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FACTORS INFLUENCING THE LEVEL OF STOCK UNDERPRICING IN COMPANIES CONDUCTING INITIAL PUBLIC OFFERINGS REGISTERED ON THE IDX FROM 2017–2021

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ABSTRACT

This study aims to analyze the factors influencing stock underpricing in companies conducting Initial Public Offerings (IPOs) from 2017 to 2021. This study uses secondary data obtained from the official website of the Indonesia Stock Exchange (IDX). The sample comprises 137 companies, selected through purposive sampling. Data analysis is conducted using SPSS software, with methods including classical assumption tests, multiple regression analysis, and hypothesis testing. The results indicate that only Company Size has a significant influence on stock underpricing. In contrast, Industry Type, Company Age, Return on Assets (ROA), and Debt to Equity Ratio (DER) show no significant influence on stock underpricing.

Keywords: Underpricing, Company Size, Company Age, Industry Type, Return on Assets (ROA), Debt to Equity Ratio (DER)

FAKTOR-FAKTOR YANG MEMPENGARUHI TINGKAT UNDERPRICING SAHAM PADA PERUSAHAAN YANG MELAKUKAN INITIAL PUBLIC OFFERING YANG TERDAFTAR DI BEI TAHUN 2017–2021

ABSTRAK

Penelitian ini bertujuan untuk menganalisis faktor-faktor yang mempengaruhi underpricing saham pada perusahaan-perusahaan yang melakukan penawaran umum perdana atau IPO pada tahun 2017-2021. Penelitian ini menggunakan data sekunder yang diperoleh dari website resmi Bursa Efek Indonesia. Sampel yang digunakan dalam penelitian ini berjumlah 137 perusahaan dan teknik pengambilan sampel dilakukan dengan cara sampel purposive sampling. Dengan menggunakan perangkat lunak SPSS serta metode analisis data yang digunakan terdiri dari antara lain: analisis uji asumsi klasik, analisis regresi berganda, dan uji hipotesis. Dari penelitian ini diperoleh kesimpulan bahwa hanya Ukuran Perusahaan berpengaruh dan signifikan terhadap underpricing saham. Sedangkan jenis industri, umur perusahaan, Retrun on Asset (ROA), dan Debt to Equity ratio (DER) tidak berpengaruh dan tidak signifikan terhadap underpricing saham.

Kata Kunci: Underpricing, *Ukuran Perusahaan, Jenis Industri, Umur Perusahaan*, Retrun on Asset (ROA), Debt to Equity Ratio (DER)

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INTRODUCTION

In general, companies require capital to grow and remain competitive in their industries. The capital required by a company can be sourced from two primary avenues: internal and external sources. Internal company sources include retained earnings, while external company sources include bank loans, bond issuance, and stock issuance (Posma Sariguna Johnson Kennedy, Selvia Sitompul, 2021).

The capital market serves as one of the alternative means through which companies can obtain external funds for expansion. Obtaining funds from the capital market can be done through the issuance of shares or other securities, a process commonly referred to as going public (Ramadan, 2018). The decision to go public is a strategic business decision made after careful consideration of its benefits and potential consequences. While going public can offer several advantages, it also entails specific risks and obligations. One common method of going public is through an Initial Public Offering (IPO), where a company sells its shares to the public for the first time in the primary market. When a company conducts an IPO, a frequent phenomenon associated with IPOs is underpricing—the condition in which the offering price of a stock is set lower than its closing price when it begins trading on the secondary market, such as the Indonesia Stock Exchange (IDX). Underpricing typically occurs due to information asymmetry, where one party (often the company or insiders) possesses more information than the other party (the investors). To mitigate this information asymmetry, companies issuing an IPO provide a prospectus that contains both financial and non-financial information to assist investors in making informed decisions (Mega Gunawan, 2015).

Companies conducting initial public offerings generally seek to avoid underpricing, as it can prevent them from maximizing the capital raised through the IPO. According to (Triya Mayasari, Yusuf, 2018), underpricing can be detrimental to companies since it leads to suboptimal funds being obtained from the IPO. Conversely, overpricing—when the stock price in the primary market is higher than in the secondary market—benefits the company but harms investors.

