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Analysis of Variables that Affect the Initial Return of IPO Stocks on the Indonesian Stock Exchange in 2023 and 2024

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Abstract:
In the process of listing shares for the first time, there is often an extraordinary increase in share prices. This extraordinary price increase certainly also provides benefits for investors. Given the phenomenon of high stock price increases, many studies have been conducted to determine the variables that are very instrumental in causing the increase in stock prices. Many studies have been conducted to determine the causes of high initial return, but the findings are different and inconsistent so the most dominant factor in determining the initial return cannot be determined. In this study, we will analyze the influence of variables of stock index changes, stock issuance value, oversubscription, PBV, PER, stock trading frequency, market capitalization, and stock trading volume, and whether they affect the initial return of IPO shares. Of the 8 variables observed, two variables have a positive and significant effect, namely stock issuance value and oversubscription, one variable has a negative and significant effect, namely stock trading frequency, four variables have a negative but insignificant effect, namely JCI, PBV, PER and market capitalization, and one variable has a positive but insignificant effect, trading volume.

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INTRODUCTION

In general, every company wants to expand its business. To expand the business, the company needs funding. Companies have various alternative sources of funding, both from within and outside the company. The source of funding from outside the company comes from the financial market, which is a system that allows the creation of a flow of funds from parties experiencing excess funds to parties who need funds (Masdupi & Rahmiati, 2014). For large funding needs, companies generally obtain them from outside the company, namely through the financial markets.

Share capital is one of the sources of corporate funding. Share capital can come from within the company, namely from existing shareholders or new shareholders from the financial market. Share capital is a permanent source of company funds that will be embedded in the company for a long period, until infinity as long as the company is still operating (Septantya, 2014). The company's funding needs come from share capital in the financial markets, for companies that have not gone public are obtained through an *initial public offering* (IPO), while those that have gone public are obtained through a *secondary public offering* or also through a *rights issue* in the capital market. With an IPO, there will be a change in the company's status from a closed company to a public company and provide

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consequences for the company's responsibility to improve its performance (Agustina, 2012). Before being traded on the stock exchange (secondary market), the company's shares are first traded in the primary market (IPO market), which is the market in which investors buy the company's shares directly through underwriters.

The determination of the share price to be offered at the IPO is an important factor, both for the company (issuer) and the underwriter because it relates to the amount of funds that will be obtained by the company and the risk that will be borne by the underwriter (Kristiantari & Ayu, 2013). In the IPO market, the company wants the maximum possible income of funds, namely by setting a high share price, while the underwriter wants a low share price to minimize risk.

Underwriters are members of the stock exchange who are licensed as underwriters, who together with the company prepare the process of going public. In the process of going public, underwriters will play a role in providing assistance to issuers in order to prepare prospectuses, carry out road shows in the context of selling company shares in the primary market, and become guarantors in the process of going public (Sahardini, 2015). The company and the underwriter, each or jointly will conduct a proper share price assessment, so that an agreement on the IPO price range is obtained.

In determining the range of IPO share prices, companies and underwriters make an assessment based on the company's financial performance. Companies and underwriters will conduct vertical and horizontal analysis of the company's financial performance. Vertical analysis is an analysis carried out only on one period of financial statements. Analysis is carried out between existing items, in one period. Horizontal analysis is an analysis carried out by comparing financial statements for several periods (Puwarsih, 2023). The company's financial performance is then compared with similar companies that have IPOs.

The company and the underwriters will also analyze the company's future business prospects. Although not shown in the prospectus, future business prospects are the main source in assessing the company and determining the initial share price. From the company's assessment, the company and underwriters will agree on the range of share prices to be sold. Furthermore, the share price range will be socialized to potential investors to see their interest in the shares to be sold. The company and the underwriter will agree on the range of share prices after getting a response back from these investors. The price formed in the IPO market is an agreement between the company and the underwriter.

Before conducting an IPO, the company must prepare everything related to the IPO, both from a legal aspect and from a commercial aspect, so that the IPO carried out by the company is successful, namely in demand by investors (potential new shareholders). Some legal aspects that the company needs to prepare such as the GMS of shareholder approval, changes to the company's articles of association, legal audit, legal opinion, and financial statement audit. While some commercial aspects that the company needs to prepare long before, such as good company operating performance can be analyzed by potential investors through the company's financial ratios such as, *return on assets* (ROA), *return on equity* (ROE), *price earning ratio* (P/E), *debt equity ratio* (DER), *current ratio*, *net profit margin* (NPM), *price to book value* (PBV) and the company's future business plan after the IPO.

