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Financial Analysis of Underpricing Levels in Companies Conducting IPO on the Indonesian Stock Exchange

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Abstract

Purpose: The phenomenon of underpricing does not only occur in Indonesia, but almost all over the world. The aim of this research is to establish the affect of financial ratios on the level of stock underpricing in firm conducting Initial Public Offering (IPO) and are recorded on the Indonesia Stock Exchange (IDX) for the term 2021-2023.
Methodology: The technique of examination in this research is quantitative data examination application multiple linear regression. The purposive sampling method is used to select samples, and 94 companies are obtained that met the research criteria after outliers are made. The process of collecting secondary data is done through documentation studies. The data examination technique is assisted by the SPSS 26.00 software.
Results: The analysis test results obtained that liquidity and financial leverage have no affect on the underpricing levels, whereas activity ratio and firm size have negative significant affect, but ROE tend a positive significant affects on the underpricing levels. The decrease in uncertainty by the company will also reduce the level of underpricing.
Applications/Originality/Value: Many previous research have explore the factors that affect underpricing, but studies that specifically explore the role of financial ratios are still limited, especially for the post-2020 period. This research contributes to the literature by assure fresh empirical proof on the relationship between liquidity ratio (CR), financial leverage (DER), activity ratio (TATO), firm size (SIZE), and profitability (ROE) to underpricing which can then be adopt into advisement for investors, issuers, and underwriters in making decisions.

Keywords: liquidity, financial leverage, activity ratio, firm size, profitability, underpricing

Introduction Section

The larger a company, the more difficult it will be to find capital funding in order to carry out operational activities. The answer that is frequently become accustomed by plenty enterprise is to doings external finance. External finance is execute by performing out go public activeness across the capital market. The capital market is seen as an intermediary institution, because the capital market aims to connect companies that have funding needs with people who have excess funds (Nizar and Syu'aibi, 2020). In the serve of going public, before trading in the secondary market is carried out, the company must first sell the enterprise's stake in the primary market. Initial Public Offering (IPO) is the serve of trade enterprise's stake to the community or the wider community for the first time through the primary market, and listing the stake on the stock exchange.

The stake price is the cost set by a enterprise to other parties who have an interest in obtaining possession of the stakes of the enterprise. The determination of the share price at the while of the Initial public offering (IPO) is determined based on the covenant amongst the enterprise and the underwriter. Both parties have different main interests even though the determination of the share price is carried out jointly (Partama and Gayatri, 2019). Supposing the stake cost establish at the while of the IPO is lots dental the closing price on the foremost day in the secondary market, the enterprise will experience underpricing. Underpricing is a situation where the performance and outlook of a company are considered lower than the actual situation.

Research on underpricing is important because the phenomenon of underpricing does not only occur in Indonesia, but occurs almost all over the world as evidenced by research showing that underpricing has occurred in almost all stock exchanges in the globe, for instance the United States, Poland, China, India, and Turkey. Indonesia is one of the state of which firm that conduct IPO experience a fairly high level of underpricing every year (Hakim and Fauzan, 2023).

The phenomenon of underpricing that occurs in the realisation of IPO able be caused by differences in interests (Solida et al., 2020). The underwriter 's main interest is to stimulate public interest in buying shares by setting the IPO share price

at a low level, while the firm as the party that needs finance expects high profits from the sale of shares through setting the share price at the maximum point. Underpricing can also be caused by information asymmetry (Solida et al., 2020). Limited information about the company, as well as differences in the amount and grade of data obtain by information users, makes it difficult to assess the quality of shares during the IPO.

Several factors concern the degree of stake underpricing, however this research merely attention on financial factors, incorporate liquidity ratio, financial leverage, activity ratio, firm size, and profitability. Liquidity indicate to the enterprise's capability to repay its short-term debt within one year (Khaira et al., 2019). The high liquidity ratio generated signals that the enterprise has a nicely capability to pay off short-term debt and to reduce uncertainty for investors. Reduced uncertainty results in investors being attracted to the company, allowing underwriters to set the initial price high enough, which in turn can reduce the possibility of underpricing (Partama and Gayatri, 2019).

