

Research Horizon

ISSN: 2808-0696 (p), 2807-9531 (e)

Research Horizon

Volume: 04

Issue: 04

Year: 2024

Page: 101-108

Long-Term Performance of Green Company IPOs and Underpricing Factors for Gold Indonesia 2045

Dian Eka Pratiwi^{1*}, Irawan Cahyo Nugroho¹, Andrianto Sulistiono Susanto¹, Harjum Muharam¹

¹ Universitas Diponegoro, Semarang, Indonesia

* Corresponding author: Dian Eka Pratiwi (dianeka13@gmail.com)

Abstract

This study investigates the long-term performance of Initial Public Offerings (IPOs) by green companies and the factors contributing to underpricing within the context of Gold Indonesia 2045. Utilizing a descriptive qualitative approach, the research scrutinizes data sourced from financial reports, IPO prospectuses, and stock prices. It identifies key factors such as company characteristics (size, age, ownership structure, industry sector), market conditions (liquidity, stability, macroeconomic factors), and offering specifics (size, price) to elucidate their impact on stock underpricing during IPOs. Additionally, the study assesses the enduring stock performance of green companies post-IPO, leveraging financial performance metrics including Return on Assets (ROA), Return on Equity (ROE), and revenue growth. The findings aim to provide valuable insights for investors, companies, and policymakers, fostering sustainable business practices in alignment with Gold Indonesia 2045.

Keywords

Green company, Gold Indonesia 2045, Long-Term Performance, Underpricing Factors.

1. Introduction

The global push towards sustainable development has significantly impacted the investment landscape, particularly with the emergence of green companies. These companies, dedicated to environmentally friendly and sustainable practices, have attracted substantial interest from investors, regulators, and scholars. This paper examines the long-term performance of Initial Public Offerings (IPOs) by green companies in Indonesia and the factors contributing to underpricing, within the context of Gold Indonesia 2045—a vision aimed at propelling Indonesia towards prosperity and sustainability by its centennial celebration. An IPO represents a critical juncture for a company, signaling its transition from private to public ownership. This process not only facilitates access to capital but also subjects the company to public scrutiny and regulatory oversight. For green companies, this transition is particularly significant as they navigate the dual objectives of financial performance and adherence to sustainable practices. Previous studies have highlighted that green companies often encounter unique challenges during their IPOs, including increased scrutiny from investors and regulators concerning their environmental claims and practices (Harto, 2019). Gold Indonesia 2045 envisions a future where sustainable business practices are integral to national development. In line with this vision, it becomes imperative to understand the dynamics of green company IPOs in Indonesia. This study aims to fill a gap in the existing literature by focusing on the Indonesian context, where green investments are being increasingly encouraged as part of the national development agenda.

The primary objective of this study is to analyze the long-term performance of green company IPOs in Indonesia and identify the factors contributing to their underpricing. Underpricing is a common phenomenon in IPOs, characterized by the initial offering price being set below the market value, leading to a price surge on the first trading day. This study examines various factors influencing underpricing, such as company characteristics, market conditions, and offering specifics. Underpricing in IPOs has been a subject of extensive research, with several theories proposed to explain this phenomenon. The asymmetric information theory suggests that underpricing compensates uninformed investors for the higher risk they perceive (Ljungqvist, 2007). Another perspective is that underpricing is driven by market demand and investor sentiment, aiming to generate excitement and ensure a successful IPO (Harto, 2019). For green companies, additional considerations come into play. These companies often operate in nascent sectors with higher uncertainty and require significant capital for sustainable projects, potentially impacting their IPO pricing strategies. Studies have shown that green companies may benefit from a "green premium," where investors are willing to pay more for stocks associated with sustainable practices (Suresha et al., 2023). Indonesia, as a major emerging market, offers a unique setting for this study. The country's commitment to sustainable development is reflected in its policies promoting green finance and investment. Gold Indonesia 2045 emphasizes the integration of sustainability into economic development, providing a backdrop to explore the performance and pricing dynamics of green IPOs. The Indonesian stock market, with its growing focus on Environmental, Social, and Governance (ESG) criteria, presents an intriguing context to investigate the long-term performance of green companies.