Based on the future business plan and financial performance of the company, issuers and underwriters can assess the share price that is feasible to sell to investors, so that an IPO price range is obtained, then investors also assess to see whether the price range offered by the company and underwriters is attractive or not to be bought by investors. Based on the collection of pre-interest from investors, the company and underwriters decide on the IPO share price. Although the initial share price has gone through an assessment from the seller and buyer side, the *initial return on* the initial stock listing on the exchange can rise or fall. The phenomenon of price fluctuations in the primary market can occur due

to information gaps between market participants and there is also due to investor *herding* behavior.

Information gaps can occur between companies, underwriters, and investors. Among investors themselves, there is also an information gap, namely between *informed* investors and *uninformed* investors. The company prospectus is one source of information that is relevant and can be used to assess companies that will IPO (Said, 2016). In the prospectus, there is a lot of information related to the state of the company conducting the IPO, both legal and commercial aspects. In the prospectus, there is information that has already occurred (*past* information), except in the use of funds section and dividend distribution plans, while information about future business plans that are very important for investors is not available in the prospectus because it will violate regulatory regulations that prohibit companies from promising prospects to investors. The company has prepared a future business plan and the underwriter has access and distributes it to several potential investors to see their interest. This is one of the causes of the information gap between investors.

Many studies have been conducted to determine the causes of *initial return* fluctuations during stock listing, but the findings are different and inconsistent so the most dominant factor in determining stock price fluctuations at the time of the first listing cannot be determined. In this study, we will analyze the influence of the variables of stock index changes, stock issuance value, *oversubscription*, PBV (*price to book value*), PER (*price earning ratio*), trading frequency, market capitalization, and stock trading volume, whether they affect the *initial return of* IPO shares. This study was conducted using data for 2023 and 2024 because since 2023 the IDX has provided initial listing information so that information on IPO activities is available in full and officially on the IDX web (www.idx.co.id). Especially for *oversubscription* data*, it* was not previously available on IDX officially, and those who use *oversubscription* data must collect it from many publications separately and some of them may be inaccurate. The following is an explanation of each variable in question.

A stock price index is a statistical measure that reflects the overall price movement of a set of stocks selected based on certain criteria and methodology and evaluated regularly. The stock price index is one of the main indicators that reflect the performance of the capital market whether it is experiencing an increase (*bullish*) or is experiencing a decline (*bearish*). The movement of the stock price index will affect the attitude of investors on whether to buy, hold, or sell their shares, so it is necessary to research whether the movement of the stock price index will also affect the initial return at the time of the IPO. In this study, the index that will be used is the Composite Stock Price Index (JCI) which reflects the movement of stock prices throughout the market.

The stock emission value is the multiplication of the number of shares offered by the company with the initial share price. The stock emission value shows the scale of the stock offering at the time of the IPO. The larger the scale of the stock offering the more favored by investors, because it will involve many investors and it is difficult to carry out market manipulation actions against these shares.

Oversubscription is the ratio of the multiple of the number of shares subscribed by investors to the number of shares offered by the company. *Oversubscription* is often found in IPO activities. *Oversubscription* sends a signal to potential investors about the company's prospects. If *oversubscription* is high, it will excite investors and increase their level of confidence in the IPO, resulting in increased demand for IPO shares on the first day of trading in the secondary market (Leong & Sundarasen, 2015). The increase in demand on the first day will affect the *initial return of the* stock, the higher the investor demand for the shares of the company that IPO, it will show that investors strongly believe in the stock. In other words, the increased demand for an IPO stock will lead to an increase in the *initial return* that will be received by shareholders (Nadila 2021).

Price to book value (PBV) is a common financial ratio used by investors to value a stock. PBV is a comparison of the share price to the company's book value and is used by investors to determine whether the IPO share price offered is expensive or not. The PBV of

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the IPO company will be compared with the PBV of similar companies that have already IPOed. Investors prefer a smaller PBV because there is a potential for an increase in share price.

Price earning ratio (PER) is a common financial ratio used by investors to value a stock. PER is the ratio of the stock price to the company's earnings, which investors use to judge whether a stock is expensive or cheap.

Stock trading frequency is the number of times buying and selling transactions occur in the shares concerned at a certain time (Rohana & Mukhlasin, 2003). In capital market activities, trading frequency is one of the elements that become one of the materials to see the market reaction to information entering the capital market. The development of stock prices and stock trading frequency activities in the capital market are important indications for studying market behavior as a market reference in determining transactions in the capital market (Ernanto, 2016).

