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Do Fundamentals Matter? Evidence of IPO Underpricing in Indonesia's Consumer Goods Sector

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Abstract: *The phenomenon of stock underpricing is an anomaly frequently observed during Initial Public Offering (IPO), coinciding with the rapid development of the capital market. This study aims to analyze the influence of Auditor Reputation, Return On Assets (ROA), Financial Leverage, and Earning Per Share (EPS) on the degree of stock underpricing. This quantitative study utilizes secondary data from companies in the primary consumer goods sector that conducted an IPO on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. Using a purposive sampling technique, a sample of 33 companies was obtained. Data analysis was performed using a multiple linear regression model, where underpricing was measured by the initial return. The empirical results indicate that the variables Auditor Reputation, Return On Assets (ROA), Financial Leverage, and Earning Per Share (EPS) do not have a significant partial effect on stock underpricing. These findings suggest that other non-financial and non-accounting factors may be more dominant in determining the IPO initial return in this sector on the IDX. Practically, this implies that investors should not rely on fundamental metrics (ROA/EPS) as primary indicators for purchasing IPO stocks in this sector, as they are proven to have no significant impact.*

Keywords: *Stock Underpricing; Initial Public Offering (IPO); Reputation Auditor; Initial Return*

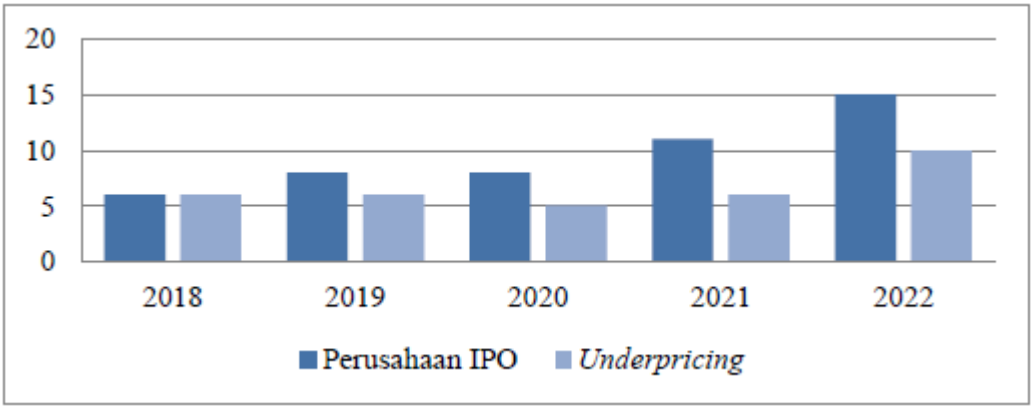
INTRODUCTION

The rapid development of the capital market, particularly on the Indonesia Stock Exchange (IDX), has become a major catalyst for companies expanding to seek external funding sources to support operational activities and business development (Juliana & Sumani, 2019). One of the most significant and important methods of obtaining external funds is through an initial public offering (IPO) or going public (Musikawati & Paramitalaksmi, 2024). An IPO not only serves as a large-scale capital raising mechanism, but also serves as an important marker in increasing a company's credibility, transparency, and visibility in the eyes of investors and the wider public.

Although IPOs offer significant potential, the capital market is often plagued by anomalies, one of which is the phenomenon of stock underpricing. Underpricing is academically defined as the positive difference between the initial public offering price (IPO price) and the closing price on the first day of trading on the secondary market (Brahmansyah & Muslimin, 2023). This phenomenon has become a central issue in corporate finance because it results in losses for the issuing company, which loses potential funds (money left on the table) that it could have raised. Theoretically, the phenomenon of underpricing is most often explained using Information Asymmetry Theory (such as the Rock Model), which states that investors have different information. Better-informed investors tend to buy shares they believe will appreciate in value, while uninformed investors risk receiving a poor allocation of shares. To protect uninformed investors and ensure all shares are sold, companies tend to set the IPO price slightly below the fair value (discount), which then creates underpricing.

Initial Public Offering (IPO) activity on the Indonesia Stock Exchange (IDX) from 2018 to 2022 showed interesting dynamics. Although the market contracted in 2020 due to the impact of the COVID-19 pandemic, IPO activity showed a recovery and even a significant surge in 2021 and 2022, making the IDX one of the most active IPO markets in Southeast Asia. However, this growth in issuer volume is inseparable from a persistent classic problem: the phenomenon of stock underpricing. Underpricing is a condition where the price of a stock offered to the public is lower than the price formed in the secondary market on the first day of trading, as measured by Initial Return. The following is an overview of IPO activity on the Indonesia Stock Exchange from 2018 to 2022.

