The Effect of Company Size, Financial Leverage, And Profitability of Share Overpricingat The Initial Public Offering (Ipo)

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ABSTRACT

This study aimed to prove the effect of company size, financial leverage, and profitability on stock overpricing. The population of this research was the companies which conducted initial public offering (IPO) which were listed on the Indonesia Stock Exchange (BEI) in 2009 - 2018. This research used purposive sampling technique and the number of samples obtained was 31 companies. The results of this study indicate that the variable company size and financial leverage have no effect on overpricing. In contrary, the profitability variable has a positive effect toward overpricing.
Keywords: Company Size, Financial Leverage, Profitability, Overpricing

1. INTRODUCTION

Indonesia's economy that continues to develop rapidly will certainly increase the competitive climate in the business world. It can be seen from the number of companies that are expanding to gain profits and maintain their business. The funds needed to maintain the survival of the company is quite large. Therefore, generally, the companies have several alternative sources of funding to carry out their operational activities (Vina and Mustafa, 2016).

The first public offering sale of shares transaction took place in the primary market. The activities carried out in public offering of shares sale are referred to as initial public offerings (IPO). IPO is conducted on the primary market, which is the market for companies that make a public offering (issuer) to sell their shares to investors for the first time. Then, shares can be traded on a share exchange called the secondary market (Arfandy, 2013).

Based on data obtained from www.e-bursa.com, there were 273 companies conducting IPOs on Indonesia Stock Exchange in 2009-2018 periods. Based on the data obtained, 235 companies or around 86.08% experienced underpricing, 31 companies or 11.36% experienced overpricing, and 7 companies or around 2.56% experienced fixed share prices.

Underpricing and overpricing will pose different risks for companies and investors. Underpricing happens when the price at IPO is lower than the price that occurs in the secondary market on the first day (Jogiyanto, 2010). The overpricing happens when the price in primary market is higher than those in the secondary market (Lestari et al. 2015).

The undepricing condition is an unfavorable condition for the company because as the party that needs funds, the company must obtain a maximum IPO price. Whereas, if there is overpricing, then the investors will get the disadvantages because they did not receive an initial return. Initial return is the profit obtained from shares purchased in the market offered at the initial price offered in the secondary market. Based on research conducted by Saputra et al. (2016), the factors that influence underpricing are old company, company size, asset return and financial leverage. Therefore, this study discusses the factors that influence underpricing can also affect overpricing.

Underpricing is an interesting phenomenon since it is experienced by most capital markets in the world and it is often found in the primary market (Ritter, 1991). The number of studies on companies going public that often arises is underpricing. However, there are several percent of companies that experience the overpricing. Threfore it seems interesting that the unusual companies occur. The research of the overpricing level is interesting for financial researchers to empirically evaluate the behavior of investors in making investment decisions on the capital market. The factors that influence overpricing in this study are company size, financial leverage, and profitability.

Company size is a representation of the company in generating cash flow and the ability to access the greater information. The company size is the value which determines the size of the company that is indicated by the total assets owned. According to Prastica (2012), the large-scale companies are more well-known to the public when compared to small companies.

Financial leverage is the ability of a company to repay debt with equity owned. Financial leverage is often used by investors to determine investment decisions, high financial leverage indicates the risk of a company is also high (Kim et al., 1993). Therefore, when the company conducts an initial public offering, the company will improve the ability of this ratio since this ratio is one of the useful information for investors.

Profitability is a representation of a company's ability to make a profit through all available capabilities and sources such as sales, cash, capital, number of employees, and the number of branches (Harahap 2015: 304).

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 Information Asymmetry

Asymmetry of information is an imbalance of information that occurs because there are parties who can obtain and use the information for their interests while other parties can not obtain the same information (Scott, 2009). Information asymmetry is the difference of information obtained by internal and external

parties of the company. The difference of information obtained causes different expectations for the issuer and investors.

The mechanism that can be carried out to minimize the occurrence of information asymmetry by disclosure is issuing a prospectus as a source of information for the investors. Firth (1992) states that prospectus information provides an overview of the company condition and earnings forecasts that become the basic points in making investment decisions.

