THE INFLUENCE OF FINANCIAL PERFORMANCE ON COMPANY'S IPO PRICE

ABSTRACT

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This research explains about the effect of financial ratios (Net Profit Margin (NPM), Return on Assets (ROA) and Return on Equity (ROE)) on company IPO price
Sampling method used is the census method that generates the sample of 36 companies that conduct Initial public Offering (IPO) on Indonesian Stock Exchange (IDX) in the period 2009-2011.
Partially, the results of this study explains that the independent variables have a significant influence on IPO's pricing are NPM, ROI and but simultaneously, the three independent variables have a significant influence om initial stock price. The high NPM, ROI and ROE showed that the company's financial performance runs very well, which can increase the interest of investors and the price of IPO when the company is going to do goes public.

Key Word: IPO's price, NPM, ROI, ROI

INTRODUCTION

The company has two ways to obtain these funds through debt financing or equity financing. If company chooses to obtain funds from the equity financing, the company will issue shares in the capital market. In equity financing activities, the company must go public and do initial public offering (IPO). Hastoro and Yuliana (2010) argue that a benefit of doing IPO is to raise capital for future funding activities so the operational activities of company can run effectively. Based on Fahmi (2012:4), the main objective of investors to invest their funds in issuers corporate is getting the maximum profit and creating prosperity for investor. In taking a decision to invest, investors have to know the company's finance condition by understanding the financial report of that company.

Financial ratios are tools to measure measuring company's performance using the financial statements that serves as a tool to analyze a company's finances. Financial ratios are very closely related to the valuation of a stock in the company. Financial ratios have an influence in determining the company's IPO price, this is due to gauge whether the company is registered as a company worthy of Going Public. In the company's financial ratios, liquidity ratios, solvency ratios, operating ratios, profitability ratios and market ratios are usually measured.

Before the company makes an offer on the primary market, it needs to establish bid prices. Isfaatun and Jauharia (2010) explain that there are many phenomena which often occur when a company determines its IPO's price is underpricing, which means the determination of stock prices in the primary market is lower than the price of the same stock as traded on the secondary market. However, if the company sets price too expensive then the stock less attractive called overpricing. The determination of stock prices must go through a comprehensive analysis to conclude that the stock price set is the most reasonable price. Stock pricing can be seen from company's financial report, investors should be cautious in making decisions for buying stock by considering financial performance in the financial reports of the issuer company. This research aims to investigate whether the financial performance using a profitability ratio have an influence on the IPO price.

Basic theory used is a theory developed by Ball and Brown (1968), which study about the relation between stock price and accounting information. This study found that accounting information was a part of information used in forming stock price. The research which is examine by the author is development of research conducted by Hastrida (2010), which examines the IPO pricing in the IDX on during the period 2006-2008. The author wanted to research about the effect on the financial performance of companies that have been listed on the Indonesia Stock Exchange towards the IPO's pricing period 2009-2011 by using profitability ratios. According to the Hanafi and Halim (2009:83), which include profitability ratios are net profit margin (NPM), return on equity (ROE), return on assets (ROA). NPM calculate the extent of the company's ability to generate net income of a certain level of sales, this ratio can also be interpreted as the company's ability to lower costs efficiently in the company at a certain period. ROA is a ratio that measures the company's ability to generate net income by a certain level of assets. Return on equity (ROE) is a measure of the ability of the company (issuer) to make a profit by using specific capital. The three ratios are used by the author to measure the financial performance of companies listed on the Indonesian stock exchange in the year 2009-2011 which will give effect to the IPO price

This research question of this research is whether Net Profit Margin (NPM), Return on Investments (ROI) and Return on Equity (ROE) affect company’s IPO price? The aim of this research is to provide results about the influence of Net Profit Margin (NPM), Return on Investments (ROI), and Return on Equity (ROE) on company’s IPO price**.**

LITERATUR REVIEW

Capital Market

The capital market is a means to meet the funding requirements for the company and also as a place to make the process of buying and selling securities letter. Capital market is concerned with the activities of the public offering, securities trading, public companies relating to the issuance of securities institutions and professions related to the effect. According to capital market law no. 8 Year 1995, capital market is concerned with the activities of the public offering, securities trading, public companies relating to the issuance of their securities and professions related to the effect.