Figure 1. IPO Companies and Underpricing in the 2018-2022 Period



Source: Indonesia Stock Exchange processed data, 2024

Historical data (as shown in Figure 1) shows that fluctuations in the number of IPOs are accompanied by high rates of underpricing, with a tendency to increase in the final years of the observation period. This high frequency of underpricing indicates pricing inefficiencies and reinforces the suspicion of information asymmetry between issuers/underwriters and investors. For companies, this situation results in potential losses (money left on the table), underscoring the importance of research to identify and control the determinants of underpricing so that the stock price is closer to intrinsic value.

Previous research has attempted to unravel this phenomenon, with the majority of literature relying on fundamental signals. Generally, factors are grouped into company characteristics, financial factors, and credibility (signaling) factors. Frequently studied factors include financial leverage, return on assets (ROA), underwriter reputation, auditor reputation, company size, company age, and earnings per share (EPS). However, a critical research gap emerges from the inconsistency of findings. While mainstream theory suggests that strong fundamentals should reduce uncertainty and underpricing, empirical evidence is split. This study seeks to investigate this "anomaly" where established financial metrics sometimes fail to predict market behavior, a common occurrence in capital market research heavily influenced by economic conditions, regulations, and investor behavior in each period.

Variables such as Financial Leverage measure the extent to which a company's assets are financed by debt. Theoretically, high debt can signal high risk to investors, prompting underwriters to set a lower IPO price. However, empirical results vary; some studies find a significant effect on underpricing (Ansar et al., 2020; Rahayu & Hidayat, 2020), while others deny the existence of such influence (Ramdhan & Anggraeni, 2023;

Santoso & Rahayu, 2021). Similarly, Return on Assets (ROA) is a profitability indicator that reflects a company's efficiency. In the context of fundamental analysis, high profitability should be a strong signal of quality reducing the need for discounting. However, the results are inconsistent. ROA is often considered to have a significant negative effect on underpricing (Ansar et al., 2020; Morina & Rida, 2020), but there are findings that reject it (Santoso & Rahayu, 2021).

The reputation of Big Four Public Accounting Firms (KAP) auditors, within the context of agency theory, acts as a monitoring mechanism that can mitigate the risk of information asymmetry by ensuring the quality of financial reports. Highly reputable auditors are expected to signal credibility, which can reduce underpricing. The impact varies; some researchers have found no significant effect (Apriliani et al., 2021; Siallagan & Hidayat, 2020), but some found a significant influence(Pratiwi & Prasetiono, 2020)Earnings per share (EPS) represents the net profit allocated to each share. A high EPS indicates the potential for dividend distribution and good company growth, thus being a positive signal. However, its influence shows contradictory results among studies that find an effect on underpricing (Morina & Rida, 2020) and those who don't (Anggraini & Dewi, 2022).

The novelty of this study lies in the specific sample selection: primary consumer goods companies conducting IPOs on the IDX during the 2018–2022 period. This sector was purposively selected not only due to its non-cyclical nature but because of its unique valuation characteristics. The primary consumer goods sector is a "defensive" sector where investors typically prioritize fundamental stability over speculative growth. Therefore, logic dictates that accounting variables like ROA (efficiency) and EPS (profitability) should be the primary determinants for investors in this sector. If these variables are found to be insignificant, it indicates a major anomaly where investor behavior in this sector has shifted away from fundamental logic. By limiting the focus to this sector, this study aims to provide more homogeneous and contextual empirical evidence regarding the determinants of IPO stock underpricing, which may differ from findings in cross-sector samples.

Based on the description above, the problem to be discussed in this study is whether Auditor Reputation, Return on Assets (ROA), Financial Leverage, and Earnings Per Share (EPS) affect the level of stock underpricing. This study aims to analyze the influence of Auditor Reputation, Return on Assets (ROA), Financial Leverage, and Earnings Per Share (EPS) on the level of stock underpricing. This study is expected to provide significant contributions, especially for regulators and policymakers in understanding the dynamics of pricing in specific sectors, as well as providing guidance for issuers and underwriters in managing underpricing risk based on accounting signals and credibility.

METHODOLOGY

Types of research

This type of research is quantitative research with a causal approach (cause and effect relationship), where this study aims to examine the effect of one set of variables (Auditor Reputation, ROA, Financial Leverage, EPS) on another variable (stock underpricing). This indicates that the researcher is looking for a relationship where

changes in the independent variable are assumed to cause changes in the dependent variable.