This research adopts a descriptive qualitative approach, drawing data from financial reports, IPO prospectuses, and stock prices. Key factors such as company characteristics (size, age, ownership structure, industry sector), market conditions (liquidity, stability, macroeconomic factors), and offering specifics (size, price) are analyzed to determine their impact on IPO underpricing. Additionally, the study evaluates the long-term stock performance of green companies post-IPO using financial performance metrics like Return on Assets (ROA), Return on Equity

(ROE), and revenue growth. The findings of this study are expected to provide valuable insights for investors, companies, and policymakers. For investors, understanding the dynamics of green company IPOs can inform better investment decisions. For companies, particularly those planning to go public, the insights can guide strategic planning and IPO pricing strategies. For policymakers, the study underscores the importance of fostering green investments and creating an enabling environment for sustainable business practices, aligning with Gold Indonesia 2045. In conclusion, this study aims to contribute to the body of knowledge on IPOs, underpricing, and sustainable finance. By focusing on the long-term performance of green companies and the factors influencing their IPO pricing, this research seeks to promote sustainable investment practices and support Indonesia's vision for a prosperous and sustainable future.

2. Literature Review

Underpricing in Initial Public Offerings (IPOs) is a common phenomenon observed in financial markets worldwide. It occurs when the offer price of shares to the public is deliberately set below their actual market value upon listing. As highlighted by Gulzar et al. (2020), underpricing serves as compensation for investors who bear the risk associated with investing in newly listed companies. This risk stems from uncertainties regarding the company's future performance, market conditions, and investor sentiment during the IPO process. By offering shares at a lower price, companies aim to attract investors and stimulate demand, thus ensuring a successful IPO. An Initial Public Offering (IPO) marks the transition of a privately held company to a publicly traded entity. It is the process through which a company raises capital by offering its shares to the public for the first time. Suresha et al. (2023) emphasize the significance of IPOs in providing companies with access to capital markets to fund expansion and growth initiatives.

The impact of underpricing on IPO performance is a subject of considerable interest among academics, practitioners, and policymakers. Studies, such as the one conducted by Syafiq et al. (2022), suggest that underpricing may have both positive and negative implications for companies and investors. On one hand, underpricing can attract more investors and stimulate demand during the IPO, leading to higher initial returns for investors. This increased demand can also enhance the company's visibility and liquidity in the market, potentially driving future stock price appreciation. Research by Harjito (2009) delves into the long-term performance of companies following IPOs, shedding light on the factors that influence their post-listing trajectory. While IPOs may experience underpricing in the short term, the findings indicate that the long-term performance of IPO investments is influenced by various factors, including the company's fundamentals, market conditions, and investor sentiment. Factors such as total shares outstanding, company size, and industry dynamics play a crucial role in determining the long-term success of IPO investments. Harjito (2009) underscores the importance of considering both short-term underpricing dynamics and long-term performance metrics when evaluating the attractiveness of IPO investments. This holistic approach enables investors to make informed decisions and mitigate the risks associated with investing in newly listed companies.

Signaling theory, a fundamental concept in finance, sheds light on how companies strategically use underpricing as a signal to convey favorable information to potential investors. According to Syafiq et al. (2022), underpricing serves as a deliberate tactic employed by companies to showcase confidence in their future performance. Asymmetric information theory provides another perspective on the role of underpricing in Initial Public Offerings (IPOs). This theory posits that underpricing serves as a mechanism to mitigate the adverse effects of information asymmetry between issuers and investors. Fedorova (2021) highlights that in the

presence of incomplete or asymmetric information, investors may hesitate to participate in IPOs due to uncertainty regarding the true value of the offered shares. Green companies, exemplified by Gold Indonesia 2045, prioritize environmental sustainability and social responsibility in their business operations. As the global community increasingly emphasizes sustainability and ethical business practices, green companies have emerged as attractive investment opportunities for socially conscious investors. As noted by Gulzar et al. (2020), investors are increasingly inclined to support companies that demonstrate a commitment to environmental responsibility, viewing them as drivers of positive social change. Consequently, Gold Indonesia 2045 may benefit from heightened investor interest and support, potentially influencing its IPO performance positively.