Financial leverage is used in evaluating the use of a company's arrears to finance the firm's operational activities, specifically the firm's capability to pay off long-term obligations (Oktaviani et al., 2022). The high financial leverage illustrates the high financial risk faced by the company, namely the threat of a firm's inability to redeem lend. This results in a decrease in investor interest in the company, resulting in a high level of underpricing experienced by the company (Agustine, 2019).

Activity ratio is become accustomed to establish the effectiveness of funds used by a firm. The higher the entity's activity ratio, the more effective an entity is in using resources (Kusumawati et al., 2018). A high activity ratio level signals that the company has good efficiency capabilities in managing assets to minimize the risk uncertainty faced by the firm. Reduced risk uncertainty results in a decrease in the level of underpricing.

Firm size indicate to the size of the firm as considered by the total assets owned by the firm (Kamsari et al., 2020). Companies with large sizes tend to have more information available to the public. Disclosure of information by companies can minimize information asymmetry and uncertainty about the company's future prospects, so companies with larger sizes tend to have lower underpricing rates (Ariyani and Ismanto, 2019).

Profitability refers to a measure of the company's operational success or profit during a certain period (Pradnyadevi and Suardikha, 2020). The high percentage level of profitability shows certainty in obtaining returns from investments made by investors and reduce uncertainty, also avoid information asymmetry for investors, which ultimately the possibility of underpricing can be avoided.

Research conducted by Iqbal dan Parinduri (2020) and research by Rahma et al. (2024) demonstrate that liquidity, financial leverage, and profitability variables affect the underpricing levels. In addition, examination conducted by Maylani, Sudiman, and Heriyanto (2024) and research by Carolina et al. (2020) reveal that the activity ratio affects the underpricing levels, and examination conducted by Sulistiawati et al. (2021) reveal that firm size affects the level of underpricing. Thus, this study will show the impact of liquidity ratio, financial leverage, activity ratio, firm size, and profitability on the underpricing levels in firm that conduct IPO.

2 Literature Review and Hypothesis Model

Effect of Liquidity on Underpricing

Liquidity indicate to the firm's capability to repay short-term debt within one year (Khaira et al., 2019). A great scale of liquidity ratio signals that the firm has a good capability to redeem short-term arrears, thereby reducing the occurrence of uncertainty. Reduced uncertainty results in higher investor interest in companies that allow underwriters to determine higher initial prices and underpricing avoidance tends to be implemented (Partama and Gayatri, 2019). One measure of variable liquidity is the Current Ratio. The Current Ratio describes the firm's capability to redeem its current debt by current assets owned by the firm. The great the current ratio, the lower the likelihood of the firm experiencing underpricing. Good liquidity is calculated using the current ratio, as it can minimize information asymmetry between company management and investors, so that underpricing can be avoided (Liu et al., 2022). This is in line with the signal theory which suggests that the company as the sending party will try to convey pieces of relevant information to be utilized by the receiving party, namely investors (Edi and Yuniarta, 2023). Iqbal and Parinduri (2020), Rahma et al. (2024), as well as Rina et al. (2022) has proven empirically that liquidity as calculated by the Current Ratio has an effect on underpricing.
H1 : Liquidity affects the underpricing levels in firm conducting IPOs.

Effect of Financial Leverage on Underpricing

Financial leverage is used to evaluate the use of a firm's debt in funding the firm's operational activities, especially the ability to pay off long-term obligations (Oktaviani et al., 2022). High financial leverage reflects higher financial threat or the possibility of a firm's setback to meet loan repayments. This results in a decrease in investor interest in the company due to the high level of uncertainty which ultimately affects the increase in the underpricing levels that can be experienced by the firm (Agustine, 2019). One measure of variable financial leverage is the Debt to Equity Ratio (DER). Debt to Equity Ratio (DER) is a measure that aims to assess the large proportion of arrears compare to the equity of the company. A greater Debt to Equity Ratio (DER) indicates a greater underpricing levels in the company. Financial Leverage is more effective when calculated using the Debt to Equity Ratio (DER), because it can clearly describe how to evaluate a company's financial risks (Tsai and Huang, 2021).