Population and Sample

Population in research this is a company primary consumer goods during IPOs on the IDX in the 2018-2022 period with a total of 48 companies. The sampling technique the sample that used in This research is purposive *sampling*, where the sample is determined by classify part of the population has been determined based on the criteria that has been previously determined with the following calculations.

Table 1. Sample Calculation

No	Criteria	Amount
1	Primary consumer goods companies conducting IPO activities on the Indonesia Stock Exchange from 2018-2022	48
2	Goods company primary consumption that does not experience underpricing	(12)
3	Primary consumer goods companies that do not post financial reports when they IPO	(1)
4	Goods company primary consumption that does not have complete financial reports in 1 year	(1)
5	Primary consumer goods companies that have an underpricing value of 0 (zero)	(1)
	Total Sample	**33**

Based on the sample calculation criteria above, 33 companies were selected as samples in this study, namely as follows:

Table 2. Research Sample

No	Code	Company name
1	ANDI	Andira Agro Tbk.
2	GOOD	Garudafood Putra Putri Jaya Tbk
3	PEHA	Phapros Tbk
4	PANI	Pratama Abadi Nusa Industri Tbk
5	MGRO	Mahkota Group Tbk
6	KPAS	Cottonindo Ariesta Tbk
7	SO THAT	Asia Sejahtera Mina Tbk
8	BEEF	Estika Tata Tiara Tbk.
9	COCO	Wahana Interfood Nusantara Tbk
10	CHEESE	Mulia Boga Raya Tbk
11	PSGO	Palma Serasih Tbk.
12	ITIC	Indonesian Tobacco Tbk.
13	FISH	Era Mandiri Brilliant Tbk
14	CSRA	Cisadane Sawit Raya Tbk
15	KMDS	Kurniamitra Duta Sentosa Tbk
16	PGUN	Gunatama Tbk Prediction.
17	VICI	Victoria Care Indonesia Tbk
18	RICE	Wahana Inti Makmur Tbk
19	IPPE	Indo Pureco Pratama Tbk
20	CMRY	Cisarua Mountain Dairy Tbk
21	OILS	Indo Oil Perkasa Tbk

No	Code	Company name
22	FAPA	FAP Agri Tbk
23	TAPG	Triputra Agro Persada Tbk
24	CBUT	Citra Borneo Utama Tbk.
25	MKTR	Menthobi Karyatama Raya Tbk
26	CRAB	Toba Surimi Industries Tbk
27	SUGAR	Aman Agrindo Tbk
28	GODDESS	Dewi Shri Farmindo Tbk
29	TRGU	Cerestar Indonesia Tbk
30	TLDN	Teladan Prima Agro Tbk
31	STAA	Sumber Tani Agung Resources Tbk
32	FRUIT	Segar Kumala Indonesia Tbk
33	EURO	Estee Gold Feet Tbk

Source: IDX 2024

Data collection technique

The data collection method in this study is secondary data, which includes:

1. Literature study in the form of theories that It is necessary to understand the problem of underpricing and the factors that influence it, obtained from books or journals that discuss the topic relevant to this research.
2. Documentation studies consist of information obtained from documents such as financial statements annual company published during the IPO on the IDX during the 2018-2022 period

Definition and Operationalization of Research Variables

The research variables used in this study include independent variables and dependent variables, each of which is defined as follows:

1. Stock Underpricing
   Stock underpricing is a phenomenon where the initial public offering (IPO) price of a stock is lower than its closing price on the first day of trading in the secondary market. It measures the positive abnormal return earned by investors who buy shares at the IPO price and sell them at the end of the first day (Ibbotson, 1975).
2. Auditor Reputation
   Auditor reputation refers to the quality, credibility, and perceived independence of the public accounting firm (KAP) that audits a company's financial statements. KAPs within the "Big Four" group (such as Deloitte, EY, KPMG, and PwC) are considered to have a higher reputation due to stricter standards of professionalism and oversight, which can reduce information asymmetry for investors (Simunic, 1980).
3. Return on Assets
   ROA is a profitability ratio that shows how efficiently a company uses its total assets to generate net profit (Brigham, F.E., & Houston, 2017).
4. Financial Leverage
   Financial leverage is the use of borrowed funds (debt) to finance a company's operations and assets. This ratio measures the extent to which a company's assets are financed by debt. Commonly used ratios to measure financial leverage are the Debt to Equity Ratio (DER) or Debt to Asset Ratio (DAR) (Brealey et al., 2020).