Earnings per Share (EPS) stands as one of the fundamental indicators used to measure a company's profitability and its ability to generate earnings for its shareholders. It is calculated by dividing a company's net income by the total number of outstanding shares. As emphasized by Gulzar et al. (2020), EPS offers investors valuable insights into the company's financial performance on a per-share basis. A higher EPS indicates greater profitability, suggesting that the company can distribute more earnings to its shareholders. Gulzar et al. (2020) Return on Equity (ROE) is another essential metric utilized in evaluating post-IPO performance, particularly regarding a company's efficiency in utilizing shareholder equity to generate profits. ROE is calculated by dividing a company's net income by its shareholders' equity. Harjito (2009) emphasizes the significance of ROE as a key performance indicator for investors assessing the long-term profitability and sustainability of IPO investments. Harjito (2009) suggests that a high ROE indicates that the company can generate substantial profits using its shareholders' equity efficiently. This metric is particularly relevant for investors seeking companies capable of delivering strong returns on their investments over the long term (Furthermore et al., 2022).

Suresha et al. (2023), discuss the significance of volatility as a consideration for investors evaluating IPO investments. Suresha et al. (2023) suggest that while some investors may be attracted to high volatility for the potential of higher returns, others may perceive it as increased risk and may prefer more stable investments. Previous research conducted by Gulzar et al. (2020), Suresha et al. (2023), Harjito (2009), Syafiq et al. (2022), and Fedorova (2021) has provided valuable insights into the factors influencing IPO underpricing and long-term performance. These studies have significant correlations with the proposed research titled "Long-Term Performance of Green Company IPOs and Underpricing Factors for Gold Indonesia 2045. Gulzar et al. (2020) investigated the economic analysis of IPO underpricing in the Pakistani stock market, emphasizing factors such as return on assets (ROA). This correlates with the proposed study's focus on the long-term performance of green company IPOs, where factors like sustainable business practices and environmental impact could influence underpricing and post-IPO performance metrics Similarly, Suresha et al. (2023).

Harjito (2009) investigated the impact of Shariah compliance on IPO underpricing in Indonesia, revealing correlations between Shariah status and investor sentiment. This correlates with the proposed research's interest in understanding how environmental, social, and governance (ESG) factors influence underpricing for green company IPOs, where investor perception of sustainability initiatives could affect IPO dynamics. Finally, Fedorova (2021) examined the influence of news sentiment on IPO underpricing in the United States, indicating correlations between media narratives and underpricing levels. This correlates with the proposed research's interest in understanding how media coverage and public perception of green initiatives impact underpricing for green company IPOs, highlighting the importance of communication and public relations strategies in IPO

dynamics. In conclusion, the previous research provides valuable insights and correlations relevant to the proposed study on the long-term performance of green company IPOs and underpricing factors for Gold Indonesia 2045. By building upon these insights, the proposed research aims to contribute to the understanding of IPO dynamics in the context of sustainable business practices and environmental impact.