String to signal theory that suggests the company as the sending party will try to convey pieces of relevant information to be utilized by the receiving party, namely investors (Edi and Yuniarta, 2023). Iqbal and Parinduri (2020), Rahma et al. (2024), as well as Evitasari and Nurhadi (2023) have empirically proven that financial leverage as calculated by Debt to Equity Ratio (DER) affects underpricing.
H2 : Financial Leverage affects the underpricing levels in firm conducting IPOs.

Effect of Activity ratios on Underpricing

Activity ratio is become accustomed to set the effectiveness of the funds used by the firm. The higher the entity's activity ratio means the more effective it is in using the entity's resources (Kusumawati et al., 2018). The high Activity ratio can minimize the uncertainty of the threat faced by the firm, because it gives a signal that the company has well efficiency in managing assets. Reduced risk uncertainty resulted in a diminish in the underpricing levels, so that the possibility of investors getting the expected initial return will decrease. One of the measuring instruments of variable activity ratio is Total Asset Turnover (TATO). Total Asset Turnover (TATO) calculated the extent to which a firm's performance in utilizing its assets with the aim of produce profit. The greater the Total Asset Turnover (TATO) resulting in the lower the level of underpricing that may be faced by the company. Activity ratio is more effective when measured using Total Asset Turnover (TATO) because it can describe how the company utilizes all its assets and the income generated from each monetary asset owned (Utami, 2019). This is in string to signal theory that suggests the company as the sending party will try to convey pieces of relevant information to be utilized by the receiving party, namely investors (Edi and Yuniarta, 2023). Maylani, Sudiman, and Heriyanto (2024), Carolina et al. (2020), as well as Renitia, Suripto, and Harori (2021) have empirically proven that the activity ratio measured by Total Asset Turnover (TATO) affects underpricing.
H3 : Activity Ratio affects the underpricing levels in firm conducting IPOs.

4. Effect of Firm Size on Underpricing

Firm size refers to how much a company is valued using its total assets (Kamsari et al., 2020). Companies with large size are usually more well known in the community than companies with small size and the information available about large companies is more obtained by the public than small companies (Kamsari et al., 2020). Disclosure of information by issuer companies can minimize information asymmetry and uncertainty about the company's future prospects resulting in large companies tend to experience lower underpricing rates (Ariyani and Ismanto, 2019). One measure of the variable size of the firm is the total assets of the company. The size of the firm can be interpreted through the total assets owned by the firm. Enterprise with large assets instruct that they have achieve due date compared to companies with smaller financial positions (Husna and Satria, 2019). The higher total assets affect the occurrence of the lower level of underpricing faced by the company. The determination of a firm's size thru total assets is considered more effective because the company's assets serve as an indicator of whether the company is experiencing a stable outlook in the future. A stable outlook can minimize uncertainty for investors, so the company's underpricing rate will decrease.

In line with signal theory, namely that large firm sizes can provide positive signals to investors, because they tend to have more information available to the public, so as to reduce information asymmetry and minimize the occurrence of underpricing. Sulistiawati et al. (2021), Evitasari and Nurhadi (2023), Yuniarti and Syarifudin (2020), and Renitia, Suripto, and Harori (2021) have empirically proven that the size of a company calculated by total assets affects underpricing.
H4 : the size of the company affects the underpricing levels in firm conducting IPOs.