Stock

According Hanafi (2004:124) explains that stock is proof of ownership; a person who has a stake means he has company. From the description above understanding, it can be concluded that the stock is a sign of equity investment in a company which owns the shares, then the investor will get benefits.

Financial Statement

Sangkala (2008) explain that financial statements are made by the management in order to account for duties levied by the owners of the company during the period. Financial statements should present fairly the financial position and financial performance. The financial statements are the output of the process of accounting reports as useful information for users of financial statements in order to make it easier to know the condition of a company.

Financial Ratios

According to Ou and Panman (1989), financial statement analysis identifies aspects of financial statements that are relevant to investment decisions. One goal of the analysis is to assess firm value from financial statements. In assessing and analyzing a financial statement required of a financial ratio. Financial ratios are tools to be used to analyze the financial statements so it can determine the position and condition of the company and will be reported to the parties concerned. Financial ratios are useful indicators of a firm's performance and financial situation.

Profitability Ratios

Profitability is the ability of a company to make a profit in a given period. It is also explained by Hanafi (2009:83) as saying that profitability ratio is the ratio measures a company's ability to generate a profit on the level of sales, assets, and certain share capital.

Initial Public Offering (IPO)

The term IPO is the initial process of selling shares of a company that will do goes public to the public. IPO is a change status of certain company from private to public company. When the company will issue securities, company must be a public company which is listed on the Indonesia Stock Exchange (IDX). Wardani and Fitriati (2010) stated that all information about the company should be submitted to Bapepam and various company documents will be checked.

The Influence of Net Profit Margins (NPM) on Company's IPO Price

Company who has high value of NPM shows good conditions in financing performance, so it can give great opportunities in the future that make investor attract to invest in that company so the price of IPO is possibly increase. According to Martono (1999) in his research used companies which issued IPO and compared the value of NPM towards IPO price said that NPM gives positive effect to IPO pricing.

H1: Net Profit Margins gives positive influence on Company's IPO Price

The Influence of Return on Investment (ROI) on Company's IPO Price

Every investor has the same expectations of wanting to get high returns and expected outcomes of the capital invested. If a company has a higher ROI then the rate of return on invested by the shareholders will be greater. This also affects the price of its initial shares because of the higher ROI then the share price will be offered in the primary market will be higher as well. The conclusion was that the ROI has a positive influence on the IPO's price. This research also done by Darmaastuti (2004), Hastrida (2010), Handayani (2003) and Gumelar (2004) who said that ROI has a positive influence on IPO's price.

H2: Return on Investment gives positive influence on Company's IPO Price

The Influence of Return on Equity (ROE) on Company's IPO Price

When a company has a high value of ROE, it means the company has used its capital efficiently and it can attract investors to invest because the company guarantees to investors to manage the company well and get the expected profit. The high investor's interest of stock would lead to higher stock prices, because of that the price of IPO of a company who will make an offer on the primary market is possibly increase, it can provide great opportunities for profit in the future. Finally, ROE is one of the factors that affect the pricing of IPO. The research is supported by research conducted by Hastrida (2010) and Setiawan (2006) who explain that the increasing dan the decreasing of stocks price are affected by ROE. Bartov, Partha and Chandrakanth (2002) also do similar study which proves the influence of ROE on stock price as profitability measurement. ROE is measured by net income divided by total equity of the company at the last annual financial statements before the period of IPO. With reference to this research, with higher ROE, then the offering price will increase, so that initial returns are to be higher.

H3: Return on Equity gives positive influence on Company's IPO Price

RESEARCH METHOD

According to research questions of the two previous chapters, this research include to quantitative research. The source of data in this research is obtained from fact book on 2010 until 2012 and prospectus of company listed in Indonesian Stock Exchange (IDX) in period of 2009 until 2011. Data which was taken from fact book is the list of companies name and their IPO's price when publishing the initial stock, while the information of financial ratios (NPM, ROI and ROE) is taken from company's prospectus. These data is classified into secondary data which is obtained from Indonesia Capital Market Electronic Library in IDX. The procedure in choosing samples is census method because this research is a study that covers all elements of the population or use the population as a research subject.

