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THE INFLUENCE OF PRICE EARNINGS RATIO, PRICE TO BOOK VALUE, AND RETURN ON EQUITY ON STOCK RETURNS IN COMPANIES CONDUCTING INITIAL PUBLIC OFFERINGS FOR THE 2022-2023 PERIOD

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Keywords
initial public offering, price earnings ratio, price to book value, return on equity, stock return

ABSTRACT
This study aims to analyze the effect of financial ratios such as PER, PBV, and ROE on stock returns in companies that have just conducted an IPO in the 2022-2023 period. The research population consists of companies that conducted IPOs on the Indonesia Stock Exchange (IDX) in the period July 2022 to July 2023. The study population was taken using the purposive random sampling method, which combines purposively sampling with a randomization process, to ensure valid representation. This study uses data on the financial statements of companies listed on the IDX during the period 2022-23. Based on the results of the research that has been conducted, it can be concluded that there is a significant influence between financial ratio and stock returns. The regression model developed was able to explain about 42.5% of the total variation in stock returns, showing that the independent variables used made a significantly contribution in explaining the fluctuations in stock return. This research could offer valuable implications for investors in evaluating IPO companies and assist companies in maintaining high profitability and good market reputation before going public. Moreover, findings could inform capital market regulators in developing policies aimed at enhancing investor protection and market efficiency.

INTRODUCTION

Modern stock exchanges first appeared in Europe in the 16th century, with the Amsterdam and Antwerp stock exchanges being the pioneers. These exchanges serve as platforms for traders to buy and sell company shares, facilitating capital mobilization and driving economic growth. The concept then spread around the world, with stock exchanges established in various countries to serve the needs of local and international economies.

Based on the latest information from the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), Indonesia's capital market capitalization reached IDR 11,692 trillion as of March 15, 2024. Investing in the stock capital market, especially in the form of shares of public companies, offers relatively high profit potential compared to other investment instruments such as mutual funds, bonds or precious metals. This profit comes from the increase in stock prices and dividends paid by public companies. Therefore, investing in public company stocks is a form of investment instrument that is in great demand by the public because of its high potential return. Nevertheless, investing in stocks carries relatively high risks. Fluctuations in the stock price of public companies that occur in the capital market can cause investors and traders to suffer losses.

One of the important activities in the world of stock investment is the Initial Public Offering (IPO), where a company first offers its shares to the public through the capital market (stock exchange). IPOs often attract the attention of investors because of their large profit potential, but as mentioned above, they also have a lot of risks.

Based on data from the CNBC Indonesia article entitled "10 Stocks of the 2023 IPO Terboncos, Some Fell 89%", many issuers that conducted Initial Public Offerings in 2023 experienced a significant decline in stock prices, reaching 60% to almost 90% of the initial IPO price. This phenomenon can cause concern among investors who are at risk of suffering losses due to the fall in share prices of public companies (issuers) that conduct IPOs.

Table 1. Table of Issuers Declining IPO Issuers in 2023

Company	Ticker	Price	Change	Percent Change
Lavender Builds Scholars	BMBL	188	20	-89.36%
Tirta Buwana is a good	SOUL	110	21	-80.91%
Hassana Boga Sejahtera	NAYZ	100	20	-80.00%
Indonesian Minister of Technology	MEN	78	16	-79.49%
Digital Packaging Solutions	PACK	162	39	-75.93%
Widiant Jaya Arkenindo	WIDI	100	29	-71.00%
Multisarana Intan Eduka	MSIE	100	34	-66.00%
Hosted by Asia	RELF	90	34	-62.22%
Minahasa Builds Great	HBAT	108	41	-62.04%
Indonesian Cocoa	COCA	128	51	-60.16%

Last price as of the end of trading December 5, 2023
Source: RTI

Source: CNBC Indonesia article

Therefore, it is important for investors and stock traders to understand well the characteristics and risks of investing in the stock capital market, including understanding issuers that are currently or newly conducting IPOs before deciding to invest in the issuer's shares.