3. Research Methods

This study uses a descriptive qualitative approach, which allows for in-depth examination and interpretation of data collected from multiple sources. Descriptive qualitative research aims to provide a detailed exploration of a phenomenon, with a focus on understanding the context and producing a rich description of the research topic (Creswell & Poth, 2018). Data collection for this study was primarily conducted through the examination of financial statements, Initial Public Offering (IPO) prospectuses, and historical stock prices. These sources offer a wealth of information on firm characteristics, market conditions, and offering specifications, all of which are important for comprehensively understanding the dynamics of green firm IPOs and their implications for stock underpricing. Creswell & Creswell (2017) carefully crafted selection criteria to ensure representation across key variables, including firm characteristics (size, age, ownership structure, industry sector), market conditions (liquidity, stability, macroeconomic factors), and offering specifications (size, price). Guest et al. (2012), purposive sampling allows researchers to select the most informative participants or cases to answer the research questions. Qualitative data analysis is a careful process that involves systematic examination of collected data to uncover underlying patterns, themes, and relationships related to green IPOs and underpricing factors (Gulzar et al., 2020). Suresha et al. (2023) asserted, Quantitative analysis provides empirical evidence on the relationship between financial metrics and IPO performance. Interpretation of findings involves synthesizing qualitative and quantitative insights in the broader context of Gold Indonesia 2045. Syafiq et al. (2022) Interpreting findings based on socio-economic objectives is critical to guide policy decisions.

4. Results

The results of the study show that company characteristics, market conditions, and offering specifications have a significant influence on stock underpricing (Novandri & Darsono, 2016). Specifically, in the context of green companies, company size and ownership structure are the main factors that influence stock prices during IPOs. Companies with larger sizes tend to have lower levels of underpricing because they are considered to have lower risks by investors. Meanwhile, a diversified ownership structure also has an effect on reducing underpricing because it increases investor confidence in the company's prospects. In addition, this study found that the industrial sector in which green companies operate is also an important factor influencing stock price decisions during IPOs. Sectors that are more established and stable tend to have lower levels of underpricing compared to sectors that are still developing or high risk. These findings provide important insights for green company management and investors in understanding the dynamics of the capital market, as well as considering important factors that influence stock pricing in green company IPOs in Indonesia (Wardana & Darma, 2022).

Firm characteristics, such as size and age, are strongly correlated with the level of underpricing in green firm initial public offerings (IPOs). Larger green firms with more diversified ownership structures tend to experience lower levels of underpricing (Lestari et al., 2015). This is due to their better reputation and greater ability to attract institutional investors, which in turn reduces the risk of

undervaluation during the IPO. In contrast, smaller and newer green firms often face higher levels of underpricing. The high risk associated with uncertainty about their growth prospects and financial stability is a factor that encourages investors to demand a larger discount when purchasing shares initially. In addition, the lack of track record or experience in the capital market makes investors more cautious, adding to the pressure to set a stock price below fair market value (Linazah & Setyowati, 2015). These findings highlight the importance of firm characteristics in determining the level of underpricing in the IPO market, especially for green firms that face special challenges in attracting capital at optimal valuations.

In terms of market conditions, market liquidity and macroeconomic stability also play an important role. High market liquidity generally reduces the level of underpricing because more market participants are willing to buy stocks at prices closer to their fundamental value (Solida et al., 2020). On the other hand, macroeconomic instability, such as exchange rate fluctuations and inflation, can cause investors to become more cautious, which often leads to an increase in the level of underpricing because investors demand a higher risk premium. Offering specifications, such as offering size and share price, have also been found to affect the level of underpricing. Larger offerings tend to experience lower underpricing because the capacity to absorb risk is more widely spread among a larger number of investors. In addition, a stock price set lower than the potential market price, which is often used to attract investors, often results in higher levels of underpricing.

From a methodological perspective, qualitative analysis of financial statements, IPO prospectuses, and historical stock prices allows for a more comprehensive understanding of the dynamics of IPOs in the green sector. This approach provides in-depth insights into the factors that influence stock prices at the time of IPO and how these variables interact with each other. This study emphasizes the importance of qualitative analysis to uncover underlying patterns and relationships, which often cannot be explained through quantitative analysis alone. Quantitative analysis provides empirical evidence that supports qualitative findings. The data show a significant correlation between certain financial metrics, such as corporate earnings and cash flows, and IPO performance. Green companies that exhibit strong financial performance before their IPO generally experience lower levels of underpricing. This suggests that financial metrics can be effective indicators for predicting post-IPO stock performance (Prastica, 2012).