The phenomenon of underpricing is not uncommon, even among state-owned enterprises, and is frequently observed in Indonesian companies conducting IPOs in the capital market. From early 2017 to the end of 2021, companies conducting IPOs have consistently experienced underpricing when their shares were first traded on the secondary market, as shown in the following table:

Table 1. Development of IPO companies in Indonesia 2017-2021

Year	IPO Company	Underpricing Companies	Average (Percentage)
2017	34	17	50%
2018	53	40	75.4%
2019	47	45	95.7%
2020	51	6	11.7%
2021	53	30	57.4%
Total	237	137	58.04%

Source: www.idx.co.id (Processed Data, 2022)

Based on Table 1, it can be observed that 237 companies conducted IPOs between 2017 and 2021. Of the total 244 companies that went public, 137 experienced underpricing. The average underpricing rate was 50% in 2017, 75.4% in 2018, 95.7% in 2019, 11.7% in 2020, and 57.4% in 2021, with an overall average of 58.04% during the 2017–2021 period.

This phenomenon highlights that many companies experience underpricing during their IPO, and the results of previous studies on the factors influencing underpricing remain inconsistent. Different research periods and variables have yielded varied outcomes. One variable examined in this study is company size. Company size, as reflected by total assets, indicates the company's potential to generate cash flow and influences the level of investor confidence. A study by Kennedy, Sitompul, and Tobing (2018) found that company size significantly influences the occurrence of underpricing. However, Syofian and Sebrina (2021) reported contrasting results, stating that company size has no influence on underpricing.

Another variable considered is industry type, which examines whether underpricing occurs across all industry sectors conducting IPOs or is confined to specific sectors, and whether there are variations in the underpricing levels (Pahlevi, 2014). A study by Gwenyth and Panjaitan (2017) found that industry type had a significant positive influence on underpricing, while a study by Himawan Budi Kuncoro and Rossje V Suryaputri (2019) concluded that industry type had no influence on underpricing.

The age of a company is calculated from its establishment date, as per the deed of incorporation, until it conducts an Initial Public Offering (IPO), reflecting the level of experience the company has in facing market competition. Longer operating companies have a greater possibility of providing more and broader company information than new established companies (Anggelia Hayu Lestari, Raden Rustam Hidayat, 2015). This reduces information asymmetry and market uncertainty, which in turn influences stock underpricing. A study by Sri

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Winarsih Ramadana (2018) found that company age negatively influences underpricing, while a study by Erly Mulyani and Rahmah Mauli (2021) found no significant influence of company age on underpricing.

Return on Assets (ROA) is commonly used to measure a company's ability to generate profits from its total assets. ROA is a key factor for investors when making investment decisions. A higher ROA decreases uncertainty about the company's future performance, thereby reducing the uncertainty surrounding the IPO and consequently lowering the likelihood of underpricing (Suaryana, 2016). A study by Alviano Renoldy Saputra and Elizabeth Lucky Maretha Sitinjak (2018) found that ROA negatively influences underpricing, while a study by Erly Mulyani and Rahmah Mauli (2021) found no significant influence of ROA on underpricing.

A high Debt to Equity Ratio (DER) indicates increased financial risk, as the company may face a higher risk of failing to repay its loans. Consequently, investors are likely to avoid companies with high DER, as it increases the potential for underpricing (Ivana Agustine, 2019). A study by Kemas Nurcholish Thoriq, Sri Hartoyo and Hendro Sasongko found that DER significantly infuences underpricing, while a study by Himawan Budi Kuncoro, and Rossje V Suryaputri found no significant influence of DER on underpricing.

LITERATURE REVIEW

Signaling Theory

Signaling theory explains the causes of underpricing in companies conducting IPOs. It posits that information asymmetry occurs when companies send signals to investors regarding value and risk, which can be either positive or negative, and may take financial or non-financial forms.

According to (Fahmi, 2015) the signals that companies companies convey can provide positive information to investors. The information disclosed by the company, such as a summary of its past performance, is analyzed by investors and can serve as a positive signal that aligns with investor expectations (Kuncoro & Suryaputri, 2019). This information is crucial for investors in making informed investment decisions.