Referring to hypotheses, variables in this study are grouped into two variables; dependent variable and independent variable. Dependent variable in this study is company's IPO pricing. The independent variables are NPM, ROI and ROE. NPM is a ratio that describes how a large percentage of revenue generated from each sale, the greater the percentage of NPM means that the greater opportunities for company in generating high profit. ROI is addressing how far company's ability to generate profit which is available for investor with all of company's assets. ROE measures of how well company use their equity to generate profit, this ratio is equal to a fiscal year's after-tax income divided by book value, expressed as a percentage.

This research use regression analysis to test the influence among variables. In order to get the perfect model of regression analysis, the author use classical assumption to know the study of variables tested are comply with the assumptions of regression model in this research or not. Research variables are tested to meet the assumptions of classical if not marked by the presence of autocorrelation, multicollinearity, heterocedastisity and the data in is normally distributed. Methods of statistical analysis were used to test the hypotheses are the F-test, T-test and Determination of Coefficient (R^2).

RESEARCH FINDINGS AND DISCUSSION

Descriptive Analysis

Table 4.1
The Result of Descriptive Test 2009-2011

Variables	No. of Samples	Minimum	Maximum	Mean	Std. Deviation
NPM	32	-1.40	35.50	9.03	9.78
ROI	32	-0.17	19.30	6.45	5.68
ROE	32	-0.48	47.96	17.43	13.68
IPO's Price	32	102	2100	541.62	489.75

The results of descriptive analysis from 2009 to 2011 show the minimum and maximum values of variable IPO's price are amounting to 102 and 2100 rupiah with the values of mean and standard deviation for 541.62 and 489.75 rupiah. In variable NPM, the results of descriptive test indicate minimum and maximum values respectively by -1.40% and 35.50% with the value mean and standard deviation for -9.03 and 9.78. The results of descriptive test were generated the minimum and maximum value of ROI with the respective figures of -0.17% and 19.30% with the values of mean and standard deviation are 6.45 and 5.68. While the results of minimum and maximum values of the descriptive test for ROE are -0.48% and 47.96% with the values of mean and standard deviation are amounted by 17.43 and 13.68.

Normality Test

Table 4.2
The Result of Normality Test

Explanations	Unstandardized Residual (P)	Conclusion
Asymptotic Significance	1.000	Data is normally distributed

The results of normality test on the data IPO's price, the p-value obtained is equal to 0.981 (p> 0.05), thus it can be concluded that the data were normally distributed and qualified to do parametric test. Based on these results it can be concluded that the data meets the assumption of normality.

Multicollinearity Test

Table 4.3
The Result of Multicollinearity Test

Variables	Collinearity Statistics		Conclusion
	Tolerance	VIF	
NPM	0.500	1.998	There is no multicollinearity
ROI	0.346	2.891	There is no multicollinearity
ROE	0.365	2.743	There is no multicollinearity

a. Dependent Variable: IPO’s price

Based on the above test results multicollinearity on table 4.3, VIF values obtained for the independent variable NPM, ROI and ROE is smaller than 10 (NPM =

1.499; VIF ROI = 1.901; dan VIF ROE = 1.664), so it can be concluded that there is no serious multicollinearity in linear regression model.

Heteroscedasticity Test

Table 4.4
The Result of Heteroscedasticity

Variables	Significance	Interpretation
NPM	0.180	Homoscedasticity
ROI	0.558	Homoscedasticity
ROE	0.433	Homoscedasticity

a. Dependent Variable: IPO’s price

Based on the test results Glejser above on table 4.4, it can be seen that the significant value of three independent variables (NPM, ROI, ROE) of more than 0.05 (p = 0.885; p = 0.378; p = 0.369). It can be concluded that there was no trouble heteroscedasticity on the regression model.

