

THE EFFECT OF FINANCIAL, NON-FINANCIAL INFORMATION, AND ECONOMIC CONDITION ON THE LEVEL PRIME SHARE MISPRICING

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Abstract

Amid the recovery in world economic conditions due to the Covid-19 pandemic, companies are trying to make various efforts to obtain additional capital for the company's sustainability; where one of these efforts is by conducting an Initial Public Offering. A phenomenon occurs when a company conducts an IPO, namely initial public offering mispricing, which can be detrimental to investors and the company, so research is needed on what factors can influence initial public offering mispricing. This study aims to see whether profitability, leverage, percentage of public shares, the purpose of using IPO funds, inflation, and economic growth affect the level of initial public offering mispricing. This study's secondary data is obtained from prospectus reports for IPO companies on the Indonesia Stock Exchange (IDX) for 2010-2021. The analysis technique used in this study is descriptive statistics, classical assumption testing, and multiple linear regression, with the analytical tool used as SPSS 26. The results show that profitability, leverage, percentage of public shares, and inflation significantly affect the level of initial public offering mispricing. At the same time, the purpose of using IPO funds and economic growth had little effect on the level of initial public offering mispricing.

Keywords: mispricing, profitability, leverage, percentage of public shares, inflation

1. INTRODUCTION

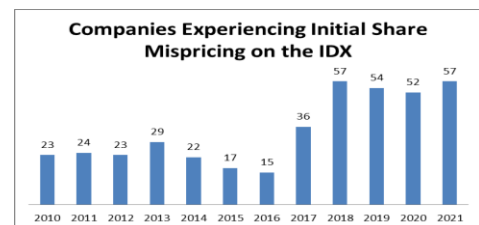
The Covid 19 pandemic has had a significant impact on the survival of the company. So that efforts are needed to increase capital so the company can continue to run amidst the economic difficulties that hit the world. One way to increase company capital is by conducting an Initial Public Offering (IPO). IPO activity is selling company shares to the public in the capital market. [1] state that an IPO is one of the options that companies can take to obtain additional capital to continue the company's sustainability.



Picture 1 : List of IPO Companies on The IDX 2010-2021

In the last twelve years, the growth of IPO companies in Indonesia has grown significantly, with 412 IPO companies. Reporting to www.cnnindonesia.com, amid the Covid-19 pandemic, Indonesia became the country with the most significant number of IPO companies in the ASEAN region, with 51 companies. This number is very high compared to other ASEAN countries, such as Malaysia with 10 IPO companies, Thailand with 3 IPO

companies, and Singapore with 1 IPO company. When conducting an IPO, a phenomenon is certain to occur, namely the mispricing of initial shares. Mispricing is a condition where there is a difference or discrepancy in stock prices in the first and second markets.



Picture 2: Companies Experiencing Initial Share Mispricing on The IDX

The occurrence of mispricing will certainly harm investors when buying initial shares at a higher price on the primary market. It will harm companies when they sell shares at a lower price than on the secondary market [2]. This is because there are differences in prices received by both companies and investors. Table 2 shows that out of 417 IPO companies, 410, or around 98.32% of IPO companies, experienced initial public offering mispricing. Several factors influence initial public offering mispricing: Profitability, leverage, percentage of public shares, use of IPO funds, inflation, and economic growth.

Many previous studies have examined the factors that cause mispricing, including [3] and [4], which state that profitability significantly affects overpricing of initial

shares. Moreover, [5] states that profitability significantly influences underpricing. According to [6] and [2] state that profitability has little effect on underpricing. So it is necessary to re-assess what factors can influence initial public offering mispricing. Based on the phenomena, the researcher is interested in researching the Influence of Financial Information, Non-Financial, and Economic Conditions on Initial Share Mispricing.

2. LITERATUR REVIEW

Signaling Theory

[7] coined the term “signaling theory” in a publication titled Job Market Signaling, where it is widely related to the availability of information. Signaling theory can be used to describe that information can be used by companies to provide information signals to stakeholders so that they can use them for decision-making, which in this case are investors. This information can be presented in the company's prospectus report during the IPO process.

The Effect of Profitability on Mispricing of initial shares

Profitability is information that investors need before making investment decisions. Because profitability shows information about the company's ability to manage available assets to produce output or profits in a certain period, investors can see the company's quality [3]. Moreover, [4] stated that profitability significantly affects overpricing of initial shares.

H1: Profitability has a significant effect on initial public offering mispricing.