Capital market

The capital market is a venue where the demand and supply of securities, such as stocks and bonds, meet. It serves as a source of financing for businesses and as an investment vehicle for investors (Gayatri, 2019). The capital market is divided into two segments: the primary market and the secondary market. In the primary market, companies offer securities to investors for the first time. In the secondary market, these securities are traded after the initial public offering (IPO) has been completed. A company going public will initially sell its shares in the primary market before they are traded on the secondary market.

Initial Public Offering

An Initial Public Offering (IPO) refers to the process by which a prospective public company offers shares or other securities to the public, in accordance with the procedures regulated by the Capital Market Law and its implementing regulations. Companies intending to go public must undertake both internal and external preparations to meet the legal requirements for a public offering, including those set by the OJK (Financial Services Authority of Indonesia). Companies choose to go public for various reasons, including the need to raise capital through the capital markets.

Underpricing

Underpricing occurs when there is a positive difference between the stock price on the stock exchange and the price in the primary market during an IPO. This positive discrepancy is also referred to as the initial return (IR) or positive return for investors. The underpricing phenomenon is often attributed to information asymmetry between the company and investors. Underpricing is measured using the initial return formula (M. Aswin Ar Raniry, 2020), as follows:

$$IR = \frac{(Pt1 - Pt0)}{Pt0} \times 100\% \quad (1)$$

Information:
IR = Initial return of each company's shares
Pt0 = Price at the time of the IPO
Pt1 = Stock price at the closing of the first day in the secondary market

Company Size

Company size refers to the scale of a company, typically measured by the total value of its assets, share value, and other financial metrics (I Putu Eddy Pratama Putra, 2017). Larger companies tend to exhibit a higher level of certainty, which reduces future uncertainty compared to smaller companies. This variable is typically measured by calculating the natural logarithm of the company's total assets in the year prior to the company being listed (Gayatri, 2019). The formula used to measure company size is as follows:

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$$\text{Company Size} = \text{Ln (Total Assets)} \quad (2)$$

Type of Industry
The type of industry (industry type) indicates the characteristics of companies operating within a particular sector. Investment opportunities in different industries can vary in terms of risk and return, which influences the benefits for stock investors. The type of industry is treated as a nominal variable in this context. This variable helps determine whether the underpricing level differs between manufacturing and non-manufacturing industries. Manufacturing companies are assigned a value of 1, while non-manufacturing companies are assigned a value of 0 (Kuncoro & Suryaputri, 2019).

Company Age
According to (Sujadi, 2006), company age can be a benchmark for underpricing, as asymmetry between issuers and investors can be influenced by the length of time a company has been operating. Longer operating companies are likely to have more comprehensive and accessible information compared to newly established ones, thereby reducing information asymmetry. Company age is calculated from its establishment date, as per the deed of incorporation, until it conducts an Initial Public Offering (IPO) (Erly Mulyani, 2021). The formula used to calculate company age is as follows:

$$\text{Company Age} = \text{IPO Year} - \text{Company Established Year} \quad (3)$$

Return on Assets (ROA)
The profitability of a company is evaluated by comparing its profit to the assets or capital that generate that profit. One of the key profitability ratios is Return on Assets (ROA). ROA measures how effectively a company uses its assets to generate profits. This ratio is measure by comparing the net profit to the total assets in the year before the company conducts its initial public offering (IPO) (Ramadan, 2018). The formula used to measure ROA is as follows:

$$\text{ROA} = \frac{Net\ Profit}{Total\ Assets} \text{ x100\%} \quad (4)$$

Debt to Equity Ratio (DER)
According to (Kuncoro & Suryaputri, 2019), the Debt to Equity Ratio (DER) is a financial metric used to measure the extent to which a company's assets are financed through debt. In the context of signaling theory, investors closely monitor this ratio because a high DER may signal a greater risk of the company's failure to repay its loans, while a lower DER indicates less financial risk. Consequently, a higher debt-to-equity ratio typically correlates with a higher risk for the company (Ivana Agustine, 2019). The formula used to measure DER is as follows:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \text{ x100\%} \quad (5)$$

Formulation of Hypothesis
The Relationship between Company Size and Underpricing
Basically, company size shows the total assets of the company, if the value of the company's size is high, the greater the assets that can be used as collateral for the company to obtain debt, then there is company capital to improve the company's performance and profit which automatically increases the company's value. Generally, companies with standard or below the average values of large companies are not well known by the public (Ary Syofian, 2021). Larger companies tend to have lower uncertainty due to their influence on the market, which signals a lower investment risk. This is consistent with the findings of (Posma Sariguna Johnson Kennedy, Selvia Sitompul, 2021) that company size has a negative influence on underpricing. Therefore, the proposed hypothesis is:
H1: Company size has a negative influence on underpricing.

