

CHAPTER I

INTRODUCTION

Background of The Study

The capital market has very important role in the economy representative of a country, because the capital markets runs the economic functioning as well as financial functions. Based on the economic point of view, the stock market serves an efficient mobility system to long-term funds for the government. Through the capital markets, the government can allocate public funds into productive investment sectors. From the financial perspective, the stock market provides an efficient medium to allocate funds from those who have surplus funds, which are investors, and those who need funds, which are companies.

Encouragement of funding needs became one of the main reasons that a company willing to become a public company by selling shares in the capital market. IPO is a company's offering for the first time and held in the primary market, then the shares will be traded in the secondary market. Fulfilling the company's funding is as a consequence of growth and expansion of the businesses. Initial Public Offering will change the status of the company from private to be public corporate and make consequences to responsible on the management to improve its performance.

Currently Indonesia's economy has shown a good significant progress, it proved from many companies that are going public. It means that people began to cultivate an open economy and ready to be more competitive. A clear indicator is the increasing performance of a stock exchange that functioning as a mediator or intermediary in the trading of shares, in this case is the shares, which listed on the stock exchange.

Figure I.1 illustrates the number of companies perform Initial Public Offerings in Indonesia year 2006 until 2015 which are listed on the Indonesia Stock Exchange (IDX).



Figure I.1 Number of Companies Perform IPO in Indonesia

Source: <http://idx.co.id> (processed data)

The biggest number of companies that perform Initial Public Offerings is obtained in 2013 from the last 10 years. There are 30 companies with the following details which have been divided according to each clusters of firms and sectors.

Table I.1 Details of emiten listed on IDX year 2013

No	Stock Code	Emiten Name	IPO Date	Company's Type	Sector
1	MAGP	PT Multi Agro Gemilang Plantation Tbk	16-Jan-13	Natural Resources	Agriculture
2	ANJT	PT Austindo Nusantara Jaya Tbk	08-May-13		
3	DSNG	PT Dharma Satya Nusantara Tbk	14-Jun-13		
4	SSMS	PT Sawit Sumbermas Sarana Tbk	12-Dec-13		
5	SMBR	PT Semen Baturaja Tbk	28-Jun-13		Basic Industry and Chemicals
6	ISSP	PT Steel Pipe Industry of Indonesia Tbk	22-Feb-13		
7	SIDO	PT Industri Jamu dan Farmasi Sido Muncul Tbk	18-Dec-13		Consumer Goods Industry

18	SRIL	PT Sri Rejeki Isman Tbk	17-Jun-13	Manufacture	Miscellaneous Industry
19	KRAH	PT Grand Kartech Tbk	08-Nov-13		
8	NOBU	PT Bank Nationalnobu Tbk	20-May-13	Services	Finance
9	BBMD	PT Bank Mestika Dharma Tbk	08-Jul-13		
10	VICO	PT Victoria Investama Tbk	08-Jul-13		
11	NAGA	PT Bank Mitraniaga Tbk	11-Jul-13		
12	BMAS	PT Bank Maspion Indonesia Tbk	12-Sep-13		
13	IMJS	PT Indomobil Multi Services Tbk	10-Dec-13		
14	BBRM	PT Pelayaran Nasional Bina Buana Raya Tbk	09-Jan-13		
15	TPMA	PT Trans Power Marine Tbk	20-Feb-13		
16	CPGT	PT Cipaganti Citra Graha Tbk	09-Jul-13		
17	LEAD	PT Logindo Samuderamakmur Tbk	11-Dec-13		
20	ACST	PT Acset Indonesia Tbk	24-Jun-13	Services	Property, Real Estate, and Building Construction
21	NRCA	PT Nusa Raya Cipta Tbk	27-Jun-13		
22	HOTL	PT Saraswati Griya Lestari Tbk	10-Jan-13	Services	Trade, Services, Investment
23	SAME	PT Sarana Meditama Metropolitan Tbk	11-Jan-13		
24	DYAN	PT DYANdra Media International Tbk	25-Mar-13		
25	MPMX	PT Mitra Pinasthika Mustika Tbk	29-May-13		

26	SRTG	PT Saratoga Investama Sedaya Tbk	26-Jun-13		
27	ECII	PT Electronic City Indonesia Tbk	03-Jul-13		
28	MLPT	PT Multipolar Technology Tbk	08-Jul-13		
29	SILO	PT Siloam International Hospitals Tbk	30-Oct-13		
30	APII	PT Arita Prima Indonesia Tbk	30-Oct-13		

Source: <http://idx.co.id> (processed data)

Companies that have become public and have registered their name on Indonesia Stock Exchange (IDX) will be easier to obtain funds rather than had to borrow funds from other parties. The investors will be interested to invest funds if they see company in a good state, has ability to produce profits, the company's future prospects, as well as the rate of return given by the company as a profitable enterprise for them. The higher the profits produced by the company, the higher the rate of return provided to investors that expected, so that maximizing earnings became the focus for investors.

