DETERMINATION OF STOCK IPO PRICE A COMPANY GOING TO GO PUBLIC FOR MINIMIZE UNDERPRICING

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ABSTRACT

Go public companies, also known as issuers are companies which are fulfilling their venture capital by selling their stocks to people. Due to the selling, the companies move from private ownership to public trade. The process of transformation is called initial public offering (IPO). In fact, many IPO processes are often underpriced because of concern relating to liquidity and uncertainty about the level at which the stock will trade, this becomes underpricing. Indonesia Stock Exchange (IDX) claimed that at least 79.3% go public companies encountered it during 2008-2012. Underpricing is a condition when the pricing of an initial public offering (IPO) below its market value. When the offer price is lower than the price of the first trade, the stock is considered to be underpriced. It is bad for the companies since because it indicates inconsistency of the initial price offered. The probability of underpricing can be minimized by establishing stock price through IPO process analysis previously to discover variables affecting to it.

This research conducted to design structural model to determine initial price in order to minimize underpricing probability. Underpricing is caused by asymmetric information between issuers, underwriter companies, and investors. It is ex ante uncertainty information which involves characters of the company, demand characters, and after-market variables (Tim et al, 200). The design of the model considering the three main subject in the IPO process. Those three subjects are dependent variables which are affected by financial statements, conditions of the companies, underwriters reputation, et cetera as the independent variables. The model is to discover factors influencing opening stock price. Thus, it can minimize underpricing probability so that the companies are able to acquire optimal fund.

Keyword: Underpricing, Asymmetric Information, Ex-ante Uncertainty Information
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