Prospectus regarding IPO will be distributed by underwriters or shares brokers to potential investors (Yolanda and Martani in Laila, 2012: 23). So the information contained in the prospectus will help investors in making rational decisions about the risk of the actual value of shares offered by issuers (Kim, Krinsky and Lee, 1995). An experienced and reputable underwriter can also minimize information gaps and increase the value of the company toward investors' sight because it shows the seriousness and existence of the company towards its investors.

2.2 Signaling Theory

Signaling Theory or signal theory developed by Ross (1977) states that the executive company which has better information about the company will be encouraged to convey the information to prospective investors so that the company's shares price increases. Signaling theory is a theory that discusses the signs that are depicted in each of the various policies undertaken by companies, especially in companies that go public, and those signs are captured by investors as one of the supporters in making decisions (Fahmi, 2015: 172).

According to Hartono (2014), information published as an announcement will give a signal to investors in making investment decisions. When the information is announced, market participants will first interpret and analyze the information as good news or bad news, if the information announcement is considered as good news, the investors will be interested in shares trading, thus the market will react which is reflected through the changes in shares trading volume (Suwardjono, 2010).

2.3 Effect of Company Size toward Overpricing

A large-scale company is more well-known by the public than a small company. The company size also determines the level of investor confidence (Prastica, 2012). Information of large companies is more and more easily obtained by investors compared to small companies. It will reduce information asymmetry in large companies so it affects the level of overpricing. The company's total assets indicate the amount of funds owned by the company (Martani et al. 2012). That case can be used as a signal if the company has good prospects in the future. The total assets owned by the company can represent the company's ability to meet its obligations. Based on this, the following hypothesis is proposed.

H_1 = *company size has a positive effect on overpricing.*

2.4 The Effect of Financial Leverage on Overpricing

Financial leverage is the ability of a company to repay debt with equity owned. Financial leverage is often used by investors to determine investment decisions. High financial leverage also indicates the high risk of a company (Kim et al., 1993). In addition, the debt interest burden borne by the company is also higher. Conversely, companies with low leverage show that the company has the ability to pay off its debts. One of the ratios used is the debt to equity ratio (Kasmir, 2010). A high debt to equity ratio indicates a financial risk or the risk of a company's failure to repay loans, and vice versa. Therefore, when the company will conduct an initial public offering, the company will improve the ability of this ratio because it is one of the useful information for investors. Based on this, the following hypothesis is proposed.

H_2 = *Financial leverage has a negative effect on overpricing.*

2.5 Effect of Profitability against Overpricing

Profitability is an important consideration for investors when buying shares. Profitability shows the efficiency of the company in utilizing existing assets to generate profits, so the ratio illustrating the high level of efficiency of the company will be higher. If the efficiency is high then the company is expected to be profitable. To measure profitability, this study used Return on Assets (ROA). This ratio will provide information to outsiders about the effectiveness of the management of a company which is shown by profits generated from sales or investment income (Kasmir, 2013). The higher level of ROA or profit, the greater the investor's interest toward the company's shares. This situation certainly attracts investors to buy company shares, so the share price will increase (Widhiastina, 2016). Based on this, the following hypothesis is proposed.

H_3 = *Profitability has a positive effect on overpricing.*

3. RESEARCH METHODS

3.1 Data and Samples

The type of data used in this study was secondary quantitative data obtained from other parties that had been collected or processed into data for analysis purposes. The data used came from the company's financial statements conducting IPO during the 2009 to 2018 research period obtained from the IDX. The data was obtained from the Indonesian Stock Exchange (IDX) at the period 2009−2018. This study used *purposive sampling method* as sampling technique. Criteria for determining the sample of companies that would become the sample of this study were as follows:

1. Companies that go public and are listed on the initial public offering market, and are listed on the Indonesia Stock Exchange 2009-2018.
2. Companies that experience overpricing.
3. Companies whose financial statements use rupiah.
4. Companies that have information or data completeness related to the variables used in this study, namely company size, financial leverage, and profitability.

