

The Size of Asset of Private Company's and Its IPO's Underpricing, A Study in Indonesia for Period 2010-2016

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ABSTRACT

This paper is conducted to examine the influence of the company's size (assets) on IPO's underpricing in Indonesia. The sample used is stocks listed on the Indonesia Stock Exchange and actively traded during the period January 2010 to December 2017. The number of stocks that meet the research criteria is 112 stocks. The form of data used in this study is panel data. The analytical tool used is a regression with the EViews 10.0 statistical program. As a result, the independent variable's assets have no significant influence on the dependent variable (underpricing).

Keywords: *Size of Asset, Private Company', IPO's Underpricing.*

1. INTRODUCTION

The relations are explained in asymmetric information theory as the bigger the size of a company that will go public as a listed company through an initial public offering, the smaller the underpricing is. This is because the company with big size is more reputable, known by many investors, large economic scale, reputable and good management. Then this will cause the risk of the company's business to become lower and high predictable cash flow [1]. When this type of company conducts an initial public offering (IPO), it is easier for this company to sell its share to the public without any significant discount such as underpricing (lower offering price than its fair value to attract uninformed investors) [2]. Thus, the bigger the size of the company, the smaller underpricing will be.

Indonesian Stock Exchange had encouraged the business sector and entrepreneurs to publicly listed their shares because of the low growth of the number of companies conducting IPO. Financial Services Authority (OJK) stated that the number of issuers or companies listed in the Indonesia stock exchange (BEI) is still quite a bit and remains less high compared with neighboring countries like Malaysia and Singapore. To increase the company listed, the Indonesian Stock Exchange (ISE)

encourages small business companies in the region to list their share on exchange. They can go public through IPO without waiting to become larger before, but they will be larger in capitalization through the capital market [3]. As the consequences, there is more company with small capitalization that go public than the larger ones in recent years.

Based on the condition above, there is an issue that investors face in the Indonesian capital market [3]. It is the company's size that will be something that the public should learn. How is its relationship and influence on IPO event, especially on how much the potential of initial return (underpricing) will be earned from investing in IPO event [4]. Based on the theory and current condition in Indonesia, because the size of a company that conducts IPO on average is smaller, the underpricing of initial return should be higher because the issuer that has small assets will give big underpricing to attract uninformed investors to trade their shares. In the end, the company's share will be more liquid and increase their price.

2. METHODS

The research object in this final work is to get insight if the size of a company can be considered the significant factor that influences underpricing. The data used in this

study are the size of asset and the initial return data for each 112 private company that conducts IPO from 2010 till 2016. The selected data are short-term data that began from day-1 IPO till day-240 after IPO. The State-Owned Enterprise (SOE) and affiliates are excluded from this research because they ignore the data's bias. This is because the SOE's company, on average, has a bigger size than the private company. Furthermore, the financial service company is excluded from this research because of the different financial reporting items from the manufacturing company. The incomplete company's information/data is also excluded from the sample to get a valid result.

After getting all sample data, then conducted the data analysis, the technique used in this research is data panel regression analysis [5]. This technique is used because the data is a combination of time series data and cross-section data. The stages of this analysis are descriptive statistics, classic assumption tests (normality test, multicollinearity test, and heteroscedasticity test), regression analysis, coefficient of determination, F statistical test (model feasibility test), and statistical test t (hypothesis test).

Underpricing (initial return) value is the dependent variable and calculated by (1)

$$Ir = (Price_{tn} - [Price_{t0}]) / (Price_{t0}) \quad (1)$$

The company's size is the independent variable that is calculated as sum of an asset on the balance sheet for the last update period that can be seen in (2) before going public or IPO.

$$Size = \text{Log Total Asset} \quad (2)$$

3. RESULTS AND DISCUSSION

3.1 Data Panel Regression Test

This analysis is conduct using eviews 10.0. The form of the regression model is carried out to determine the relationship of the influence of independent variables, namely asset size, on the dependent variables, namely underpricing. Equation (3) shows the calculation of regression. Table 1 shows the regression test result.

$$\hat{Y} = \beta_0 + \beta_1 X \quad (3)$$

Which is:

- \hat{Y} = Underpricing
- X = Aset
- β_0 = Constant
- β_1 = Regression Coefficient

Table 1. Regression Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.507425	0.108968	4.656653	0.0000
Aset	-1.86E-08	2.59E-08	0.719666	0.4717
<i>R-squared</i>	0.000018	<i>Mean dependent var</i>		0.015451
<i>Adjusted R-squared</i>	-0.000017	<i>S.D. dependent var</i>		0.505725
<i>S.E. of regression</i>	0.505730	<i>Sum squared resid</i>		7160.838
<i>F-statistic</i>	0.517920	<i>Durbin-Watson stat</i>		0.012727
<i>Prob(F-statistic)</i>	0.471736			

Based on testing the data using eviews 10.0, the results of (4) are obtained.

$$Y = 0,507425 - 1,86E-08 \text{ ASET} \quad (4)$$

Explanation of (4) as follows:

- From the regression equation, the constant value is 0,507425. This means that if the dependent variable or underpricing is not affected by the independent variable, which is assets, so the average underpricing would be worth 0,507425.
- The regression coefficient for independent variables or assets is a negative value. It shows that the negative relation between its assets and the underpricing. The regression coefficient of assets is -1,86e-08 containing meanings that for every addition, a unit of assets will cause a decline in underpricing for 1,86e-08.

3.2 Test t (Partial)

To determine whether or not a significant influence of the independent variables partially on an independent variable is used, the t-test.

Hypothesis:

- H01: There is no significant effect of asset on underpricing
- H11: There is a significant effect of asset on underpricing

Test Criteria:

- If Sig < 0.05, then H0 is rejected
- If Sig > 0.05, then H0 is accepted

Based Table 2, the following results have a significance value of 0,4717. Because the sig value (0,4717) > 0,05, then h0 accepted means there is no significant influence of asset on the underpricing.

Table 2. Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.507425	0.108968	4.656653	0.0000
ASET	-1.86E-08	2.59E-08	0.719666	0.4717

4. CONCLUSIONS

This research was conducted to determine the effect of size of company (asset) on the underpricing (initial return) in its IPO. Initial return of stocks from the private company as the dependent variable and size of asset as independent variables. The conclusion that can be taken in this study is asset has no significant influence on stock's underpricing for the private company's IPO. Thus, investor should not take note too heavily on size of asset or capitalization because it cannot be used as an analytical variable to predict underpricing.

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