Research Article

Influence of financial performance on underpricing of shares

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ABSTRACT

Differences in shares prices before being traded on the secondary market caused investors to prefer to buy shares through the initial market at a much lower set price (underpricing of shares). The Company wants to signal open information in terms of financial statements to investors by publishing a prospectus financial statement containing the financial performance of the company so that the company can make the right decisions regarding future investments and avoid information asymmetry (Guinness, 1992). This research aims to empirically test independent variables namely financial performance against variable dependent underpricing shares of banking corporations in 2019-2020, both simultaneously and partially. This study sampled as many as 60 banking corporations taken by purposive sampling methods. This study sampled as many as 60 banking corporations taken by purposive sampling methods. This research uses a quantitative approach through multiple regression analysis testing. The researcher found by partially testing that Earnings Per Share (X_4), and Price Earning Ratio (X_5) variables together influenced on Of Shares underpricing, whereas, the Current Ratio (X_1), Return on Equity-ROE (X_2), and Return of Assets-ROA (X_3) variables had no significant influence on under-pricing of shares.

Keywords: *Current Ratio; ROA; ROE; EPS; PER; Underpricing of Shares*

1. INTRODUCTION

Investments that promise profits attract investors to buy shares in the capital market but shares price instability forces investors to first analyze their investments through measuring the performance of financial statements by the company. This performance measurement is expected to reduce the risk in investing that can bring investors to the brink of loss. This shares price instability occurred initially during 1984-1998 where there was a factor that caused banking corporations to be reluctant to issue shares in the first capital market, namely due to financial repression (low-interest rates) and the second factor was the tendency of shares emissions to follow the initial market.

Two methods for shares to go public include first through IPO (initial public offering) and second through bidding in the form of tender. IPO or known as Initial Public Offering is a security support activity to the public both individuals and institutions in the prime market, where investors can see the company's brief financial statements through prospectus by BAPEPAM regulations. Initial market offerings are made before shares are traded on the secondary market or exchange.

Investors will be interested in the financial performance of the company that provides the best of performance in the future, this is what causes stock demand to rise, and underpricing will increase, conversely if underpricing stocks fall as well then, the company performance will fall in the eyes of investors. Through fundamental analysis or company analysis, investors can read the company's financial statements consisting of an analysis of the strengths and weaknesses of the company, how its operations, and also how its prospects in the future (Ang, 1997).

The researcher used five variables to analyze the influence of financial performance on shares underpricing, using five variables with the following formulation of research problems:

1. Does CR (X_1) affect underpricing of shares in a banking corporation?
2. Does ROE (X_2) affect underpricing of shares in a banking corporation?
3. Does ROA (X_3) affect underpricing of shares in a banking corporation?
4. Does EPS (X_4) affect underpricing of shares in a banking corporation?
5. Does PER (X_5) affect underpricing of shares in a banking corporation?

2. LIBRARY REVIEW

2.1. UNDERPRICING SHARES

Underpricing is a state in which shares sold on the initial market tend to be lower than the stock price on the secondary market. Banking corporations want to minimize underpricing so that the company's wealth in terms of capital is more optimal while investors expect underpricing so that they can get capital gains when the shares are sold in the secondary market. This is based on information asymmetry (Guiness, 1992) where there is inequality or underpricing difference between the initial market and the secondary market.

The researcher used the formula of the difference between underpricing of shares on the first day of the closing price on the secondary market divided by underpricing from initial public offering multiplied by 100% in measuring this variable.

$\text{Underpricing of Shares} = \frac{\text{Underpricing Closing Secondary Market} - \text{Underpricing IPO Offer}}{\text{Underpricing IPO Deals}} \times 100\%$

2.2. SIGNALLING THEORY

Companies need to provide signals to reduce uncertainty about the outlook and risk of future stock investments by providing signal theory. This theory can avoid confusion of information about the analysis of a company's financial statements through prospectus reports.

3. HYPOTHESIS DEVELOPMENT

3.1. INFLUENCE OF CURRENT RATIO ON UNDERPRICING OF SHARES

The current ratio measures a company's ability to pay the short-term debt in that year. In practice, it is often used that the ratio is current to the standard 200% (2:1) so that it becomes a good enough measure for the company. If the ratio obtained is currently low, this reflects that the company does not have the capital to pay down debt and can affect the under-pricing of shares.