5. Effect of Profitability on Underpricing

Profitability is a ratio used to assess the achievement of a firm's operations or profits within a specific period of while (Pradnyadevi and Suardikha, 2020). The high percentage of profitability assessed indicates clarity in the results of the investment of funds by investors, thus reducing uncertainty towards investors and avoiding information asymmetries that can minimize the possibility of underpricing faced by the company. One measure of profitability variable is Return on Equity (ROE). Return on Equity (ROE) is the ratio between Profit after Tax and own capital (Kusumawati et al., 2018). This ratio calculates the entity's ability to earn net income based on a certain share capital (Kusumawati et al., 2018). The higher Return on Equity (ROE) results in the lower level of underpricing faced by the company. Profitability is more effective when measured using Return on Equity (ROE) because it reflects how efficient the company is in making a profit from the equity invested by shareholders. This is in string with the theory of information asymmetry, which clear and transparent profitability can help reduce information imbalances between companies and investors, because investors can accurately assess the firm's prospects. This is also in string with signal theory, namely high profitability can provide investors with signals in the form of data regarding the firm's capability to beget profits which can result in higher stock prices. Iqbal and Parinduri (2020), Rahma et al. (2024), Evitasari and Nurhadi (2023), and Yuniarti and Syarifudin (2020) have empirically proven that profitability as calculated by Return on Equity (ROE) affects underpricing.
H5: profitability affects the underpricing levels in firm conducting IPOs.

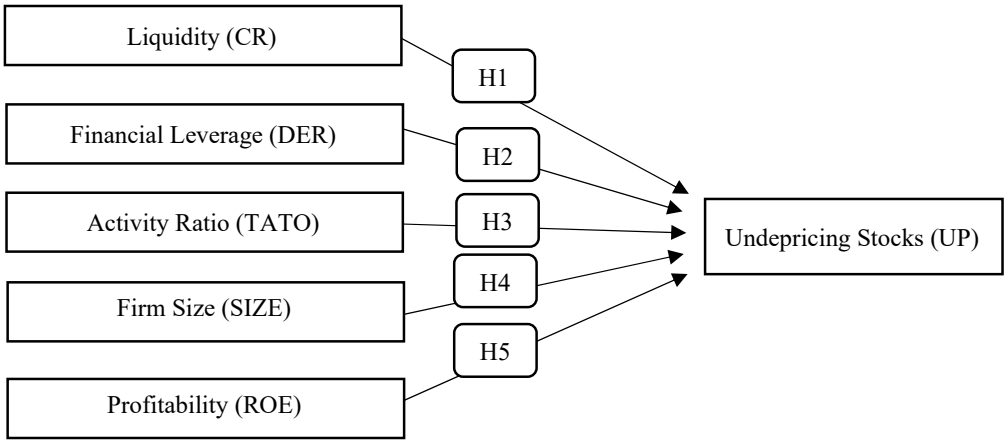

Figure 1. Conceptual model

3. Methodology

This research is quantitative with the population used consists of all firm that act IPO and listed on the IDX. In this study, the samples used used the period 2021-2023, and have been through Purposive Sampling Method selection. Purposive Sampling Method is a sample selection technique based on certain considerations. By selecting a sample based on certain considerations, the researcher can obtain more relevant and in-depth data that can provide significant insight into the phenomenon under study. In this research, samples are adopted using purposive sampling technique with sampling criteria presented as follows :

a. Firm conducting IPO on the IDX 2021-2023 periods.
b. The firm's shares experienced underpricing during the implementation of the IPO.
c. Data owned by the firm is complete with regard to the use of variables in the study.
d. Firm that present reports during the observation period
e. Firm that did not suffer damage over the observation term
f. Firm that did not have negative equity during the observation period

This research application secondary data from the company's annual report. These data sources can be obtained through various available sources, such as the IDX from its official website at www.idx.co.id, as well as the official websites of each firm that act an IPO during the period 2021-2023. Technical analysis using SPSS 26.00.

In this study the dependent variable is underpricing. The underpricing levels is measured through the Net Initial Return by looking at the divergence among the value of the offering price and closing price (Puspawati et al., 2023). The Offering Price is the value when the IPO is carried out by the firm, although the closing Price is the closing value of the first day of stake on the secondary market. Underpricing can be calculated using Formula (1).

$$\text{Net Initial Return} = \frac{\text{Closing Price} - \text{Offering Price}}{\text{Offering Price}} \text{ x } 100\% \quad (1)$$

Independent variables in this research are liquidity ratio, financial leverage, activity ratio, firm size, and profitability. Liquidity is measured using Current Ratio. Good liquidity is measured using the current ratio because it can minimize information asymmetry among firm management and investors, so underpricing as a way to overcome the risk of information asymmetry can be reduced (Liu et al., 2022). The selection of Current Ratio as a measure of liquidity refers to the research of Iqbal and Parinduri (2020), Rahma et al. (2024), Rina et al. (2022). The formula of the Current Ratio (CR) uses Formula (2).