Effect of Leverage on Mispricing of initial shares

Leverage is a company's debt ratio, one of the risks investors will dislike. The higher the debt ratio of a company, the more the risk that investors will bear in the future, making investors hesitant to invest. These conditions will lead to stock price uncertainty, which in turn will affect mispricing. Research conducted by Astuti et al. (2021) found that leverage significantly affects Tinder stocks' underpricing.

H2: Leverage has a significant effect on initial public offering mispricing.

The effect of the percentage of public shares on the mispricing of initial shares

The large percentage of shares that will be offered to the public from the total number of shares issued by the company will make the information provided by the company interpreted by investors as a signal that, in the future, the company will have better prospects. This is because the smaller the percentage of public shares, the lower the uncertainty level that investors will bear in the future. [8] and [9] state that the percentage of public shares significantly affects underpricing.

H3: The percentage of public shares significantly affects initial public offering mispricing.

The effect of the use of IPO funds on Initial public offering mispricing

Providing information on the purpose of using the proceeds from the IPO in the prospectus report illustrates that the company wants to provide an information signal to potential investors that the funds they obtain from the IPO will be used as fully as possible to improve the company's operations. Research conducted by [10] states that the allocation of the use of IPO funds has a significant effect on underpricing.

H4: The use of IPO funds significantly affects initial public offering mispricing.

The effect of inflation on initial stock Mispricing

The high rate of inflation drives down company profits; this condition is less attractive to investors because the returns they earn will decrease. Following the signaling theory, a decrease in company profits will affect the demand for company shares in the capital market, which also decreases. The reduced demand for shares on the capital market also impacted the weakening share prices on the secondary market. [5] states that inflation has a significant effect on underpricing.

H5: Inflation has a significant effect on initial public offering mispricing.

The effect of economic growth on initial public offering mispricing

The increase in GDP is one measure of the country's economic growth. This increase will be followed by an increase in people's income, which will then impact greater consumption. These conditions will increase the demand for goods or services, increasing the company's income. When the company gets a significant income, it will attract investors, which will then make the demand for its shares rise, followed by an increase in its stock price.

H6: Economic growth has a significant effect on initial public offering mispricing.

3. Research Methods

This is a quantitative study using secondary data from IPO company prospectus report released by companies listed on the Indonesia Stock Exchange between 2010-2021. Companies that have conducted IPOs as of 2010-2021 are the population in this study, using a purposive sampling technique to obtain a research sample of 230 companies.

Table 1. Purposive Sampling

No	Sample criteria	Amount
1	Companies that conducted an IPO on the IDX on 2010 – 2021	472
2	IPO companies in 2010-2021 which publish prospectus reports	230

	and provide research data	
	Number of samples and research data	230

study are profitability, leverage, percentage of shares sold to the public, purpose of using IPO funds, inflation, and economic growth.

The dependent variable in this study is initial public mispricing, while the independent variables used in this

Table 2. Research Variable

Variable	Measurement
Mispricing	$IR = \frac{P_1 - P_0}{P_0} \times 100\%$
Profitability	$ROA = \frac{\text{Earnings after tax}}{\text{Total Asset}}$
Leverage	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$
Percentage of shares sold to the public	$PSP = \frac{\text{Shares Sold to the Public}}{\text{Total Shares}} \times 100\%$
Purpose of using IPO funds	$TPD = \frac{\text{Funds for investment and expansion}}{\text{Total IPO funds raised}}$
Inflation	$\text{Inflation} = \frac{IHK_1 - IHK_0}{IHK_0}$
Economic growth	$GDP = \frac{GDP_1 - GDP_0}{GDP_0}$

The analysis technique used is multiple linear regression, to test whether the independent variables affect the dependent variable using the SPSS 26 analysis tool. The regression models in this study are:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Note:

Y = Level of Mispricing

α = Constant

X1 = Profitability

X2 = leverage

X3 = Allocation of IPO Funds

X4 = Percentage of Shares Sold

X5 = Inflation

X6 = Economic Growth

β 1 = Profitability regression coefficient

β 2 = Leverage regression coefficient (DER)

β 3 = IPO Fund Allocation regression coefficient

β 4 = Regression coefficient of Percentage of Shares Sold

β 5 = Inflation regression coefficient

β 6 = Economic Growth regression coefficient

ε = error term

4. Result

Based on the results of obtaining data on the value of the research variables, they are then processed using the SPSS 26 program to determine the influence similarity between the independent variables and the dependent variable. The following is the output result obtained.