In the process of selling shares, the financial statements have an important function to the owner of the company (issuer), underwriters, and investors. It is important because it is one of the main source of information for assessing the pricing in IPO process. On investor point of view, it is a source of information in determining investment decisions. This financial information can be found in the prospectus provided by the company which is also contains non-financial information. (Sulistyanto and Wibisono, 2003). The information in the prospectus required by investors in the decision-making process on the exchange (Kim and Ritter, 1999).

Performance's assessment of the company before and after becoming a public company is very important. The company's performance especially in the form of financial statements required to be reported periodically as a form of full disclosure function of being public company. Assessment's criterias for the company's operating implementation results is varied. One of them is Earnings per

share (EPS) value as an important indicator of management's achievement in satisfying company's shareholders in the form of rate of return in the period before and after the IPO.

According to (Prastowo and Juliaty, 2008) "Earnings per share (EPS) are the amount of profit that become the rights to shareholder on one sheet of ordinary shares". Earnings per share (EPS) are the first important component that must be consider in analyzing company. By looking at the firm's EPS value, investors will examine whether the company is profitable for them or not, because it Describes the amounts of money that is obtained for each share of common stock and Describes the prospect for company's earnings, especially in the future (Tjiptono and Hendry, 2001). Earnings per share (EPS) can indicate the level of prosperity or well-being of a company. When the Earnings per share (EPS) are distribute to the investors is in high number, it indicates that the company can provide a good level of welfare for its shareholders, and vice versa.

The reasons for selecting this study is because the Earnings per share (EPS) reflects the performance of the company, from the value of the EPS that need to be taken before and after the IPO, it can be seen whether the company has a good performance or not related after the IPO. However, based on several studies relating to the company's financial performance prior the IPO and post IPO, it turns out to conclude different outcomes.

(Ritter, 1994), documented that the earnings per share of companies going public typically grows rapidly in the years prior to going public, but then actually declines in the first few years after IPO. Else, (Hsun and Tzu, 2003) concluded that the result of performance in Chinese IPOs with sample of 884 companies listing in mid-1995 to mid-1999 period is that Earnings per share and Return on Equity has no significant change after IPO. Hsun and Tzu (2003) even said that IPO is of little obvious help to companies' operational performance because of the financial indicators tend to fall rapidly year on year. Consistent to Hsun and Tzu (2003), (Wang, 2005) also had conclusion on his research that operating performance of Chinese listed companies 3 years after IPO is nearly one-third lower than 3 years prior to the IPO.

(Purba, 2006) also said on his research that profitability ratio, liquidity ratio, and stock performance after IPO is decrease, whereas the solvability ratio is increase on his study in PT. X. Added by (Pastusiak, Bolek, Malaczewski, & Kacprzyk, 2016), the study performed profitability analysis such as ROE, ROA, NPM, and OPM ratio in companies before and after IPO. The result is that profitability of companies in a year before IPO id better than one year after IPO. (Jain & Kini, 1994), who said that overall of Malaysia IPOs in 1990 to 2000 period, there is declining performance in the IPO year and up to three years after IPO. The year-to-year analysis reveals that the greatest declining performance is in the year immediately following the IPO.

In Kenya, study by (Kuria, 2014) shows that companies listed in Kenya, over the six years period extended from prior and post IPO financial performance levels have declined based on several performance measures. (Wamari, 2014) also supported on her study which has shown that the overall stock performance in the long run after going public in underperform in terms of trend analysis but not significantly. On the other hand, (Kinyua, Nyanumba, Gathaiya, & Kithitu, 2013) studied the effects of initial public offering on 56 listed companies' performance in Nairobi Stock Exchange conclude that profitability ratio and earnings per share ratio rose after IPO.

If the financial ratios can be use as predictors of EPS, then these findings constitute sufficient useful knowledge for users of financial statements and all stakeholders. Conversely, if the financial ratios are not enough to affect the EPS, the results of this research will strengthen the evidence of inconsistency previous empirical findings.

Therefore, the authors wanted to do research on “**Analysis of Earnings per share Before and After IPO and The Strategy (Case Study: Companies Perform IPO in Indonesia Stock Exchange Year 2013)**”