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Debt}} \text{ x } 100\% \quad (2)$$

Financial leverage is measured using Debt to Equity Ratio (DER). Financial Leverage is more effective when calculated using the Debt to Equity Ratio (DER), because it can clearly describe how to evaluate a company's financial risks (Tsai and Huang, 2021). The selection of Debt to Equity Ratio (DER) as a calculated of financial leverage refers to the research of Iqbal and Parinduri (2020), Rahma et al. (2024), and Evitasari and Nurhadi (2023). The equation for the Debt to Equity Ratio (DER) uses Formula (3).

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \text{ x } 100\% \quad (3)$$

One of the measuring instruments of variable Activity ratio is Total Asset Turnover (TATO). Activity ratio is more effective when calculated using Total Asset Turnover (TATO) because it can describe how the company utilizes all its assets and the income generated from each monetary asset owned (Soesetio et al., 2022). The selection of Total Asset Turnover (TATO) as a measure of activity ratio refers to the research of Maylani, Sudiman, and Heriyanto (2024), Carolina et al. (2020), and Renitia, Suripto, and Harori (2021). The formula of Total Asset Turnover (TATO) uses Formula (4).

$$\text{TATO} = \frac{\text{Total Sales}}{\text{Total assets}} \quad (4)$$

The firm size is measured using the total assets of the firm. Companies with great assets instruct that they have achieve maturity compared to companies with smaller financial positions (Husna and Satria, 2019). Measuring the size of a company through total assets is considered more effective because the company's assets serve as an indicator of whether the company is experiencing a stable outlook in the future. A stable outlook can minimize uncertainty for investors and the company's underpricing rate will decrease. Selection of total assets as a calculated of the size of the firm mention to the research Sulistiawati et al. (2021), Evitasari and Nurhadi (2023), Yuniarti and Syarifudin (2020), and Renitia, Suripto, and Harori (2021). The formula of the size of the firm (SIZE) using formula (5).

$$\text{SIZE} = \text{Total Assets} \quad (5)$$

One measure of profitability variable is Return on Equity (ROE). Profitability is more effective when measured using Return on Equity (ROE) because it reflects how efficient the company is in making a profit from the equity invested by shareholders. The selection of Return on Equity (ROE) as a measure of profitability refers to the research of Iqbal and Parinduri (2020), Rahma et al. (2024), Evitasari and Nurhadi (2023), and Yuniarti and Syarifudin (2020). The Return on Equity (ROE) is based on Formula (6).

$$\text{ROE} = \frac{\text{Net Income After Tax}}{\text{Total equity}} \text{ x } 100\% \quad (6)$$

Data analysis using multiple linear regression model. The research is examine and tested application few statistical tests, including descriptive statistics and hypothesis testing, by early carrying multiple linear regression requirement application classical assumption testing. The regression equation used to test the hypothesis thoroughly is as follows:

$$\text{UP} = a + b1\ \text{CR}_{(t-1)} + b2\ \text{DER}_{(t-1)} + b3\ \text{TATO}_{(t-1)} + b4\ \text{SIZE}_{(t-1)} + b5\ \text{ROE}_{(t-1)} + e \quad (7)$$

Description :
UP : Underpricing
a : Constants
$b1 - b5$: Regression Coefficient
CR : Current Ratio (Liquidity)
DER : Debt to Equity Ratio (Financial Leverage)
TATO : Total Asset Turnover (Activity Ratio)
SIZE : Firm Size
ROE : Return on Equity (Profitability)
e : Error

