial company share known as Initial Public Offering (IPO). The absence of an observable previous market price to be used as a bid determination makes the initial stock price determination at IPO very difficult. If the price of shares on the primary market (IPO) is lower than the shares price on the secondary market on the first day, then there will be a phenomenon of low prices on the initial offering market, which is referred to as Underpricing. Several factors affect Underpricing, which are Underwriter Reputation, The Age of the Company, The Company Size, and Return on assets.*

Keywords *-Underpricing, Underwriter Reputation, The Age of Company, The Company Size, and Return on Asset.*

I. INTRODUCTION

IPO is a company activity in the capital market when it sells its shares for the first time to investors who only happen in the primary market. IPO (Initial Public Offering) is expected to improve the Company's prospects that occur due to the expansion that will be done (Handayani, 2008). The absence of a previous market price that can be observed to be used as a bid setting makes fixing the initial stock price on an IPO very difficult. If the initial market price (IPO) is lower than the stock price on the secondary market on the first day, there will be a low price phenomenon in the initial offering market, which is referred to as underpricing. The Company that experiences underpricing at the time of an IPO can be influenced by several factors, which are Underwriter Reputation, Age of the Company, Size of the Company, and Return on Assets. Underwriters' reputations can be seen from two sides, from the client and investor sides. If seen from the client-side, underwriters who have a good reputation can bedetermined from the level of demand for guarantee services from clients. More issuers that entrust IPO to underwriters means that underwriters can be said to have a good reputation. Meanwhile, from the perspective of potential investors, the underwriter's reputation can be seen from the value of the IPO (gross proceeds). The higher the value of the IPO, means the greater the confidence of potential investors in the underwriter. The age of the Company can show the Company's ability to survive and the amount of information that can be absorbed by the public. The age of the Company shows how long the Company is able to survive and is proof that the Company is able to compete and can seize the business opportunities that exist in the economy (Kristiantari, 2013).

The size of the Company is a reflection of the Company's potential in generating cash flow and the ability to access greater information. The size of the Company is the value that determines the size of the Company as indicated by the total assets owned. The greater the Company's assets will indicate the greater the size of the Company.

Return on Assets (ROA) is one of the profitability ratios. In the analysis of financial statements, this ratio is most often highlighted because it is able to show the Company's success in making profits. ROA is able to measure the Company's ability to generate profits in the past and then projected in the future.

Underpricing is the difference between the initial offering price and the closing price of IPO shares in the secondary market on the first day. Underpricing phenomenon occurs globally in various world capital markets, both developed markets and emerging markets such as in the United States with an underpricing rate of 18.4%, Thailand 46.7%, Malaysia 104.1% and in Indonesia alone, the level of underpricing reaches 19.7% (Zirman and Darlis.201

II. LITERATURE REVIEW & HYPOTHESES

The underpricing condition is detrimental for companies that go public because the funds obtained from the public are not maximized. Conversely, if it is overpriced, then the investor will lose because they do not receive an initial return (initial return) (Retnowati, 2013). Underpricing is the price difference when the issuer's shares were first offered, lower than the price at the close on the first day of stock trading. Meanwhile, according to Johnson (2011), underpricing is a positive difference between the prices of shares on the stock exchange with the price of shares on the primary market at the time of the IPO. Based on the explanation above, there are several hypotheses that can be formulated:

H1: Underwriter's reputation has an effect on the level of underpricing

Underwriters and issuers will make agreements to determine the price of shares to be offered in the primary market, while the price of shares in the secondary market will be determined by market mechanisms. In carrying out its duties, the underwriter will make a contract with the issuer to make a public offer for the interests of the issuer with or without the obligation to buy the remaining unsold shares. In this case, the underwriter has better information about the demands of the issuer shares compared to the issuer itself. According to Ghozali and Mansur (2010), that underwriter reputation significantly influences the phenomenon of underpricing with the direction of the negative correlation coefficient.

H2: The Age of Company has an effect on the level of Underpricing

The age of the Company is one of the things that investors consider in investing (Chisty, 2008). The age of the issuer company shows how long the Company is able to survive and is proof that the Company is able to compete and can take the business opportunities that exist in the economy. The longer the Company's life, the more information obtained by the public about the Company (Daljono, 2000).Thus it will reduce the information asymmetry and reduce uncertainty in the future (Rosyati and Syabeni, 2002). The longer the Company survives, it is possible that the Company has a lot of experience.

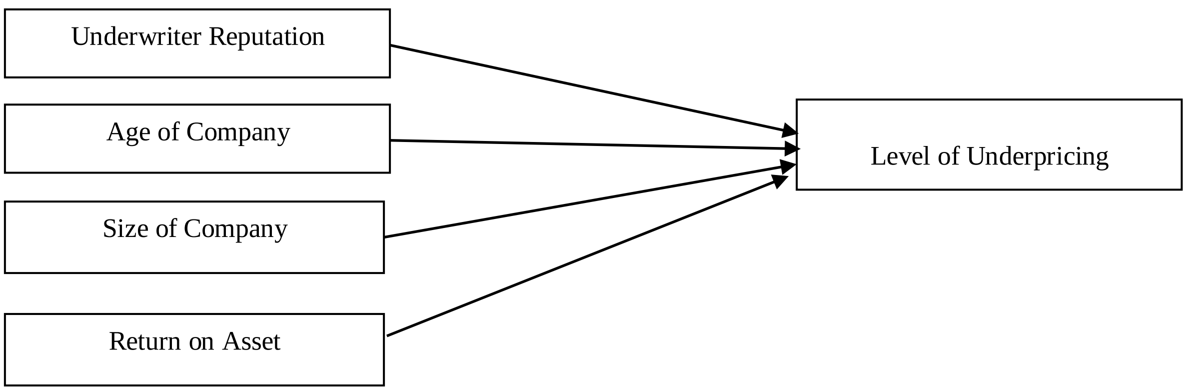
H3: The Size of the Company has an effect on the level of underpricing