The Relationship between Industry Type and Underpricing
The type of industry helps determine whether underpricing occurs across all sectors conducting IPOs or only in specific ones, and whether there are variations in underpricing levels (Widjaya & Sulistiyani, 2020). This study focuses on manufacturing companies or processing industries, namely a business that processes/changes raw materials into finished goods or semi-finished goods that have added value, which is done mechanically with machines or without machines (manually). A higher-risk industry is more likely to experience underpricing (M. Aswin Ar Raniry, 2020). According to a study by (Devina Gwenyth, 2017), industry type has a significant positive influence on underpricing. Therefore, the proposed hypothesis is:
H2: Industry type has a positive influence on underpricing.

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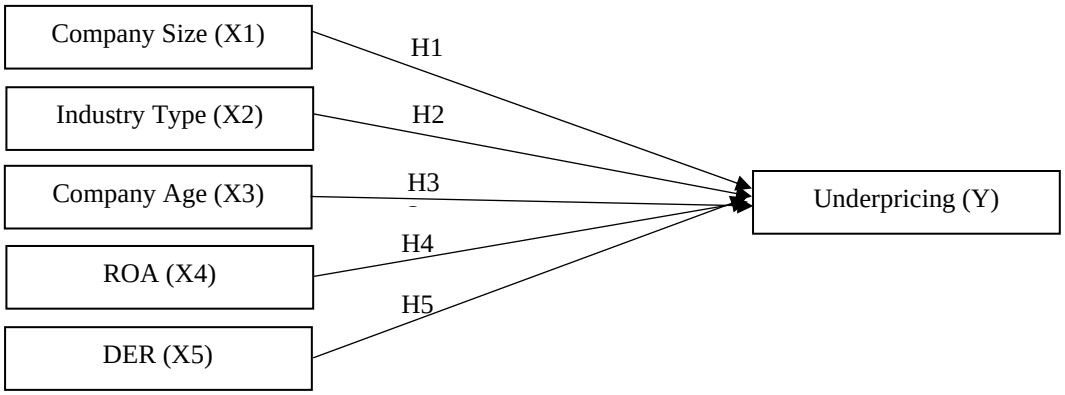
The Relationship between Company Age and Underpricing
Longer operating companies have a greater possibility of providing more and broader company information than new established companies, this will influence the underpricing of a company. Company age is calculated from its establishment date as recorded by a notary, to the IPO listing date, both of which are documented in the prospectus report. The number of shares offered is measured by the percentage of equity held by the company's owners relative to the total shares (Kemas Nurcholish Thoriq, Sri Hartoyo, 2018). A study by (Ramadan, 2018) found that company age has a negative influnece on underpricing. Therefore, the proposed hypothesis is:
H3: Company age has a negative influence on underpricing.

The Relationship between Return on Assets (ROA) and Underpricing
According to (Kemas Nurcholish Thoriq, Sri Hartoyo, 2018) profitability level is information on the level of profit generated or information on the effectiveness of the company's operations. The higher the value of the company's profitability indicates the higher the profit it generates. Thus, the greater the Return on Asset ratio, the higher the stock price is valued by investors. If the company has better information about the present value and future cash flow than investors, underpricing will be a means to convince potential buyers of the company's true value. Financial variables in the company's prospectus will provide an important signal for potential investors to invest their shares in the primary market. A study by (Saputra & Sitinjak, 2018) found that the profitability ratio variable (ROA) has a negative influence on underpricing. Therefore, the proposed hypothesis is:
H4: Return on Assets has a negative influence on underpricing