Market capitalization is the value of a company based on the calculation of the stock market price multiplied by the number of shares outstanding. The higher the market price of a company's shares and the more shares outstanding, the higher the company's market capitalization. Large-cap stocks are generally one of the considerations for investors in choosing these stocks because large-cap stocks are in demand by many investors and are not easily disturbed by various acts of market manipulation.

Stock trading volume is defined as the number of shares traded at any given time (Abdul & Nasuhi, 2000). A large trading volume indicates that the stock is favored by investors, which means that the stock is very actively traded. Trading volume is an instrument that can be used to see the market reaction to information entering the capital market.

METHODS

This study aims to analyze what variables affect the *initial return* when the IPO shares are first listed on the stock exchange. The research uses a quantitative approach, which is an approach using numerical data to measure and analyze the variables under study (FEB, 2023). Quantitative approach data collection uses survey methods, experiments, or secondary data analysis, which are then analyzed using statistical methods to produce generally applicable findings. Statistics can be used to test hypotheses, compare groups, or identify relationships between certain variables. In this study, secondary data will be used to identify the relationship between the dependent variable *initial* stock *return* and certain independent variables with the Econometric Views (Eviews) 13 statistical application tool.

The data collection method used is the non-participant observation method. The population of this study is secondary data, namely data or information collected by researchers through the use of intermediary media. In this study, the intermediary media used is the official website of the Indonesia Stock Exchange (www.idx.co.id).

The data analysis method used in this study is multiple linear regression analysis, which is a statistical technique used to trace the relationship pattern between the dependent variable and two or more independent variables (Padilah & Adam, 2019). Multiple linear regression analysis is used to determine the dependence of the dependent variable on one or more independent variables (explanatory/free variables). In addition, this regression analysis also shows the direction of the relationship between the dependent variable and the independent variable (Emilia et al., 2008).

Multiple linear regression is expressed in mathematical equations as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_n X_n + \varepsilon$$

Ket:
Y = dependent variable.
X_1, X_2, X_n = independent variables
α = constant
$\beta_1, \beta_2, \beta_n$ = regression coefficient
ε = residual

A research variable is an attribute trait or value of people, objects, organizations, or activities that have certain variations set by researchers to study and then draw conclusions (Sugiyono, 2018). In this study there is one dependent variable and eight independent variables, which are as follows:

Dependent variable
Initial return

Namely, the level of profit or loss from IPO shares on the first day it is listed on the stock exchange. The data used in this study are the initial stock price and closing stock price on the day of the first listing on the exchange. To calculate the *initial return on* the first day of the IPO, the following equation is used:

$$IR = (P_1 - P_0)/P_0$$

IR = *initial return*
P_1 = *closing* price *(*1st day closing stock price*)*
P_0 = *offering* price (initial share price)

Independent variable
Stock price index change ratio (RJCI)

That is to observe the effect of stock market conditions on the *initial return of* IPO stocks. In this study, JCI is used which can represent the overall stock market conditions. To calculate the ratio of changes in the stock price index, the following equation is used:

$$RJCI = (JCI_1 - JCI_0)/JCI_0$$

RJCI = stock price index change ratio
JCI_1 = stock price index on the first *listing* day
JCI_0 = stock price index one day before *listing*

Share issue value (NES)

Namely to observe the effect of the amount of funds obtained by the company from the stock issuance carried out on the *initial return of* IPO shares. In this study, the value of stock emissions is calculated from the number of shares offered by the company multiplied by the initial stock price. So that the value is not too large and balanced with other independent variables, the results of the multiplication are then logged, with the following equation:

logNES = log(number of shares offered x initial share price)

Oversubscribed stock ratio (*OVERS)*

Namely to observe the effect of the comparison of the number of shares ordered by investors with the number of shares sold by the company on the *initial return of* IPO shares. *OVERS (oversubscription)* is used to see how much investor interest in the shares offered. In this study, *oversubscription* is calculated from the total number of shares ordered by investors divided by the number of shares offered by the company, with the following equation:

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Oversubscription = total number of shares subscribed/number of shares offered

Price to book value (PBV)

Namely to observe the effect of PBV on the *initial return of* IPO shares. PBV is a comparison of the IPO share price with the company's book value. PBV is used to assess the cheapness of shares based on the company's book value. In this study, the PBV used is PBV after offering shares but before listing shares, namely by adding NES to the company's equity, so that the equity value is close to the actual value. To calculate PBV, the following equation is used:

PBV= (IPO share price x number of shares offered)/(company equity+NES)

Price earning ratio (PER)

That is to observe the effect of PER on the *initial return of* IPO shares. PER is a comparison of stock prices with company profits. PER is used to assess the cheapness of shares based on the company's ability to generate net income. To calculate PER, the following equation is used:

PER= (IPO share price x number of shares offered)/ company profit

Stock trading frequency ratio (RFP)

Namely to observe the effect of stock trading frequency on IPO stock *initial return*. Stock trading frequency is used to see how actively IPO shares are traded on the primary market. In this study, what is used is the ratio between the trading frequency of IPO shares and the trading frequency of all shares on that day, which is calculated by the following equation:

RFP= (IPO share trading frequency / total share trading frequency)

Market capitalization ratio (RKP)

Namely to observe the effect of stock capitalization on the *initial return of* IPO shares. Market capitalization is the total value of a company's shares, which is obtained by multiplying the share price by the total number of shares of the company. Market capitalization helps investors assess a company's size, growth potential, and level of risk. In this study, what is used is the comparison between the capitalization of IPO shares before being listed on the stock exchange and the total stock market capitalization one day before the listing of shares, which is calculated by the following equation:

RKP= (IPO share price x total number of shares)/ market capitalization one day earlier

Stock trading volume ratio (RVP)

Namely to observe the effect of stock trading volume on the *initial return of* IPO shares. Stock trading volume is the number of lots of shares that have been transacted by the stock exchange in a certain period. Stock trading volume is used to see how many shares are traded on the stock exchange. In this study, what is used is the comparison of the trading volume of IPO shares with the overall trading volume of shares on the day of the stock listing, which is calculated by the following equation:

RVP = IPO share volume / total share trading volume

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive analysis is a statistic used to analyze data by describing or describing the data that has been collected as it is without intending to make general conclusions or generalizations (Sugiyono, 2018). The descriptive statistical analysis aims to provide an overview of the characteristics of each research variable as seen from the mean, median,

maximum, and minimum values, and standard deviation. The following are the results of descriptive statistical analysis for the object of this study.

Table 1. The Results of Descriptive Statistical Analysis

	RJCI	logNES	OVERS	PBV	PER	RFP	RKP	RVP	IR
Mean	0.00037	11.1077	14.5838	2.49399	157.040	0.03065	0.00051	0.14807	0.15123
Median	0.00092	10.9720	8.81043	2.31048	48.8340	0.01978	0.00004	0.01342	0.14782
Maximum	0.01297	13.0304	69.6400	10.1634	3311.23	0.12201	0.01273	14.8040	0.35002
Minimum	-0.01838	10.3139	1.00000	0.09600	-487.290	0.00052	0.00001	0.00003	-0.34849
Std. Dev.	0.00551	0.55452	14.3060	1.30743	396.020	0.02868	0.00190	1.34946	0.17672
Observation	120	120	120	120	120	120	120	120	120

Source: Eviews13 results processed (2024)

Classical Assumption Test

To ascertain whether the equation in the multiple linear regression model is econometrically acceptable, it is necessary to test the classical assumptions. Classical assumption testing is carried out by testing normality, multicollinearity, and heteroscedasticity, while the autocorrelation test is not carried out because the data used is not time series data. The results of classical assumption testing are as follows:

Normality Test

It is known that the *Probability Jarque-Bera* value is 0.064792 (>0.05), so it can be concluded that the data is normally distributed (passes the normality test).

Multicollinearity Test

It is known that the *variance inflation factors* (VIF) value of each independent variable is as follows:

RJCI by 7,076986
logNES by 0,001722
OVERS by 1,09E-06
PB by 0,000129
PER by 1,34E-09
RFP by 0.270602
RKP by 134.0103
RVP by 0.000112

For all VIF independent variables <10.00, it can be concluded that the multicollinearity test assumptions have been met or have passed the multicollinearity test.

Heteroscedasticity Test

It is known that the *Probability Obs*R-Squared* (Test White) value is 0.5252 (>0.05), so it can be concluded that the heteroscedasticity test assumption has been met or the data has passed the heteroscedasticity test.

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Multiple Linear Regression Results

The following is a table of multiple linear regression results.