Apart from the risks discussed above, companies that conduct IPOs also face various special risks, including the phenomenon of underpricing and overpricing. Underpricing occurs when the stock price at the time of the initial offering is lower compared to the secondary market price on the first day of trading (Abbas et al., 2022; Ekadjaja et al., 2023; Ma et al., 2022; Özyeşil, 2022; Severini, 2020). This often benefits early investors but harms issuers because the funds obtained are not optimal. In contrast, overpricing occurs when the stock price is set higher than the actual market value, risking losses for investors who buy at that price (Drooduin, 2023; Kiss et al., 2022; Legierse, 2023). This phenomenon can vary between sectors. For example, companies in the technology sector often experience significant underpricing due to high market expectations for their growth. Conversely, companies in the energy sector may face overpricing due to regulatory uncertainty and fluctuations in commodity prices. In this context, an analysis of failed or successful IPOs can provide important insights into the causative factors. For example, the IPO of PT Bukalapak.com Tbk. showed success with significant fundraising, while several other IPOs failed due to a lack of investor interest.

In particular, the Indonesian capital market has experienced an increase in IPO activity in recent years. In 2023, there are 78 companies that will conduct IPOs, with a total of IDR 77.7 trillion in funds raised. This figure is the highest in the history of the Indonesian capital market. In 2024, until August 8, 2024, there have been 34 companies that have conducted IPOs, with a total of Rp 16.8 trillion raised. According to the OJK, there are 79 companies that are included in the IPO pipeline or queue. These companies come from a variety of sectors, with the technology and healthcare sectors being the most dominant.

Comparing IPO trends in Indonesia with other developing countries provides a broader perspective on capital market dynamics. In many developing countries such as India and Brazil, the trend of underpricing is also significant. Underpricing in these markets is often caused by information asymmetry between investors and issuers (Boulton et al., 2018; Jamaani & Alidarous, 2019; Katti & Phani, 2016). In addition, macroeconomic conditions and government policies play an important role in influencing the success of the IPO. For example, in India, foreign direct investment policies have increased investor interest in local IPOs. This is different from Indonesia, where political uncertainty sometimes hinders investor participation in the capital market (Goldstein, 2022; Guild, 2020; Thaker et al., 2022).

This study chose Price Earnings Ratio (PER), Price to Book Value (PBV), and Return on Equity (ROE) as the main financial ratios because these three ratios significantly influence investment decisions and provide a comprehensive picture of the company's performance. The PER reflects how much investors are willing to pay for each unit of profit generated by the company, so it can be an important indicator to assess the valuation of stocks in the market (Gharaibeh et al., 2022; Nukala & Prasada Rao, 2021; Sari, 2021). PBV, on the other hand, provides a perspective on the market value relative to the company's book value, assisting investors in identifying undervalued or overvalued stocks (Budianto & Dewi, 2023; Damodaran, 2024; Elieser et al., 2022). Finally, ROE shows the efficiency of a company in generating profits from the capital invested by shareholders, and is a key indicator for investors in assessing a company's profitability (Rangga & Yulianto, 2023). Thus, these three ratios not only provide signals about the financial health of the company but also help investors, especially novice investors in making better decisions when considering investing in IPO stocks.

This study aims to examine the influence of PER, PBV and ROE on stock returns in companies that conduct IPOs in the 2022-2023 period. The selection of these three ratios is based on the consideration that the results of previous studies as also described below regarding the influence of financial ratios on stock performance often produce mixed findings. Thus, this research is expected to contribute to enriching empirical literature related to this topic. In addition, these three ratios were chosen because of their relevance and ease of access for novice investors. PER, PBV, and ROE are financial ratios that are commonly used in stock analysis and the information can be obtained relatively easily from the prospectus or financial statements of the company at the time of the IPO. Thus, this research is expected to provide valuable insights for investors in evaluating investment prospects in IPO stocks.