The Relationship between Debt to Equity Ratio (DER) and Underpricing
The ratio that measures a company's ability to pay off its debts using its equity is called financial leverage. For creditors, the greater the value of the debt to equity ratio, the greater the risk of failure that may occur in the company. For companies, the lower the value of the debt to equity ratio, the higher the funding from the owner and the greater the safety margin for creditors (Tri Widianto, 2021). According to (Mega Gunawan, 2015), the higher the debt to equity ratio, the smaller the amount of owner's capital that can be used as collateral for debt. The higher the leverage level of a company, the higher the uncertainty factor of the company, which has a negative influence on initial returns. A higher level of uncertainty in a company will reduce investor interest in investing in the company. A study by (Kemas Nurcholish Thoriq, Sri Hartoyo, 2018) found that DER has a significant influence on underpricing. Therefore, the proposed hypothesis is:
H5: Debt to equity ratio has a positive influence on underpricing

Framework
Based on the theories and results of previous studies discussed in earlier sections, this study develops the following conceptual framework:



Source: Processed Data (2022)
Figure 1. Framework of Thought

RESEARCH METHODS
Population and Sample
This study uses a quantitative approach, with secondary data as the primary source. The population consists of companies that conducted Initial Public Offerings (IPO) on the Indonesia Stock Exchange (IDX) between 2017 and 2021, totaling 237 companies, as documented on the IDX website (www.idx.co.id). The sampling method

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used is purposive sampling, with the following criteria for sample selection: (1) Companies that conducted IPOs on the Indonesia Stock Exchange during the 2017–2021 period; (2) Companies that experienced underpricing during the same period, totaling 137 companies.

Operational Research Variables

This study analyzes both dependent and independent variables. The research is based on historical data, meaning that it utilizes past financial information, rather than current or real-time data. The following are the dependent and independent variables used in this study:

Table 2. Operational Variables

Variables	Formula	Measurement scale
Underpricing	$\frac{(Pt1-Pt0)}{Pt0}$ x 100% *Source: (M. Aswin Ar Raniry, 2020)*	Ratio
Company Size	Ln (Total Assets) *Source: (Gayatri, 2019)*	Ratio
Type of Industry	Manufacturing companies are assigned a value of 1, while non-manufacturing companies are assigned a value of 0 *Source: (Kuncoro & Suryaputri, 2019)*	Nominal
Company Age	IPO Year – Company Established Year *Source:(Erly Mulyani, 2021)*	Ratio
ROA	ROA = $\frac{Net\ Profit}{Total\ Assets}$ x100% *Source: (Mega Gunawan, 2015)*	Ratio
DER	DER = $\frac{\text{Total Debt}}{\text{Total Equity}}$ x100% *Source: (Ivana Agustine, 2019)*	Ratio

Data Analysis Techniques

This study uses both descriptive statistical analysis and multiple linear regression analysis for data processing. The following model is used for the multiple linear regression analysis:

$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + e$

Where:

Y= Underpricing
a = Constant
X1= Company Size
X2 = Industry Type
X3= Company Age
X4= ROA
X5= DER
e= Error term (regression coefficient error rate)

In addition, this study conducts a series of classical assumption tests, which include: normality test, multicollinearity test, autocorrelation test, heteroscedasticity test. Following these, the hypothesis testing involves: Coefficient of Determination (R^2) test, Simultaneous Significance (F-statistic test) test, Partial Significance (t-statistic test) test.

RESULTS AND DISCUSSION

Table 3. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
SIZE	137	19.00	30.00	26.3650	1.50917
INDUSTRY TYPE	137	0	1	.38	.487
AGE	137	2	65	16.94	13,617
ROA	137	-3055.87	96.50	-18.10	9.38720
DER	137	1.20	605.00	83.2190	95.38218
UNDERPRICING	137	1.00	350.00	68.0365	53.25624
Valid N (listwise)	137				

Source: Processed Data (2022)

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Company size, company age, and underpricing show mean values higher than their respective standard deviations, indicating that the data distribution for these variables can be considered normal. A higher standard deviation would suggest a high degree of variation, but in this case, the lower deviation indicates stability in the data. In contrast, the industry type, Return on Assets (ROA), and Debt to Equity Ratio (DER) show mean values lower than their standard deviations, suggesting an abnormal data distribution due to greater variability. From Table 3, it can be observed that 137 companies are in generally strong financial condition. This is evidenced by the high maximum values for company size, industry type, company age, and ROA. However, these companies rely heavily on debt financing, as shown by the high mean and maximum values for the Debt to Equity Ratio.