Autocorrelation Test

Table 4.5
The Result of Autocorrelation

No		dl	du	4-du	4-dl	Dw	Interpretation
1	value	1.2437	1.6505	2.3495	2.7563	2.110	There is no autocorrelation

a. Independent: NPM, ROI, ROE
b. Dependent Variable: IPO’s price

Based on the results of the Durbin-Watson test in table 4.5 was found for the DW 1.865. When viewed with the Durbin-Watson table, the values of du and dl for the total sample (n) = 36 and the number of independent variables (k) = 3 so the value of du is 1.6539 while dl = 1.2953. Because value DW is located between du (1.6539) and 4-du (2.3461) so there is not obtained autocorrelation.

Hypotheses Testing Result

Table 4.6
The Result of Regression Analysis

Variables	Coefficients	T	Significance	Conclusions
Constant	-4.188	-0.065	0.949	-
NPM	18.217	3.179	0.004	Significant
ROI	27.832	2.345	0.026	Significant
ROE	11.575	2.412	0.023	Significant

a. Dependent Variable: IPO's price

Hypotheses 1

Based on the test results of the third hypothesis, The significance of NPM is 0.004, which is smaller than 0.05, this reseach was able to prove that Net Profit Margin (NPM) gives a positive and significant effect of the to the IPO's price. The results also support previous research written by Gumelar (2004).

The relationship between net profits with sales shows the ability of management to manage the company. The high or low value of this ratio indicates competence of management to control cost of sales, operational expenses, and interest expense. The high value of NPM shows that company can prove that company can effectively manage the good financial performance, which is increasing the IPO's price and also increasing the investors' interest. The value of ROE have positive effect to IPO's price, higher value of ROE will causes the increasing of IPO's price.

Hypotheses 2

Based on the results of the tests performed on the second hypothesis, the significance of ROI is 0.026, which is smaller than 0.05, this research shows a positive influence of the Return on Investment of the IPO'S price. This results also successfully supported by a previous study conducted by Darmaastuti (2004) and Gumelar (2004) which shows the significant effect of ROI on the IPO's price. This result also explained by and Hossein and Fathi, who do the similar research explaining that ROI give influence on stock price.

This research was able to prove the existence of a significant effect of ROI on the IPO price. It can be proved that if the company has a high ROI, the operational and financial performance will run well and all the activities of the company also work well. This conditions is the desired condition by investors in buying the shares of the issuer company, it can be concluded that the ROI affects the price of the company's IPO that will make transactions in the primary market debut.

Hypotheses 3

Based on the test results of the third hypothesis, the significance of ROE is 0.023, which is smaller than 0.05, this research was able to prove that Return on Equity (ROE) gives a positive and significant effect of the to the IPO’s price. The results also support previous research managed by Hastrida (2010), Setiawan (2006) and Anggraeni (2004) which shows the significant effect of ROE on the IPO’s price.

Based on the result of hypotheses testing was found that ROE gives significant effect to IPO’s price which means the increasing and decreasing of ROE will affect IPO’s, the higher value of ROE will generate the higher price of IPO. The high value of ROE indicates that the use of funds is efficient and effective so company can get the higher value of net profit and also can raise the price of IPO.

SUMMARY

The purpose of this study was to prove the financial performance affects the IPO's pricing using profitability ratios of the NPM, ROI and ROE as a measure of a company's financial performance. The result of this research is NPM, ROI and ROE give positive and significant effect to IPO’s price. The IPO’s price is significantly influenced by ROA, ROE, NPM. ROI is a ratio used to measure the ability of management to obtain overall profits. While the definition of ROE is the ratio used to measure the return on investment to shareholders. As for the NPM, a ratio that is used to demonstrate the ability firms in generating net profit after tax.

Based on the F test in this study suggests that the NPM, ROI, and ROE significantly effect on IPO’s price. In explanation above, it can be concluded that the IPO's price can be affected by the profitability ratio, the higher of this ratio can cause the higher interest of investor that can raise the price of a company's IPO. Therefore, companies should pay more attention to improve the profitability ratios in order to increase investor interest.

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