The selection of PER, PBV, and ROE ratios as research variables is based on the importance of these three ratios in providing an overview of the valuation and financial performance of companies that have just conducted an IPO. The PER ratio can measure the valuation of stock prices to earnings, providing market signals about profitability expectations (Sari & Prabowo, 2024). PBV is used to look at the market value compared to the book value of the company, so it can indicate whether the stock is undervalued or overvalued (Budi & Rahardjo, 2023). Finally, ROE shows management efficiency in generating profits from shareholder equity, providing an important indicator to predict potential returns (Haryanto et al., 2023)

In addition, PER, PBV and ROE were also chosen because of the consideration that these three are important indicators in investment analysis that are often used by well-known investors in Indonesia, Lo Kheng Hong as explained in the book "Lo Kheng Hong: Poor People Who Become Trillionaires on the Indonesia Stock Exchange" (Lukas Atmaja, 2022). PER provides an overview of a stock's valuation relative to its earnings generated, while PBV reflects a company's book value compared to its stock market price, helping investors identify undervalued or overvalued stocks. On the other hand, ROE shows how effectively a company generates profits from shareholder equity, which is an indicator of management performance.

These three ratios are also commonly used as the main indicators in assessing stock valuation and company performance. The book "Fundamentals of Stock Fundamental Analysis" by Rahardjo (2009) states that PER, PBV, and ROE are important tools for investors in determining potential profits from stock investment. PER helps investors understand how expensive or cheap the stock price is relative to the profits generated. This means that PER shows how quickly our investment returns (Lukas Atmaja, 2022). Meanwhile, PBV provides an overview of the company's book value compared to its stock market price. In abnormal conditions where the company's profit drops drastically, Lo Kheng Hong relies more on PBV and avoids using PER (Lukas Atmaja, 2022). It is different with ROE which shows the efficiency of the company in generating profits from the capital owned.

This study aims to analyze the effect of financial ratios such as PER, PBV, and ROE on stock returns in companies that have just conducted an IPO, either partially or simultaneously. By examining this relationship, the research is expected to provide benefits for investors in understanding the factors that affect stock returns, provide insight for companies on the importance of financial ratios to attract investors, and add academic references related to the influence of financial ratios on stock returns in companies that have just conducted an IPO.

The hypothesis used is:

1) Hypothesis 1: The PER variable partially affects stock returns
2) Hypothesis 2: PBV variable partially affects stock returns
3) Hypothesis 3: The ROE variable partially affects stock returns
4) Hypothesis 4: PER, PBV and ROE variables simultaneously affect stock returns

METHODS

This study uses a quantitative approach to analyze the influence of PER, PBV, and ROE on stock returns in companies that have just conducted an IPO on the Indonesia Stock Exchange (IDX). This quantitative approach emphasizes statistical measurement and analysis of cause-and-effect relationships between variables, based on objective epistemology to seek universal laws in social behavior. The research process began on June 1, 2024 and is planned to be completed in December 2024, covering various stages, from problem discovery to reporting research results.

The research population consists of companies that conducted IPOs on the IDX in the period July 2022 to July 2023. The research sample was taken using the purposive random sampling method, which combines purposive sampling with a randomization process, to ensure valid representation. The sample consisted of companies listed on the IPO's main listing board during the period, which periodically provided financial statements covering Stock Price, EPS, PER, ROE, and PBV data in 2023. This technique ensures that the sample is relevant and in accordance with the research criteria.

Table 1. List Table of IPO Stock Sample Research

Code	Name	Date of Recording
TRGU	PT Cerestar Indonesia Tbk	8 Jul 2022
AXIO	PT Tera Data Indonusa Tbk	20 Jul 2022
HATM	PT Habco Trans Maritima Tbk	26 Jul 2022
JARR	PT Jhonlin Agro Raya Tbk	4 Aug 2022
ELPI	PT Pelayaran Nasional Ekalya Purnamasari Tbk	8 Aug 2022
CBUT	PT Citra Borneo Utama Tbk	8 Nov 2022
MKTR	PT Menthobi Karyatama Raya Tbk	8 Nov 2022
OMED	PT Jayamas Medica Industri Tbk	8 Nov 2022
BSBK	PT Wulandari Bangun Laksana Tbk	8 Nov 2022
VTNY	PT Venteny Fortuna International Tbk	15 Dec 2022
SUNI	PT Sunindo Pratama Tbk	9 Jan 2023
PGEO	PT Pertamina Geothermal Energy Tbk	24 Feb 2023
HILL	PT Hillcon Tbk	1 Mar 2023
BDKR	PT Berdikari Pondasi Perkasa Tbk.	3 Mar 2023
CUAN	PT Petrindo Jaya Kreasi Tbk	8 Mar 2023
NCKL	PT Trimegah Bangun Persada Tbk.	12 Apr 2023
RAAM	PT Tripar Multivision Plus Tbk.	8 May 2023
SMIL	PT Sarana Mitra Luas Tbk	12 May 2023
AMMN	PT Amman Mineral Internasional Tbk.	7 Jul 2023
MAHA	PT Mandiri Herindo Adiperkasa Tbk	25 Jul 2023