Table 3. Results of Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev.
Mispricing	-0,180	1,290	0,381	0,305
Profitability	-0,120	0,260	0,038	0,053
Leverage	0,002	11,120	1,526	1,729
Percentage of shares sold	0,070	0,530	0,235	0,097
Purpose of using IPO funds	0,000	1,000	0,788	0,288
Inflation	0,020	0,070	0,032	0,013
Economic growth	-0,020	0,060	0,038	0,025

Based on the result in Table 3, the average Mispricing is 0,381 or 38,1% in this study. PT Andalan Sakti Primaindo Tbk. (ASPI) has the highest mispricing of 1.290, while PT Greenwood Sejahtera Tbk. (GWSA) has the lowest mispricing of -0.180. The Profitability clearly shows that the company's average is 0.038 or 3,8% in this study. PT Cisarua Mountain Dairy Tbk. (CMRY) has the highest profitability of 0.260, while PT

Bukalapak Tbk. has the lowest profitability of -0.120. The average of Leverage is 1.526. PT Bank Syariah Indonesia Tbk. (BRIS) has the highest leverage of 11.120 and PT Fuji Finance Indonesia Tbk. (FUJI) has the lowest leverage of 0.002 . The minimum variable percentage of shares sold is PT Bundamedika Tbk. (BMHS) IS 0.070, indicating that BMHS owns the lowest percentage of shares sold value. Meanwhile, PT Bank Nationalnobu Tbk. (NOBU) has the highest percentage of shares sold of 0.530 and the average in this variable is 0.235. Based on the result, Purpose of using IPO funds, show that the average is 0.788 whith 51,3% of the sample companies obtaining the highest of 1.000 and 2,17% of the sample has the lowest of 0.000. The inflation variable has a lowest value of 0.020, a maximum value of 0.070 with an average of 0.0326. The Economic growth has a minimum value of -0.020, a highest value of 0.060 with an average of 0.0387.

Classic assumption test

The normality test in this study used the Kolmogorov Smirnov test with the criterion that the data is usually distributed if the significance value is more than 0.05.

Table 4. Result of Normality Test

One-sample Kolmogorov-Smirnov Test		
N		Unstandardized Residual
		230
Normal Parameters	Mean	0
	Std. Deviation	0,2530191
	Absolute	0,057
Most Extreme Differences	Positive	0,057
	Negative	-0,037
Test Statistic		0,057
Asymp. Sig. (2-tailed)		0,069

Based on the results obtained, the significance value in this study was 0.069, which was more significant than 0.05, so the data was normally distributed.

Table 5. Result of Multicollinearity Test

Variable	Collinearity Statistics	
	Tolerance	VIF
X1: Profitability	0,842	1,213
X2: Leverage	0,982	1,019
X3: Percentage of shares sold	0,952	1,051
X4: Purpose of using IPO funds	0,940	1,064
X5: Inflation	0,611	1,637
X6: Economic growth	0,691	1,447

Based on the table above results, a tolerance value of more than 0.01 was obtained and a VIF value of less than 10 for all independent variables used in this study; it can be concluded that the data does not have symptoms of multicollinearity

Table 6. Result of Heteroscedasticity Test

Variable	Coefficient
X1: Profitability	0,079
X2: Leverage	0,452
X3: Percentage of shares sold	0,337
X4: Purpose of using IPO funds	0,288
X5: Inflation	0,758
X6: Economic growth	0,633

Based on the table above, the coefficient values for all independent variables in this study were more significant than 0.05, so the data did not show symptoms of heteroscedasticity.

Table 7. Result of Autocorrelation Test

K	N	DU	DW	4-DU
6	230	1,8306	1,901	2,1694

Based on the table above, the results show that $1.8306 < 1.901 < 2.1694$, so the data does not have autocorrelation symptoms.

Table 8. Result of Multiple Linear Regression Test

Modal	Unstandardised Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
	(Constant)	1,560	0,237		
Profitability (X1)	-0,387	0,218	-0,135	-1,774	0,078
Leverage (X2)	-0,107	0,034	-0,235	-3,119	0,002

Percentage of shares sold (X3)	0,451	0,219	0,154	2,059	0,041
Purpose of using IPO funds (X4)	-0,061	0,062	-0,073	-0,977	0,330
Inflation (X5)	-0,094	0,559	-0,013	-0,168	0,867
Economic growth (X6)	-4,634	1,109	-0,315	-4,177	0,000

Based on the results obtained in table, the multiple linear regression equation in this study is:

$$Y = 1.560 - 0.387X1 - 0.107X2 + 0.451X3 - 0.061X4 - 0.094X5 - 4.634X6$$

This indicates that parts of the six independent variables used in this study, the variables of profitability, leverage, percentage of public shares, and inflation, significantly influence initial public offering mispricing. These four variables have significant values of 0.020, 0.001, 0.000, and 0.004, more diminutive than 0.05. Meanwhile, the variable use of IPO funds and economic growth has no significant effect on initial public offering mispricing because it has a significant value of 0.352 and 0.530, greater than 0.05.