The formula for finding a current ratio is as follows:

$$\text{Current Ratio} = \frac{\text{Currently Assets}}{\text{Currently Liabilities}}$$

(Koova, 2017) are found to be insignificant for IPO underpricing. The researcher formulated hypotheses with:

H1: Current Ratio (X_1) affects underpricing of shares in the banking corporation

3.2. INFLUENCE OF RETURN ON EQUITY (ROE) ON UNDERPRICING OF SHARES

ROE is a comparison between net income after tax and total equity. With the high ROE, the underpricing of shares will be high as well, if the ROE is low then the underpricing of the company shares is also low. The higher the ROE, the better the company's performance in generating profits. The high low ROE ratio affects underpricing of shares. ROE formulated as follows:

$$\text{ROE} = \frac{\text{Net Income After Tax}}{\text{Total Equity}}$$

A study conducted by the previous researcher (Huang et al., 2019) showed that the ROE variable used in the study had no significant effect underpricing of shares. The researcher formulated hypotheses with:

H2: Return on Equity (X_2) affects underpricing of shares in the banking corporation

3.3. INFLUENCE OF RETURN ON ASSET (ROA) ON UNDERPRICING OF SHARES

The greater this ratio, the better, meaning the company can quickly rotate and optimize the company's assets and achieve profits which will positively affect the return of the company shares and will also affect the underpricing of shares. This ratio describes the turnover of assets measured from sales volume and can predict the return of public company shares. A high ROA will reduce underpricing of shares. Researchers who use ROA variables in their research (Salerno et al., 2021) showed that ROA had a positive influence on underpricing of shares. ROA according to (Ang, 1997) researcher formulated hypotheses with:

H3: ROA (X_3) affects underpricing of shares in the banking corporation

3.4. INFLUENCE OF EARNING PER SHARE (EPS) ON UNDERPRICING OF SHARES

EPS indicates the amount of the company's net income that is ready to be distributed to all shareholders of the company. High EPS will show the amount of profit owned by the company and will also be more profits earned by shareholders. The higher the EPS, the underpricing of shares tends to rise (increase). The results of (Song et al., 2014) showed results that EPS was positively and significantly related. Researchers formulated hypotheses with:

$$\text{EPS} = \frac{\text{Net Income After Tax}}{\text{Number of Shares Outstanding}}$$

The researcher formulated hypotheses with:

H4: Earning Per Share (X_4) affects underpricing of shares in the banking corporation

3.5. INFLUENCE OF PRICE EARNINGS RATIO (PER) ON UNDERPRICING OF SHARES

PER according to (Garrison & Brewer, 2007) is a comparison between market price per share with earnings per against the increase in expected profit growth will also increase. PER is too high, indicating that the company of shares market price has been expensive. The higher the PER will also be higher investor confidence in the company, so investors will be interested to invest and causing to rise in the under-pricing of shares:

$$\text{PER} = \frac{\text{Price Per Share}}{\text{Earnings Per Share}}$$

The researcher formulated hypotheses with:

H5: Price Earning Ratio (X_5) affects underpricing of shares in the banking corporation

4. RESEARCH METHODS

This research uses a quantitative research approach through multiple regression analysis with the spss.25.0 test tool (Ghozali, 2016; Parveen et al., 2015). The population taken was all banking corporations that IPO on IDX in 2019-2020. The sampling technique was the purposive sampling method. From the results of sampling, the researcher found 30 banking corporations.

5. RESULTS AND DISCUSSION

5.1. COEFFICIENT OF DETERMINATION

The coefficient of determination or R-square (R^2) indicates the percentage of how much influence independent variables have on dependent variables simultaneously (Ali et al., 2021; Qureshi et al., 2021; Ghozali, 2016). Here is the value of R square (R^2) obtained from the results of the analysis. Based on the table above obtained the value of the first coefficient of determination (R^2) of 0.270. The result showed that underpricing of shares

variable can be explained by five of 27%. The remaining 73% was explained by other variables beyond the variables in the study.

5.2. RESULTS

The results of multiple linear analysis tests using SPSS Version 25.0 are as follows:

$$US = 541,870 - 3,673CR + 5587,792ROE + 18324,7ROA + 1,521EPS + 42,585PER + e$$

5.3. DISCUSSION

5.3.1. Impact of Current Ratio (X_1) on Underpricing of Shares (Y)

CR (X_1) variable with a coefficient value of -0.036 and significance of 0.971. It can be concluded that variable X_1 has no significant effects on underpricing of shares (Y) so, the first hypothesis (H1) is rejected. The results test was in line with (Klova, 2017) who stated that the Current ratio did not influence the under-pricing of shares.