This study uses data on the financial statements of companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2023 period, covering financial ratios such as PER, PBV, and ROE. Before regression analysis is carried out, classical assumption tests including normality tests, multicollinearity tests, and heteroscedasticity tests are applied to ensure that the data meet the requirements of statistical analysis. Multiple linear regression analysis was used to measure the influence of PER, PBV, and ROE on stock returns, with a regression model $Y = a + b1X1 + b2X2 + b3X3 + e$. Hypothesis testing was carried out with the F test to evaluate the simultaneous influence of independent variables on the dependent variable and the T test to measure the partial influence of each independent variable.

The determination coefficient (R^2) is used to measure the extent to which an independent variable explains variance in a dependent variable. A higher R^2 value indicates a stronger predictive ability of the model. The analysis process is carried out with the help of statistical software such as SPSS to calculate F and T values and test the significance of each variable. With this approach, the research ensures that the regression model used is valid and provides relevant results related to the influence of PER, PBV, and ROE on the stock returns of IPO companies on the IDX.

RESULTS

The results of the F test show that together, the independent variables of PER, PBV, and ROE have a significant influence on the dependent variable, namely Return on Shares, at a significance level of 5% (p-value = 0.028). A significance value of less than 0.05 indicates that the null hypothesis stating that there is no linear relationship between independent variables and dependent variables is rejected. Thus, it can be concluded that there is at least one independent variable that contributes significantly to the variation in Stock Returns.

Table 2. ANOVA (F TEST)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	166132.037	3	55377.346	3.942	.028[b]
	Residual	224792.138	16	14049.509		
	Total	390924.175	19			

a. Dependent Variable: Return %

b. Predictors: (Constant), ROE, PBV, PER

Test T

PER: The significance value for the PER variable is 0.318. Since this value is greater than 0.05, we cannot reject the null hypothesis. That is, statistically there is no strong enough evidence to state that PER has a significant influence on Stock Return in this regression model.

PBV: The significance value for the PBV variable is 0.188. Just like the PER, this value is also greater than 0.05. Therefore, we also cannot reject the null hypothesis for the PBV variable. This means that PBV does not have a significant influence on Stock Returns.

ROE: The significance value for the ROE variable is 0.008. Since this value is much smaller than 0.05, we reject the null hypothesis. This means that statistically there is strong enough evidence to state that ROE has a significant influence on Stock Return

Table 3. Table of Test Coefficients of T (Partial)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95,0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-22.626	48.087		-.471	.644	-124.567	79.315					
	PER	.573	.555	.463	1.032	.318	-.604	1.750	-.264	.250	.196	.178	5.603
	PBV	-16.251	11.812	-.593	-1.376	.188	-41.292	8.790	-.113	-.325	-.261	.194	5.161
	ROE	987.617	327.043	.812	3.020	.008	294.316	1680.918	.591	.603	.572	.498	2.010

a. Dependent Variable: Return %

This analysis was carried out to test the influence of each independent variable partially on Stock Returns. The results of the analysis show that only the ROE variable has a positive significant influence on Stock Return at a significance level of 5% (p-value = 0.008). This indicates that a significant increase in ROE will be followed by an increase in Return on Shares. In contrast, the PER and PBV variables did not show a significant influence on Stock Return in this regression model.

Determination Coefficient Analysis

After conducting a t-test analysis, it is known that only the ROE variable has a significant positive influence on Stock Returns. These results indicate that the company's profitability performance has a significant contribution in explaining the variation in Stock Returns. To find out how large the overall regression model consisting of PER, PBV, and ROE variables is in explaining the variation in Stock Returns, it is necessary to conduct a determination coefficient analysis (R-squared). The R-squared value will show the proportion of Stock Return variability that can be explained by the three independent variables. Thus, the determination coefficient analysis will provide an overview of the suitability of the regression model that has been developed with empirical data.