Table 2. Multiple Linear Regression Results

Dependent Variable: INITIAL RETURN
Method: Least Squares
Date: 12/28/24 Time: 9:15 am
Sample: 1 120
Included observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.196848	0.460239	-2.600495	0.0106
RJCI	-3.582426	2.660261	-1.346645	0.1808
logNES	0.119230	0.041501	2.872939	0.0049
OVERS	0.006029	0.001046	5.762161	0.0000
PBV	-0.003111	0.011362	-0.273844	0.7847
PER	-4.23E-05	3.66E-05	-1.156366	0.2500
RFP	-1.337013	0.520194	-2.570220	0.0115
RKP	-19.00774	11.57628	-1.641955	0.1034
RVP	0.014694	0.010580	1.388847	0.1677

R-squared	0.328502	Mean dependent var	0.151226
Adjusted R-squared	0.280106	S.D. dependent var	0.176721
S.E. of regression	0.149942	Akaike info criterion	-0.885100
Sum squared resid	2.495563	Schwarz criterion	-0.676039
Log likelihood	62.10603	Hannan-Quinn criter.	-0.800199
F-statistic	6.787763	Durbin-Watson stat	2.009594
Prob(F-statistic)	0.000000		

Source: Eviews13 results processed (2024)

Multiple Linear Statistical Analysis

Analysis of the results of the F Test (Simultan)

It is known that the *F-Statistic* value is 6.787763 with a *Prob. (F-statistic)* value of 0.000000 (<0.05), so it can be concluded that the independent variable (X) has a significant effect simultaneously (simultaneously) on the dependent variable (Y).

Analysis of Determination Coefficient Test Results

It is known that the *Adjusted R-squared* value is 0.280106 so it can be concluded that the contribution of the influence of the independent variable (X) on the dependent variable (Y) simultaneously (together) is 28%. While the remaining 72% is influenced by other variables outside this study.

Analysis of T-Test Results (Partial)

The variables that have a *Prob. (t-statistic*) value <0.05) are X2 (logNES), X3 (*OVERS*), and X6 (RFP) so it can be concluded that these variables have a significant effect on the Y variable.

The variables that have a *Prob. (t-statistic*) value> 0.05) are X1 (RJCI), X4 (PBV), X5 (PER), X7 (RKP), and X8 (RVP) so it can be concluded that these variables have no significant effect on variable Y.

Regression Equation

From the table of multiple linear regression results above, the regression equation can be made as follows:

Y = -1.196848 - 3.582426X1 + 0.119230X2 + 0.006029X3 - 0.003111X4 - 0.000042X5 -1.337013X6 - 19.00774X7 + 0.01469X8

Regression Equation Analysis

The constant value (C) is negative (-) of 1.196848, which means that if the independent variable (X) increases by one unit on average, the dependent variable (Y) will decrease by 1.196848.

There are 5 variables, namely RJCI, PBV, PER, RFP, and RKP which are negative, meaning that if each of these variables separately increases by one unit, the Y variable will decrease by the constant value of the variable, and vice versa.

There are 3 variables, namely NES, OVERS, and RVP, which are positive, meaning that if each of these variables separately increases by one unit, the Y variable will also increase by the constant value of the variable, and vice versa.

CONCLUSIONS

Based on the results of the analysis and discussion that has been carried out, it can be concluded that the contribution of the influence of the independent variables of this study simultaneously on the *initial return of* shares on the first day of listing on the Indonesia Stock Exchange during 2023 and 2024 is 28%. Of the 8 independent variables analyzed, two independent variables have a positive and significant effect logNES and *OVERS*, meaning that the greater the variable, the greater the *initial return* for investors. One independent variable that has a negative and significant effect is RFP, meaning that the greater the trading frequency ratio, the smaller the *initial return*. Four independent variables have a negative but insignificant effect, namely RJCI, PBV, PER, and RKP. One independent variable that has a positive but insignificant effect is stock RVP. By knowing the variables that have a significant effect on the initial stock return of IPO shares, namely NES and OVERS which have a positive effect and RFP which has a negative effect, the implication for investors in conducting IPO stock transactions on the listing day is that they should pay attention to the variables that have a significant effect. If the NES and OVERS are large, of course, there is potential profit for investors, but if the RFP is large, of course, there is a potential loss for investors, so that investors can prepare anticipatory steps in conducting stock trading transactions on the first day of listing on the stock exchange. Considering that the simultaneous influence of the 8 independent variables analyzed is 28%, there are still other variables that also affect the initial stock return on the first day of listing on the stock exchange. Therefore, for further research with the same topic, it is recommended to conduct research by substituting independent variables that do not have a significant effect with other independent variables, so that more variables can be identified that have a significant effect and simultaneously the percentage of their influence can also be greater.

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