Classical Assumption Test

Table 4. Summary of Assumption Test Results

Information	Test	Sig.	Results
Normality Test (KS)			
Kolmogorov-Smirnov	1.267	0.081	Normal Data
Autocorrelation Test			
Durbin Watson	1.952	2.203	No Autocorrelation
Run test	-1.114	0.265	No Autocorrelation
Multicollinearity Test (VIF)			
Size	1.087		No Multicollinearity
Industry Type	1.095		No Multicollinearity
Age	1.130		No Multicollinearity
ROA	1,054		No Multicollinearity
DER	1,075		No Multicollinearity
Heteroscedasticity Test (Glejser Test)			
Size	0.894	0.373	No Heteroscedasticity
Industry Type	-1,040	0.300	No Heteroscedasticity
Age	2,044	0.053	No Heteroscedasticity
ROA	1,085	0.280	No Heteroscedasticity
DER	-1.301	0.196	No Heteroscedasticity

Source: Processed Data (2022)

Table 4 shows the results of the Kolmogorov-Smirnov test, where the Asymp. Sig. (2-tailed) value of 0.081 is greater than 0.05, indicating that the data is normally distributed. Therefore, the research data is appropriate and suitable for use in this study.

The results of the multicollinearity test, based on the VIF coefficient, show that all variables have VIF values below 10. This indicates that there is no multicollinearity present in the variables of company size, industry type, company age, ROA, and DER.

In the heteroscedasticity test, also shown in Table 4 and conducted using the Glejser Test method, the significant values for Company Size (X1), Industry Type (X2), Company Age (X3), ROA (X4), and DER (X5) are all above 0.05. This means that the data does not show symptoms of heteroscedasticity.

From the results of all the assumption tests, it can be concluded that the data is in good condition. The normality test confirms that the data is normally distributed. The multicollinearity test shows that none of the independent variables have multicollinearity issues, and the heteroscedasticity test results show no signs of heteroscedasticity. Therefore, this research model is deemed feasible to proceed with further analysis.

Hypothesis Testing

Based on the regression model test results in Table 5, the significance value obtained is 0.017, which is less than $\alpha = 0.05$. This indicates that the independent variables collectively have a significant simultaneous influence on the dependent variable. Therefore, the regression model is appropriate for use, and H1 is accepted, meaning the hypothesis is feasible to proceed with further analysis.

Furthermore, the adjusted R-square value is 0.014 or 1.4%. This indicates that 1.4% of the variation in underpricing is explained by the variables company size, industry type, company age, Return on Asset (ROA), and Debt to Equity Ratio (DER). The remaining 98.6% is attributed to other factors outside the scope of this research model.

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Table 5. Hypothesis Test Results

VARIABLES	Unstandardized coefficients	Standardized Coefficients	T/F COUNT	T/F TABLE	SIGNIFICANT	RESULTS
REGRESSION MODEL						
(Constant)	254.946					
Company Size (X1)	-6.863	-.194	-0.710	1.656	0.030	Significant
Industry Type (X2)	-6.918	-.063	-2.191	1.656	0.479	Not Significant
Company Age (X3)	-.049	-.012	-0.138	1.656	0.890	Not Significant
ROA (X4)	.025	.004	0.050	1.656	0.960	Not Significant
DER (X5)	-.032	-.057	-0.645	1.656	0.520	Not Significant
Model Test						
	ANOVA		2.867	2.283	0.017	Significant
	Adj R 2	0.014				

Source: Processed Data (2022)

Multiple Linear Regression Analysis

Using the results from Table 5, the regression equation for predicting the underpricing of company shares can be formulated as follows:

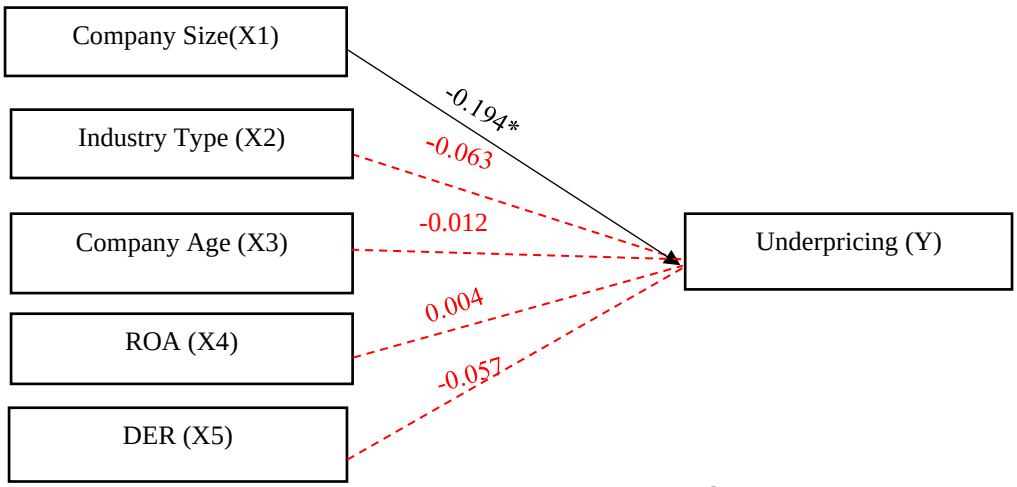
$$Y = 254.946 - 6.6863\ X1 - 6.918\ X2 - 0.049 \quad (6)$$

The regression equation can be interpreted as follows: the constant coefficient of 254.946 has a positive value, indicating that, assuming the absence of the variables for company size, industry type, company age, ROA, and DER, underpricing tends to increase by 25.494.6%. The coefficient for company size is -6.863, with a negative value, indicating that a 100% increase in company size is associated with a 686.3% reduction in underpricing. Similarly, the industry type has a coefficient of -6.918, with a negative value, indicating that a 100% increase in industry type is associated with a 691.8% reduction in underpricing. The company age has a coefficient of -0.049, with a negative value, indicating that a 100% increase in company age is associated with a 4.9% reduction in underpricing.

The coefficient for ROA is 0.025, indicating that a 100% increase in ROA is associated with a 2.5% reduction in underpricing. Finally, the coefficient for DER is -0.032, indicating that a 100% increase in DER is associated with a 3.2% reduction in underpricing.

Hypothesis Testing

Based on Table 5, it can be concluded that company size has a significant negative influence on underpricing. However, industry type, company age, and the Debt to Equity Ratio do not have significant negative influences on underpricing. Likewise, Return on Assets does not have a significant positive influence on underpricing.



Source: SPSS Processed Data

Figure 2. Hypothesis Test Results

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Discussion

The Influence of Company Size on Underpricing

Basically, company size shows the total assets of the company, if the value of the company's size is high, the greater the assets that can be used as collateral for the company to obtain debt, then there is company capital to improve the company's performance and profit which automatically increases the company's value. Generally, companies with standard or below the average values of large companies are not well known by the public (Ary Syofian, 2021). Larger companies tend to have lower uncertainty due to their influence on the market, which signals a lower investment risk. Conversely, smaller companies tend to have higher levels of uncertainty, which directly increases investment risk. Therefore, both the company and underwriters are more likely to set a reasonable initial offering price, effectively reducing the level of underpricing (Kuncoro & Suryaputri, 2019). Thus, company size is considered to have a significant influence on underpricing. Empirical studies support this conclusion, with findings showing that larger company size has a significant negative influence on underpricing, consistent with a study by (Posma Sariguna Johnson Kennedy, Selvia Sitompul, 2021) and (Ramadan, 2018).

The Influence of Industry Type on Underpricing

The measurement of industry type in this study is simplified, distinguishing only between manufacturing and non-manufacturing companies, without accounting for specific industry characteristics such as those of the banking sector. As a result, this study suggests that investors do not significantly differentiate between industry types when investing in companies undergoing IPOs. Investors seem to perceive investment risk as present across all industries, leading to the conclusion that opportunities for profit exist in all sectors. The findings indicate that industry type does not have a significant negative influence on underpricing. These results align with a study by (Kuncoro & Suryaputri, 2019), which also found no significant relationship between industry type and underpricing.