Company size can be used as a proxy for stock uncertainty. Large-scale companies tend to be better known to the public, so that information about the prospects of large-scale companies is more easily obtained by investors than small-scale companies. The level of uncertainty that will be faced by potential investors regarding the future of the issuer company can be reduced if the information obtained is large (Ardiansyah, 2004).

H4: Return on Assets has a positive effect on the level of Underpricing

Return on Assets is often used to assess a company's ability to make a profit through its total assets. ROA is one of the considerations of investors to invest their funds. High profitability will attract more investors to invest so that the demand for Company shares increases. As a result, stock prices will rise. Research conducted by Trisnawati (1999) and Daljono (2000) has proven that the Company's Return on assets has a significant and positive effect on underpricing.

The four-research hypothesis above can be drawn in the proposed research model below



III. RESEARCH METHODOLOGY

The method used in this study is the quantitative method. This method is called the quantitative method because the research data is in the form of numbers and analysis using statistics. By using the quantitative method then we will obtain the significance of group differences or the significance of the relationship between the variables studied. The data used is a secondary power in the form of company financial statements contained in the Indonesia Stock Exchange (IDX). This research also uses the Prospectus of the Company, which was published at the time of an initial public offering (IPO).

IV. RESULTS AND DISCUSSION

A. Results

In the Underwriter Reputation Descriptive Analysis results, it is known that companies on the Indonesia Stock Exchange in the 2013-2018 periods that carried out and used reputable underwriters were 62.1% IPO as much as 62.1% and the remaining 37.9% who did not use reputable underwriters.

Table 1. Underwriter Reputation Descriptive Statistics

Underwriter

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Top 10	41	62.1	62.1	62.1
	Non Top 10	25	37.9	37.9	100.0
	Total	66	100.0	100.0	

Henceforth, the table of regression results in table 2 will show the Underwriter Reputation, Company Age, Company Size, and Return on Assets affect the level of Underpricing.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Umur	66	2	100	20.97	17.184
Ukuran	66	10.19	13.14	11.9049	.56608
ROA	66	-24.35	47.24	8.1968	10.31237
Valid N (listwise)	66				

V. DISCUSSION

Regression results for the Underwriter Reputation variable indicate that there is no effect on the dependent variable Underpricing. Underwriter Reputation has no effect on the level of Underpricing, meaning that the level of underwriter reputation does not affect the level of Underpricing. This result controverts with previous research conducted by Andreas Nova Setiawan (2015)and Prastica (2012), which states that the reputation of Underwriters has a positive effect on the level of underpricing.

Company age shows that there is no effect on the underpricing dependent variable, which means that the higher or lower age of the Company doesn’t affect the level of underpricing. The results of this study are in line with research conducted by Sri RetnoHandayani (2008) which states that the age of the Company is not significant to the level of underpricing. But this study does not support research conducted by Andreas Nova Setiawan (2015) which states that Company Age has a negative effect on the level of underpricing.

Company size shows a significant negative effect on the underpricing dependent variable, meaning that the higher the company size, the lower the level of underpricing. This study is in line with research conducted by PaschaliaIrine (2017) which states that company size has a significant negative effect on underpricing. That is, there is an inverse relationship between the two variables. The greater the size of the Company, the underpricing level will be smaller.

Return on Assets shows a significant negative effect on the underpricing dependent variable, meaning that the higher the Return on Assets (ROA), the lower the level of Underpricing. The results of this study are in line with research conducted by TifaniPuspitasari (2011) which states that the higher the return on assets (ROA), the lower the level of underpricing in the Company. But this research is not in line with research conducted by Sri RetnoHandayani who stated that Return on Assets (ROA) significantly influence the level of underpricing.

VI. CONCLUSION & SUGGESTION

From the results of the discussion above it can be concluded that the Underwriter Reputation and Company Age do not have an effect on the level of Underpricing of shares, while Company Size and Return on Assets have a negative effect on the level of Underpricing of shares, for return on assets (ROA) have not been the focus of investors in investing. Besides that the relatively low ROA value causes this variable not to affect the level of underpricing. The ROA variable does not affect the level of underpricing can be influenced by investor distrust of the financial statements produced by companies that conduct IPOs. This research is expected to be useful for investors when making a decision to make an investment using the Company's age as one of the considerations in making investments and for further research, it is suggested to use a more consistent and clear measurement tool for measuring the reputation of the underwriter. Inconsistencies can result in inconsistent results in the research conducted. In addition, further research can use other variables such as interest rates, economic growth percentages, and exchange rates to expand research.

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