3.2 Dependent Variable

The dependent variable in this study is overpricing. Overpricing, that is, the first day's share price in the secondary market is lower than the initial offering share price. The amount of overpricing is measured by the initial return. It is the difference of shares price or losses obtained by shareholders due to the difference in shares price purchased on the primary market with the selling price of the relevant shares of the secondary market on the first day.

3.3 Independent variable

3.3.1 Company Size

The size of the company is a representation of the company's potential in generating cash flow and the ability to access greater information. The company size is the value that determines the size of the company which is indicated by the total assets owned. The size of the company using total assets refers to the research of Mayasari et al. (2018).

3.3.2 Financial Leverage

Financial leverage shows the company's ability to repay debt with the total assets it has. Financial leverage is measured by DER (Debt to Equity Ratio), which is the ratio of total debt to equity owned by the company. Financial leverage is measured by DER according to research by Vina et al. (2016).

3.3.3 Profitability

Profitability is a ratio to measure the overall effectiveness of management aimed at the size of the profits level obtained in relation to sales or investment, the better this ratio, the better it represents the ability of high profitability. Profitability is measured by using Return on Asset (ROA) ratio. ROA value can be measured by formula or net profit after tax with total assets. This profitability is measured by ROA according to research of Retnowati (2013).

3.4 Data Analysis Method

Regression analysis is basically a study of the dependent variable with one or more independent variables, with the aim of estimating or predicting the population average or dependent variable avarage based on the value of known independent variables (Gujarati, 2003). This study used Multiple Linear Regression Analysis techniques with the stepwise method, with the following model.

$$\mathbf{OP = \alpha + b1SIZA + b2LVRG + b3\ ROA + e}$$

Information:

α = Constant

b1, b2, b3 = Regression Coefficient

OP = Overpricing (initial return)

SIZE = Company Size

LVRG = Financial Leverage

ROA = Profitability

e = Error

4. FINDINGS AND ARGUMENT

4.1 Description of Research Samples

This study used a population of companies that conducted an initial public offering (IPO) on the Indonesia Stock Exchange in the 2009-2018 periods. A purposive sampling method was used in collecting sample. In this population, researchers obtained 31 study samples.

Table 4.1

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
OP	-40,00	-,51	-9,9073	9,76315
SIZE	11,18	13,26	12,2997	,54610
LVRG	,09	3,84	,9047	,81039
ROA	-,02	.12	,0512	,03981
Valid N (listwise)				

1. The overpricing variable has the lowest value of -40 and the highest value of -0.51, with an average value of -9.9073 and a standard deviation of 9.76315.
2. The company size variable which is calculated using total assets with total data of 31 has the lowest value of 11.18 and the highest value of 13.26 with an average value of 12.2997 and the standard deviation of 0.54610.
3. Financial leverage variable which is calculated using total debt with equity with total data of 31 has the lowest value of 0.09 and the highest value of 3.84 with an average value of 0.9047 and a standard deviation of 0.81039.
4. Profitability variable which is calculated using profit after tax with total assets with total data of 31 has the lowest value of -0.02 and the highest value of 0.12 with an average value of 0.0512 and a standard deviation of 0.03981.

4.2 Discussion of Research Results

The research hypothesis testing used multiple linear regression analysis, it is a common statistical method used to examine the relationship between a dependent variable with several independent variables. Based on statistical results, it can be concluded the form of multiple linear regression equations for this research model, namely:

OP = -48,327 + 2,492 SIZE + 3,622 LVRG + 87,879ROA + e

Information:

α = Constant

b1, b2, b3 = Regression Coefficient

OP = Overpricing (initial return)
SIZE = Company Size
LVRG = Financial Leverge
ROA = Profitability
e = Error

4.3 Determination Coefficient Test (R2)

Table 4.2

Determination Coefficient Test Results

Adjust R Square	Std. Error of the Estimate	Durbin-Watson
,131	9,09991	2,146

Based on the test results above, it can be seen that the coefficient of determination (R2), namely Adjusted R Square is 0.131 or 13.1%. These results indicate that the ability of the independent variable that is the company size, financial leverage, and profitability in explaining the dependent variable is still very limited at 13.1% while the remaining 86.9% is influenced or explained by other variables that cannot be explained by the independent variables in this research.