Table 9. Result of Coefficient Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,560	0,314	0,295	0,25640

Based on the tabel above result, a coefficient of determination of 0.295 or 29.5% is obtained. These results indicate that profitability, leverage, percentage of public shares, use of IPO funds, inflation, and economic growth can only affect initial public offering mispricing of 29.5%. In comparison, the remaining 70.5% is influenced by other variables outside the variables used in the study.

DISCUSSION

The Effect of Profitability on Initial Share Mispricing

Profitability variable with a significance value of 0.020, which is less than 0.05, so H1 is accepted that profitability significantly affects initial public offering mispricing. This result is in line with [5], which states that profitability significantly affects underpricing. Moreover, in line with [3], [4], who state that profitability significantly affects overpricing of initial shares. These results support the signaling theory, where information asymmetry can be minimized by providing information signals to investors in assessing the company's ability to generate profits in the future. The greater the profit the company gets indicates that the company can generate profits in the next period, which is essential information for investors as a consideration in investing.

Effect of Leverage on Initial Share Mispricing

The results show that the leverage variable has a significance value of 0.001 which is smaller than 0.05, so H2 is accepted that leverage significantly affects initial public offering mispricing. This result aligns with [11], which state that leverages significantly affects initial shares' underpricing. These results support the signaling theory where leverage is information that is difficult for other companies to imitate so that investors can assess the quality of each company before making an investment decision.

The Effect of Percentage of Public Shares on Initial Share Mispricing

The results show that the variable percentage of public shares has a significance value of 0.000 which is less than 0.05, so H3 is accepted that the percentage of public shares significantly affects initial stock mispricing. This result is in line with [9], which states that the percentage of public shares significantly affects underpricing. The greater the percentage of shares sold to the public will increase the uncertainty that new investors will bear in the future because the private information held by old shareholders will decrease.

The Effect of Use of IPO Funds on Initial Share Mispricing

The results show that the variable use of IPO funds has a significance value of 0.352 which is more significant than 0.05, so H4 is rejected that the use of IPO funds has no significant effect on initial public offering mispricing. This result is in line with [5] and [12], which state that using IPO funds has no significant effect on underpricing. This is due to the trust given by investors to the company that the IPO funds will be used as well as possible to improve the efficiency and effectiveness of the company's operations.

The Effect of Inflation on Prime Share Mispricing

The results show that the inflation variable has a significance value of 0.004 which is smaller than 0.05, so H5 is accepted that inflation significantly affects initial public offering mispricing. An increase in the price of goods and services will make people prioritize their income to meet their daily needs and reduce their interest in investing. [5] states that decreasing company income makes investors less interested in the company. In line with the signaling theory, when a company's performance declines, it will impact demand in the capital market, which will also decrease. So that makes the stock price decrease, which will then affect the mispricing of initial shares.

The Effect of Economic Growth on Prime Share Mispricing

The results show that the economic growth variable has a significance value of 0.530, more significant than 0.05, so H6 is rejected that economic growth has no significant effect on initial public offering mispricing. People's income influences economic growth, so if people's income increases, it will increase people's consumption, increasing the company's income. However, during the last seven years, Indonesia has experienced stagnant economic growth at 5%, and the 2020 pandemic has disrupted economic activity, causing investors to reduce their intention to invest.

5. Conclusion

Conclusion

Based on the results of the research that has been done, the results of this study can be concluded Profitability has a significant effect on initial public offering mispricing. Leverage has a significant effect on initial public offering mispricing. The percentage of public shares significantly effects initial public offering mispricing. IPO funds have no significant effect on initial public offering mispricing. Inflation has a significant effect on initial public offering mispricing. Economic growth has no significant effect on initial public offering mispricing.

Suggestion

Based on the conclusions above, the suggestions that the writer can give to further researchers include the following:

- Using other measurement variables outside the variables used in this study, because the adjusted r square results obtained are still relatively small at 29.5%, there are indications of other variables that can influence initial public offering mispricing.
- Expanding the reach of the population and research sample to other countries' stock exchanges that are bigger than the Indonesia Stock Exchange (IDX), such as the New York Stock Exchange, Nasdaq Stock Market, and the Shanghai Stock Exchange, which are among the largest stock exchanges in the world.

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