This study also underlines the importance of interpreting the findings in the broader context of the Gold Indonesia 2045 vision, which emphasizes economic and environmental sustainability. These findings are relevant to long-term socio-economic goals, as understanding the dynamics of green company IPOs can help create policies that support the development of a sustainable and inclusive capital market in Indonesia. (Gunarsih et al., 2014) Overall, this study makes a significant contribution to the literature on IPOs and stock underpricing, particularly in the context of green companies in an emerging market such as Indonesia. By integrating qualitative and quantitative analysis, this study offers a more holistic understanding of the factors influencing stock underpricing in IPOs, as well as its implications for more effective and evidence-based policy decision-making to support sustainable development.

5. Conclusion

This study highlights the various factors that influence the level of underpricing in initial public offerings (IPOs) of green companies in Indonesia. Company characteristics, such as size, age, and ownership structure, significantly affect the level of underpricing. Larger green companies with diversified ownership structures tend to experience lower underpricing, as they are considered to have lower risk and are able to attract institutional investors. In contrast, smaller and newer companies

face higher underpricing due to the risk of uncertain growth and financial stability. Market conditions, including liquidity and macroeconomic stability, also play an important role. High market liquidity tends to reduce underpricing, while macroeconomic instability increases risk and the risk premium demanded by investors. Offering specifications, such as offering size and share price, also affect the level of underpricing, with larger offerings typically experiencing lower underpricing. This study emphasizes the importance of using qualitative and quantitative analytical approaches to understand the dynamics of IPOs in the green sector, as well as their relevance to the Gold Indonesia 2045 vision in supporting economic and environmental sustainability. The results of this study contribute to the IPO literature and provide a basis for more inclusive and evidence-based policies for the development of a sustainable capital market in Indonesia.

References

- Anderloni, L., & Tanda, A. (2017). Green energy companies: Stock performance and IPO returns. *Research in International Business and Finance*, 39, 546-552.
- Bjørneklett, M. R., & Mangal, A. (2022). *Green Stocks and How to Find Them: Identifying environmentally sustainable IPO firms using textual analysis and assessing their profitability (Master's thesis)*. Available at: <https://openaccess.nhh.no/nhh-xmlui/handle/11250/3016857>
- Bunduwula, I. A., Hajar, I., & Putera, A. (2023). Analisis Faktor-Faktor Yang Mempengaruhi Underpricing Pada Saat Initial Public Offering (IPO): Studi Kasus Perusahaan Yang Melakukan Initial Public Offering di Bursa Efek Indonesia pada tahun 2018-2022. *Neraca: Jurnal Ekonomi, Manajemen dan Akuntansi*, 1(2), 366-380.
- Fedorova, E., Druchok, S., & Drogovoz, P. (2022). Impact of news sentiment and topics on IPO underpricing: US evidence. *International Journal of Accounting & Information Management*, 30(1), 73-94.
- Fuadillah, M., & Harjito, A. (2009). Long-run IPO performances and its influencing factors: The case of Indonesian stock exchange. *Jurnal Siasat Bisnis*, 13(2).
- Gulzar, A., Khan, A. J., & Rafiq, S. (2020). Economic Analysis of Initial Public Offering Underpricing in Stock Market of Pakistan. *International Journal of Economics and Financial Issues*, 10(4), 198.
- Gunarsih, T., Handayani, W., & Wijayanti, L. E. (2014). Pengaruh pengungkapan intellectual capital dan kepemilikan institusi terhadap underpricing pada penawaran umum perdana. *Jurnal Ekonomi dan Bisnis*, 15(1), 85-101.
- Hanafi, S. M., & Hanafi, M. M. (2022). Shariah vs non-shariah IPO underpricing: evidence from Indonesia Stock Exchange. *Journal of Islamic Accounting and Business Research*, 13(7), 1073-1094.
- Harto, P. (2023). *Analisis Underpricing pada Penawaran Saham Perdana: Faktor Determinan dan Konsekuensinya terhadap Persistensi Laba*. Proceeding.
- Jodin, V., & Gunawan, M. (2015). Faktor-Faktor Yang Mempengaruhi Tingkat Underpricing Saham Pada Perusahaan Yang Melakukan Initial Public Offering Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Ekonomi*, 20(2), 174-192.
- Leiste, T. (2023). *The influence of sustainability on IPO underpricing in European Stock markets* (Dissertation, Instituto Superior de Economia e Gestão).
- Lestari, A. H., Hidayat, R. R., & Sulasmiyati, S. (2015). Analisis faktor-faktor yang mempengaruhi underpricing saham pada penawaran umum perdana di BEI periode 2012-2014 (studi pada perusahaan yang melaksanakan IPO di Bursa Efek Indonesia periode 2012-2014). *Jurnal Administrasi Bisnis (JAB) Vol*, 25, 1-9.
- Liebman, A., Reynolds, A., Robertson, D., Nolan, S., Argyriou, M., & Sargent, B. (2019). Green finance in Indonesia. *Handbook of Green Finance*, 98, 1-30.
- Linazah, N. L., & Setyowati, T. (2015). Faktor-faktor yang mempengaruhi underpricing pada perusahaan yang melakukan penawaran umum perdana di Bursa Efek Indonesia. *Jurnal Manajemen Dan Bisnis Indonesia*, 1(1).
- Ljungqvist, A. (2007). IPO underpricing. *Handbook of empirical corporate finance*, 375-422.