4.4 Simultaneous Significance Test (Statistical Test f (f-test))

Table 4.3

Simultaneous Significance Results (Statistical Test f (f-test))

F	Sig.
2,410	,091[b]

Based on ANOVA test results or F test, it shows the F value is 2.410 with a significance of 0.091. The significance value is less than the α value of 0.091 <0.1 which means that the regression model is feasible to use to predict overpricing or it can be said that all independent variables namely company size, financial leverage, and profitability have a significant influence and should be continued to predict their effects on variables dependent (overpricing).

4.5 Significance Test of Individual Parameters (Statistical Test t)

Table 4.4

Significance Test Results for Individual Parameters (Statistical Test t)

Keterangan	B	T	Sig.
(Constant)	-48,327	-1,156	,258
Ukuran Perusahaan	2,492	,721	,477
Financial Leverage	3,622	1,534	,138
Profitabilitas	87,879	1,999	,057

Based on statistical results, it can be explained that:

4.5.1 The Effect of Company Size on Overpricing

Company size is a representation of the company in generating cash flow and the ability to access the greater information. Large-scale companies are morewell-known by the public when compared to small companies. The nnformation of large companies is more and more easily obtained by investors compared to small companies. Therefore, it will reduce information asymmetry in large companies so it will affect the level of overpricing. Hypothesis testing of 31 observational data with firm size variables (SIZE) shows a positive regression coefficient of 2.492 with a significance level (p) of 0.477, greater than α = 10%. Because the significance level (p) is greater than α = 10%, the first hypothesis (H1) of this study is rejected. The results of this study prove that company size has no effect on overpricing. The results of this study indicate that the size of the company calculated using total assets has not been able to detect factors that may influence overpricing.

4.5.2 The Effects of Financial Leverage on Overpricing

Financial leverage is often used by investors to determine the investment decisions, high financial leverage also indicates the high company's risk (Kim et al. 1993). One of the ratios used is the debt to equity ratio. A high debt to equity ratio indicates a financial risk or the risk of a company's failure to repay loans, and vice versa. The investors in making investment decisions will consider this value. Financial leverage variable shows positive regression coefficient of 3,622 with a significance level (p) of 0,138, greater than α = 10%. Because the significance level (p) is greater than α = 10%, the second hypothesis (H2) of this study is rejected. The results of this study prove that financial leverage has no effect on overpricing. High and low financial leverage obtained by the company does not affect overpricing.

4.5.3 The Effect of Profitability on Overpricing

Profitability ratios are ratios to measure overall management effectiveness aimed at the size of the level of profits obtained in relation to sales or investment, the better this ratio, the better it represent the ability of high profitability. The higher the level of ROA or profit, the greater the investor's interest in the company's shares. This situation certainly attracts investors to buy company shares, so the share price will increase (Widhiastina, 2016). The profitability variable shows a positive regression coefficient of 87,879 with a significance level (p) of 0.057, smaller than α = 10%. Because the significance level (p) is smaller than α = 10%, then the third hypothesis (H3) of this study is accepted. The results of this study prove that profitability has a positive effect on overpricing. The existence of high profits achieved by the company can prove the existence of good management performance so it can be ensured that the company that makes a profit can provide large profits for investors. Therefore, high and low profitability obtained by companies can affect overpricing.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusions

1. Test results show that company size has no effect on overpricing.

2. The test results show that financial leverage has no effect on overpricing.
3. The test results show that profitability has a positive effect on overpricing.

5.2 Research Limitations

The limitations in this study are as follows:

1. This study only uses three independent variables with very limited ability to explain the variance of the dependent variable so there are still other factors that influence overpricing that cannot be explained in this research model.
2. The observation period is not long, that is only 10 periods so that the samples used in this study were few in number.

5.3 Suggestions

Based on the research results above, it can be suggested for further researchers, namely:

1. Adding other independent variables that can affect overpricing which cannot be explained in this study.
2. Extending the observation period to make the samples used can be more representative so the research results can be more accurate.

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