4. Result And Discusions

Result

Based on the sample criteria that have been determined in this study, 39 companies are obtained for the 2021 research year, 43 companies for the 2022 research year, and 51 companies for the 2023 research year. The total sample used is 132 companies and 38 companies are excluded so that the sample that met the criteria is 94 companies. The analysis technique in this study used multiple linear regression analysis. This study uses the SPSS 26.00 application to evaluate the hypothesis. Based on the outcome of multiple linear regression testing able to determinate as follows regression formula:

$$\text{UP} = 23{,}276 - 0{,}009\ \text{CR}_{(t-1)} + 0{,}002\ \text{DER}_{(t-1)} - 2{,}707\ \text{TATO}_{(t-1)} - 2{,}027\text{E}{-}13\ \text{SIZE}_{(t-1)} + 0{,}157\ \text{ROE}_{(t-1)} + e \quad (8)$$

Based on the outcome of the multiple linear regression formula aforesaid, it able to seen that three independent variables, namely activity ratio, firm size, and profitability, affect the level of underpricing, while two independent variables, namely liquidity and financial leverage, have no affect on the level of underpricing.

Table 2. F Test Results

Model	F	Sig.
Regression	4,273	0,002[b]
	R-Square	**R-Square Adjusted**
Underpricing (Y)	0,195	0,150

Source: Processed secondary data, (2024)

The F-test of 4.273 with a p-value of 0.002 ($p < 0.05$) instruct that the model as a whole is significant, and all the independent variables have a significant affect on underpricing. It able to concluded that the multiple regression model is capable and can be said fit regression model. Adjusted R Square value of 0.195 or 19.5%. This reveal that the independent variables, precisely liquidity, financial leverage, activity ratio, firm size, and profitability able to interpret the variation of the dependent variable, precisely stock underpricing (UP) of 0.195 or 19.5%, though the rest 80.5% is interpret by another variables that are not integrated in this study.

Hypothesis testing is carried out with the assist of SPSS 26.00 program. The results of the values obtained from such tests are presented at Table 3.

Table 3. T Test Results for Hypothesis Testing

	B	t	p-value	Description
Liquidity (CR) → Underpricing (Y)	-0.009	-1.877	0.064	**H1 Rejected**
Financial Leverage (DER) → Uderpricing (Y)	0.002	0.487	0.627	**H2 Rejected**
Activity Ratio (TATO) → Uderpricing (Y)	-2.707	-2.375	0.020	**H3 Accepted**
Firm Size (SIZE) → Uderpricing (Y)	-2.027E-13	-2.234	0,028	**H4 Accepted**
Profitability (ROE) → Uderpricing (Y)	0.157	2.912	0.005	**H5 Accepted**

Source: Processed secondary data, (2024)

Discussion

1. The Effect of Liquidity on Underpricing Levels

   Based on Table 3. the outcome of the t-test showed that the variable liquidity (CR) does not have a significant affect on the underpricing levels in firm conducting IPOs, with a t value of -1.877 and p-value of 0.064 ($p > 0.05$). This indicate that the change in liquidity (CR) is not significantly related to the level of underpricing. Therefore it can be concluded that H1 is rejected, meaning that this outcome does not support the hypothesis of research which states that liquidity affects the undepricing levels in firm that conducting IPO.

   Liquidity (CR) has no effect on the underpricing of stocks, this shows that liquidity (CR) can not affect investor decisions in investing. Liquidity refers to the firm's capability to redeem short-term arrears in one year (Khaira et al., 2019). Liquidity does not reflect long-term uncertainty, and it does not affect investor decisions in investing in a company. Investor decisions in investing in a company affect the underwriter in setting the initial price (Partama and Gayatri, 2019). Liquidity does not reflect long-term uncertainty resulting in investors less concerned with liquidity as calculated by the Current Ratio (CR), and liquidity does not affect investor decisions in investing in a company, as a result liquidity does not affect the underpricing of stake in a firm.

   This research ensure empirical proof that liquidity (CR) has no influance on stock underpricing. This contradicts the research of Iqbal and Parinduri (2020), Rahma et al. (2024), and Rina et al. (2022) which concludes that liquidity affects underpricing.