Tabel 4. Model Summary (R Square)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.652[a]	.425	.317	118.53062%	.425	3.942	3	16	.028	2.028

a. Predictors: (Constant), ROE, PBV, PER

b. Dependent Variable: Return %

The results of the determination coefficient analysis show that the regression model developed is able to explain around 42.5% of the total variation in Stock Returns. This indicates that the independent variables used, namely PER, PBV, and ROE, together make a significant contribution in explaining the fluctuation of Stock Returns. However, there are still about 57.5% variations in Stock Returns that cannot be explained by this model. There may be other factors that are not included in the model that also affect Stock Returns.

Overall, the results of the determination coefficient analysis show that the regression model developed is able to provide a fairly good explanation of the variation in Stock Returns. However, there is still room for model improvement by including additional independent variables or by using different estimation methods.

Multiple Regression Conclusion

The multiple regression analysis conducted aims to identify factors that affect the company's stock return in Indonesia. The results of the analysis show that only the ROE variable has a positive and significant influence on stock returns. The regression model developed is able to explain about 45% of the total variation in stock returns. This indicates that the company's profitability performance has a significant contribution in explaining the rate of return on shares.

However, keep in mind that there is still a 55% variation in stock returns that cannot be explained by this model. There may be other factors such as macroeconomic conditions, government policies, and specific company characteristics that also affect stock returns. Therefore, it is recommended to conduct further research by considering additional variables and using more complex models.

CONCLUSION

Based on the results of the research that has been conducted, it can be concluded that there is a significant influence between financial ratios on stock returns in companies that conduct IPOs in the 2022-2023 period. In particular, ROE has proven to have a positive and significant influence on stock returns. This indicates that investors tend to give higher valuations to companies with high profitability, as indicated by a high ROE. Although the PER and PBV variables are theoretically expected to have an influence on stock returns, the results of the analysis show that these two variables do not have a significant influence on this regression model. The regression model developed was able to explain about 42.5% of the total variation in stock returns, showing that the independent variables used made a significant contribution in explaining the fluctuations in stock returns. However, there are still other factors that are not captured by this model that can affect stock returns. Therefore, further research can be conducted by considering additional variables or using different estimation methods to improve the accuracy of the model.

Based on the results of this study, some suggestions can be put forward for further research. First, further research can be carried out by expanding the sample of companies and extending the observation period to test the generalization of these findings. Second, the study can enrich the model by including moderation variables, such as company size, industrial sector, or macroeconomic conditions, to analyze the interaction between these variables and the effect of ROE on stock returns. Finally, research can consider qualitative factors, such as the quality of management, corporate governance, or the company's business strategy, to provide a more comprehensive understanding of the determinants of the IPO company's stock performance.

For investors, the results of this research provide important implications in making investment decisions. Investors should pay more attention to profitability ratios such as ROE in evaluating IPO companies. Companies that have a high ROE tend to have better stock performance. However, investors also need to consider other factors, such as the industry's growth prospects, macroeconomic conditions, and the company's specific risks. For companies that are about to conduct an IPO, the results of this study suggest the importance of maintaining high profitability and building a good reputation in the market. This can be done through improving operational efficiency, developing new products, and implementing good corporate governance practices. For capital market regulators, the results of this study can be considered in formulating policies that aim to protect investors and improve capital market efficiency.

Future research could build on these findings by expanding the sample size and observation period to enhance the generalizability of the results regarding the influence of financial ratios on stock returns for IPOs. Additionally, incorporating moderating variables such as company size, industry sector, or macroeconomic conditions could provide deeper insights into how these factors interact with ROE's impact on stock returns. Further studies might also explore qualitative aspects, including management quality, corporate governance, and business strategies, to gain a more comprehensive understanding of the drivers behind IPO stock performance. Such research could offer valuable implications for investors in evaluating IPO companies and assist companies in maintaining high profitability and good market reputation before going public. Moreover, findings could inform capital market regulators in developing policies aimed at enhancing investor protection and market efficiency.

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