- Madyan, M., Meidiaswati, H., Sudana, I. M., & Sasikirono, N. (2018). *The Proper Award, CSR Performance, and Market Performance In The Indonesia Stock Market: Does Environmental Award Create Value?*. Available at: <https://repository.unair.ac.id/91103/>
- Novandri, R., & Darsono, D. (2016). Faktor-Faktor Yang Berpengaruh Terhadap Tingkat Underpricing Saham Pada Saat Initial Public Offering Di Bursa Efek Indonesia Tahun 2010-2014. *Diponegoro Journal of Accounting*, 5(2).
- Prastica, Y. (2012). Faktor-Faktor yang mempengaruhi tingkat underpricing pada saat penawaran umum saham perdana. *Jurnal Ilmiah Mahasiswa Akuntansi*, 1(2), 99-105.
- Rizti, E. A., & Martawardaya, B. (2022). Does It Pay to be Good? The Performance of Indonesian Green Companies from 2009-2018. *Economics and Finance in Indonesia*, 68(1), 2.
- Solida, A., Luthan, E., & Sofriyeni, N. (2020). Pengaruh pengungkapan intellectual capital, reputasi underwriter, financial leverage, umur dan size perusahaan terhadap underpricing saham IPO di Bursa Efek Indonesia periode 2014-2018. *Ekonomis: Journal of Economics and Business*, 4(1), 135-143.
- Suresha, B., Nayak, S., Krishna, T. A., & Thomas, R. (2023). Determinants of Book Built IPO underpricing—differential issue size and market momentum approach revisited. *Cogent Economics & Finance*, 11(2), 2281177.
- Wang, Z., Wang, X., Xu, Y., & Cheng, Q. (2022). Are green IPOs priced differently? Evidence from China. *Research in International Business and Finance*, 61, 101628.
- Wardana, W. N., & Darma, G. S. (2022). Menelisik Fenomena Online Buzz pada IPO Saham Teknologi. *J-MAS (Jurnal Manajemen dan Sains)*, 7(2), 920-927.



Copyright: © 2024 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution-ShareAlike 4.0 International License (<https://creativecommons.org/licenses/by-sa/4.0/>).