2. The Effect of Financial Leverage on Underpricing Levels

   The outcome of the t-test demonstrated that the variable financial leverage (DER) has no significant affect on underpricing levels in firm conducting IPOs (Table 3.), with a t value of 0.487 and p-value of 0.627 ($p > 0.05$). This indicate that changes in financial leverage (DER) is not significantly affect on the underpricing levels in firm conducting IPOs. Therefore it can be concluded that H2 is rejected, meaning that these results do not support the research hypothesis that financial leverage affects the undepricing levels in firm that conducting IPO.

   Financial leverage (DER) has no affect on stock underpricing because financial leverage (DER) does not reflect the direct affect on underpricing. Financial leverage is a metric that evaluates the use of a firm's debt to fund its operations, specifically its skill in paying off long-term obligations (Oktaviani et al., 2022). Financial leverage reflects how big a firm uses arrears to finance its operations. Financial leverage does not have direct influance on underpricing because underpricing is more often influenced by asymmetric information and uncertainty that is not always directly connected to the company's financial leverage, so financial leverage (DER) does not affect the occurrence of stock underpricing in a company.

This research ensure empirical proof that financial leverage (DER) has no influance on stock underpricing. This contradicts the research of Iqbal and Parinduri (2020), Rahma et al. (2024), and Evitasari and Nurhadi (2023) who concluded that financial leverage (DER) affects underpricing.

3. The Effect of Activity Ratios on Underpricing Levels

Based on Table 3. the outcome of the t-test demonstrated that the variable size of the company (SIZE) has a significant affect on underpricing levels in firm conducting IPOs with a t-value of -2.234 and p-value of 0.028 ($p<0.05$). These findings suggest that firm with greater enterprise size strive to experience smaller underpricing. Therefore it can be concluded that H4 is accepted, meaning that it supports the hypothesis that the size of the company (SIZE) affects the undepricing levels in firm that conducting IPO.

The outcome of t-test demonstrated that the variable activity ratio (TATO) has a significant affect on underpricing with a t-value of -2.375 and p-value of 0.020 ($p < 0.05$). These findings suggest that companies with higher activity ratio (TATO) levels tend to experience less underpricing. Therefore it can be concluded that H3 is accepted, meaning that this supports the hypothesis that the activity ratio (TATO) affects the undepricing levels in firm that conducting IPO.

Activity ratio (TATO) has an effect on stock underpricing because it can reduce the uncertainty of risks faced by the company. Activity ratio is used to determine the effectiveness of the assets used by the firm. The higher the entity's activity ratio means the more effective it is in using the entity's resources (Kusumawati et al., 2018). The high Activity ratio can minimize the uncertainty of the threat faced by the firm, because it gives a signal that the company has good efficiency in managing assets. Reduced risk uncertainty resulted in a diminish in the underpricing levels, so that the possibility of investors getting the expected initial return will decrease. The relationship between the level of activity ratio (TATO) and the occurrence of underpricing is in cord with the signal theory which suggests that the company as the sending party will try to convey pieces of relevant information to be utilized by the receiving party, namely investors (Edi and Yuniarta, 2023). It is also in line with information asymmetry theory that lack of information related to operational efficiency can lead to uncertainty for investors, thereby increasing information asymmetry and underpricing.

This study provides empirical evidence that the activity ratio (TATO) has influance on stock underpricing. This is coherent with the research of Maylani, Sudiman, and Heriyanto (2024), Carolina et al. (2020), Renitia, Suripto, and Harori (2021) who concluded that the activity ratio (TATO) affects underpricing.

4. The Effect of Firm Size on Underpricing Levels

The size of the company (SIZE) affects the underpricing of stocks because it can minimize the asymmetry of information faced by the company levels in firm conducting IPOs (Table 3.). Companies with large sizes are usually more famous in society than companies with small sizes, so the information available about large companies is more widely obtained by the public than small companies. This is in cord with the signal theory, namely the size of the company (SIZE) large can provide a positive signal to investors because they tend to have more information available to the public, so as to reduce information asymmetry and minimize the occurrence of underpricing.