5.3.2. Impact of Return on Equity (X_2) on Underpricing of Shares (Y)

ROE (X_2) with a coefficient value of 1.165 and significance of 0.249. It can be concluded that variable X_2 has no effects on underpricing of shares (Y). It can be concluded that the second hypothesis (H2) is rejected and but contrary to the results of the study with research conducted by (Huang et al., 2019). In this study, several banking corporations are in the minus position, including PT. Bank Jago Tbk, PT. BHI Tbk, PT. BNC Tbk, Banten Regional Development Bank Tbk, PT. Bank Oke Indonesia Tbk and Bank Artha Graha Internasional Tbk.

5.3.3. Impact of Return on Assets (X_3) on Underpricing of Shares (Y)

ROA (X_3) had no effects on underpricing of shares (Y) so that the third hypothesis H3 is rejected. The results showed that the X_3 variable did not influence the underpricing of Shares. The results of this study were contrary to (Salerno et al., 2021). ROA had no Influence on underpricing of shares can be because from research data there are several banking corporations in a minus or loss position. Moreover, the capital market participants only considered the technical aspect based on the graph of underpricing of shares from year to year instead of the fundamental aspects of the companies.

5.3.4. Impact of Earnings Per Share (X_4) on Under-pricing of Shares(Y)

EPS (X_4) had a coefficient value of 2.578 where the t-count is greater than the t-table of 2.00 with a significance value of 0.013. Variable X_4 statistically affects the underpricing of shares (Y) so that X_4 has a partial Influence on the underpricing of shares in banking corporations is accepted. These results test line with (Song et al., 2014). EPS describes the profitability of the company. Highly value of EPS will show the amount of profit owned by the company and will also be more profits earned by shareholders. High EPS will encourage investors to increase the capital invested in the company so that the demand for shares increases which results in underpricing of shares also increases because EPS is a reflection of the success of a company. In this study, four banking corporations are in a fairly high position

than others, namely PT. Bank Mestika Dharma Tbk, PT. Bank Mandiri Tbk, PT. CIMB Niaga Tbk, and PT. Bank Woori Saudara Indonesia 1906 Tbk

5.3.5. Impact of Price Earnings Ratio (X_5) on Under-pricing of Shares (Y)

PER (X_5) with a coefficient value of 2.209 and significance of 0.031, where the t-count is greater than t-table 2.00030. Variable X_5 affects the underpricing of shares (Y). Therefore, it can be concluded that the hypothesis of the fifth (H_5) is accepted. PER describes the number of funds issued by investors to earn profits. The higher the PER will also be the higher the investor's interest in the company, so investors will be investing in the company and causing the underpricing of the shares to rise. The higher the PER ratio signifies that investors have good expectations about the development of the company, so investors are willing to pay handsomely for certain earnings per share (Fernando, 2021).

6. CONCLUSION AND SUGGESTION

6.1. CONCLUSION

Researchers found that the influence of financial performance on under-pricing of shares incorporation 2019-2020, which had been analyzed and tested hypothetically it can be concluded as follows: Current Ratio (X_1) has no Influence on under-pricing of shares, Return on Equity (X_2) had no influence on under-pricing of shares, Return on Assets (X_3) had no influence on under-pricing of shares, Earnings Per Share (X_4) have an influence on underpricing of shares, and the Price Earnings Ratio (X_5) had an influence on underpricing of shares.

6.2. SUGGESTION

Based on the conclusions of this study, some suggestions for the company management can be submitted as follows:

1. Company management should optimize the management of current assets by making policies so that the ratio of current asset turnover becomes better and uses capital well, the utilization of debt to current assets can be immediately repaid so that cash flow in terms of financing becomes good.
2. Company management should use and utilize the company's capital effectively efficiently in carrying out its business operations to get high profits. High return results can be obtained from the maximum profit generated by the company.
3. Company management is expected to maintain and improve their PER because PER is a reference assessment before investors make decisions in investing their equity. Higher the PER showed better the company performance.

The researcher expected that future researchers add other variables such as stock ownership, social liability, and risk assessment to produce more accurate and broader information about the under-pricing of shares.

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