The Influence of Company Age on Underpricing

The length of time a company has been operating does not necessarily translate into broader or more reliable information for investors, which can influence its underpricing during an IPO. In this study, company age is calculated from its establishment date as recorded by a notary, to the IPO listing date, both of which are documented in the prospectus report. Additionally, the number of shares offered is measured by the percentage of equity held by the company's owners relative to the total shares (Kemas Nurcholish Thoriq, Sri Hartoyo, 2018). Company age reflects the company’s ability to survive and compete in the market. Generally, investors tend to favor companies with a longer operational history, as these companies are perceived to be more resilient in the competitive business environment (Erly Mulyani, 2021). However, the findings indicate that company age does not have a significant negative influence on underpricing. This is consistent with a study by (Erly Mulyani, 2021), which concluded that company age has no significant influence on underpricing.

The Influence of Company Return on Assets (ROA) on Underpricing

According to (Kemas Nurcholish Thoriq, Sri Hartoyo, 2018), profitability is information on the level of profit achieved or information on the effectiveness of the company's operations. A higher level of profitability indicates a greater capacity to earn profits, which is often reflected in a higher Return on Assets (ROA) ratio. This, in turn, leads to a higher valuation of the company’s stock by investors. If the company has better information about the present value and future cash flow than investors, underpricing will be a means to convince potential buyers of the company's true value. Financial variables in the company's prospectus will provide an important signal for potential investors to invest their shares in the primary market. Profitability is the issuer's ability to generate profits and measure the level of operational efficiency and asset utilization. High profitability will reduce the company's uncertainty in the future and at the same time reduce the uncertainty of the IPO, thereby reducing underpricing (Suaryana, 2016). However, based on the findings, ROA has no significant positive influence on underpricing. This is consistent with a study by (Erly Mulyani, 2021), which concluded that ROA does not influence underpricing.

The Influence of Debt to Equity Ratio (DER) on Underpricing

For creditors, the greater the value of the debt to equity ratio, the greater the risk of failure that may occur in the company. For companies, the lower the value of the debt to equity ratio, the higher the funding that comes from the owner and the greater the safety margin for creditors (Tri Widianto, 2021). According to (Mega Gunawan, 2015), a higher DER means that a smaller portion of the company’s owner's capital is available as collateral for debt, which raises the company’s leverage. Higher leverage increases the level of uncertainty, negatively influencing initial returns and reducing investor interest in the company. Low investor interest may prompt underwriters to set an initial offering price below its fair market value. This is done because underwriters do not want to take risks if the shares are not all sold. A low initial offering price will increase underpricing. So the higher

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the debt to equity ratio, the higher the level of underpricing experienced by the company. Based on the findings, the Debt to Equity Ratio (DER) has no negative and insignificant influence on underpricing. This is consistent with a study by (Kuncoro & Suryaputri, 2019), which concluded that the Debt to Equity Ratio (DER) has no influence on underpricing.

CONCLUSION

This study examines the factors influencing the level of stock underpricing in companies conducting Initial Public Offerings (IPOs) listed on the Indonesia Stock Exchange (IDX) during 2017 and 2021. Based on the findings, it can be concluded that company size has a significant negative influence on underpricing, indicating that larger companies tend to experience lower levels of underpricing. However, the company's industry type, age, and Debt to Equity Ratio (DER) do not have a significant negative infuence on underpricing, indicating that these factors are not reliable indicators of underpricing behavior. Similarly, Return on Assets (ROA) has no significant positive influence on underpricing, indicating that fluctuations in ROA do not influence the level of underpricing.

This study has several limitations. First, it only examines companies that experienced underpricing during their IPOs listed on the IDX during 2017 and 2021. Additionally, the variables used in this study are limited, while other potentially influential variables were not included.

Based on these findings, several recommendations can be made for investors, potential issuers, and future studies. It is suggested that future studies also examine companies that experience overpricing during IPOs. Future studies could expand the scope by incorporating other financial and non-financial variables from the prospectus that may influence underpricing. Potential financial variables include Return on Investment (ROI), Return on Equity (ROE), Total Asset Turnover (TATO), as well as macroeconomic indicators such as interest rates, the Composite Stock Price Index (IHSG), and exchange rates. Non-financial variables, such as shareholding percentages and Corporate Social Responsibility (CSR) activities, should also be considered.

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