Disclosure of information by issuer companies can minimize information asymmetry and indeterminacy regarding the upcoming outlook of the firm which results in large companies tend to experience lower underpricing rates (Ariyani and Ismanto, 2019). This is in cord with the theory of information asymmetry, where the company's management must have more complete and in-depth data regarding the firm's financial status and prospects than external investors, who often only have limited information from public documents. Total assets as high firm size is an indicator that the company will experience a stable outlook in the future and to minimize investor uncertainty that will affect the level of underpricing that has decreased.

This research ensure empirical proof that the size of the firm (SIZE) has influance on stock underpricing. This is coherent with the research of Sulistiawati et al. (2021), Evitasari and Nurhadi (2023), Yuniarti and Syarifudin (2020), and Renitia, Suripto, and Harori (2021) who concluded that firm size (SIZE) affects underpricing.

5. The Effect of Profitability on Underpricing Levels

Based on Table 3. the outcome of the t-test demonstrated that the variable profitability (ROE) has a significant affect on underpricing levels in firm conducting IPOs with a t value of 2.912 and p-value of 0.005 ($p < 0.05$). These findings suggest that companies with greater levels of profitability (ROE) tend to experience greater underpricing. Therefore it can be concluded that H5 is accepted, meaning that it supports the hypothesis that profitability (ROE) affects the undepricing levels in firm that conducting IPO.

Profitability (ROE) affects the underpricing of stocks because it can reduce uncertainty and minimize information asymmetry. Profitability is a ratio used to assess the achievement of a firm's operations or profits within a specific term of time (Pradnyadevi and Suardikha, 2020). A high percentage of profitability (ROE) is assessed to indicate clarity in the outcome of the investment of funds by investors, thereby reducing uncertainty towards investors and avoiding information asymmetry that can minimize the possibility of underpricing facing the firm. This is in cord with the theory of information asymmetry, where clear and transparent profitability (ROE) can help reduce information

imbalances between companies and investors, because investors are better able to accurately assess the firm's prospects. The relationship of the level of profitability (ROE) with the occurrence of underpricing is in line with signal theory, namely high profitability (ROE) can provide a signal to investors in the shape of data regarding the firm's capability to beget income which can lead to higher stock prices. Signal theory sends signals to indicate the value of the company that is expected to scale down information asymmetry, so as to reduce the occurrence of underpricing.

This research ensure empirical proof that profitability (ROE) has an influance on stock underpricing. This is coherent with the research of Iqbal and Parinduri (2020), Rahma et al. (2024), Evitasari and Nurhadi (2023), and Yuniarti and Syarifudin (2020) which concluded that profitability (ROE) affects underpricing.

5. Conclusion and Suggestions

Based on the outcome of the examination that has been finish, this study can be concluded that liquidity (CR) and financial leverage (DER) have no effect on underpricing levels in firm conducting IPOs, while activity ratio (TATO) and firm size have a significant negative affect on underpricing levels in firm conducting IPOs, but ROE has a significant positive affect on underpricing levels in firm conducting IPOs. The findings of this research provide several important implications for investors or prospective investors, issuers, and underwriters. First, investors or prospective investors can consider in making investment decisions that are fair and profitable in the IPO as well as being a consideration in determining investment decisions in a company. Second, this result can be used by issuers and underwriters in setting the initial share price, so that it can provide benefits for both parties and ensure optimal stock sales.

Limitations

Based on the test outcome prevail in the previous chapter, there are few restriction, precisely that this research is just act on firm conducting IPO and are listed on the IDX for just a 3-year period (2021-2023), therefore the sample size is limited. The reason behind using this limited sample is to focus on the most relevant and current data. Furthermore, this research only uses financial variables with a total of five independent variables consisting of liquidity, financial leverage, activity ratio, firm size, and profitability.

Suggestion

Based on the finding and restriction of this research, the researchers propose that further researchers can enlarge the research term, such as five to seven years, that the outcome can enhance represent long-term situation and ensure more accurate outcome. Further research can be elaborated other variables that also influance the underpricing of stocks, such as variables of non-financial factors.

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