5. Earnings Per Share
   EPS or Earnings per Share is the portion of a company's net income allocated to each outstanding share of common stock. This is one of the31The most important indicator for investors to assess a company's profitability and is often used as a basis for comparing company performance in different time periods (Kieso et al., 2019).

Based on this definition, the operational research variables can be explained as presented in Table 3 below.

Table 3. Operational Research Variables

Variables	Formula	Measuring Scale
Stock Underpricing	$\text{Underpricing} = \frac{\text{Closing Price-Bid Price}}{\text{Bid price}}$	Ratio
Auditor Reputation	1 = Auditor is included in the Big Four KAP 0 = Auditor is not included in the Big Four KAP	Dummy
Return on Assets	$\text{ROA} = \frac{\text{Net profit after tax}}{\text{Total assets}}$	Ratio
Financial Leverage	$\text{DER} = \frac{\text{Total debt}}{\text{Total capital}}$	Ratio
Earnings Per Share	$\text{EPS} = \frac{\text{Net profit after tax}}{\text{Number of shares outstanding}}$	Ratio

Analysis Techniques

Multiple regression analysis was used to test the relationship independent variable on the dependent variable dependent with the following regression equation model:

$$Y = a + b1\ X1 + b2\ X2 + b3\ X3 + b4\ X4 + e$$

Explanation:
Y = Underpricing of Stocks
a = Constant
b1234 = Regression coefficient of independent variable
X1 = Auditor Reputation
X2 = Return on Asset
X3 = Financial Leverage
X4 = Earnings Per Share

Hypothesis testing in this study uses the t test, F test and R test with the following assessment criteria:

1. t-test
   The t-test is used to test the influence of independent variables on dependent variables partially with the following criteria:
   a. If the significance value t > 0.05 and the calculated t value < t table then Ho is accepted and Ha is rejected which means that the independent variable partially has no effect on the dependent variable.
   b. If the significance value t < 0.05 and the calculated t value > t table then Ho is rejected and Ha is accepted which means the independent variable partially influences the dependent variable.

2. F test
   The F test is used to test the influence of independent variables on dependent variables simultaneously with the following criteria:
   a. If the significance value F > 0.05 and the calculated F value < F table then Ho is accepted and Ha is rejected which means that the independent variable does not simultaneously influence the dependent variable.
   b. If the significance value F < 0.05 and the calculated F value > F table then Ho is rejected and Ha is accepted which means that the independent variable simultaneously influences the dependent variable.
3. R2 Test
   The coefficient of determination (R2) is a method for measuring how far the strength of the independent variable reflects the variation of the dependent variable. dependent. The R2 value is between 0 and 1. If R2 = 0, the independent variable is not able to explain dependent variable. Conversely, if R2 = 1, the independent variable is able to explain the dependent variable.

RESULTS AND DISCUSSION

Research result

Descriptive statistical analysis shows a description of each variable independent, and dependent variables. This analysis presents information regarding the average, standard deviation, maximum value, and minimum value of each variable as can be seen in Table 4 below.

Table 4. Descriptive Statistics of Research Variables

Variables	N	Min	Max	Mean	Standard Deviation
Stock Underpricing	33	6.12	15.55	11.2091	1.80025
Auditor Reputation	33	0.00	1.00	0.2424	0.43150
Return on Assets	33	225.00	18266.00	6032.5152	4915.09612
Financial Leverage	33	1928.00	291449.00	97358.2424	73501.18476
Earnings Per Share	33	6.00	11228156.00	1446644.0000	2381198.65839

Source: Field research data processing, 2024

Stock underpricing obtained a minimum value of 6.12 and a maximum value of 15.55. This means that out of 33 samples, the lowest value of stock underpricing was 6.12 and the highest value was 15.55. The mean stock underpricing was 11.2091. This indicates a high level of stock underpricing. This is a relatively large sample size because the mean value is close to the maximum value. The standard deviation is 1.80025, which means the data variance distribution is small, indicating no data deviation in the stock underpricing variable.

Auditor reputation is measured using a dummy variable, 1 if the audit in the financial statements is registered with a big four KAP and 0 for non-big four KAP. Auditor reputation obtains a minimum value of 0.00 and The maximum value is 1.00. This means that of the 33 samples in this study, the lowest value of Auditor Reputation is 0 and the highest value is 1 with the average Auditor Reputation being 0.2424 and standard deviation 0.43519.

Return On Asset obtained a minimum value of 225 and a maximum value of 18266. This means that of the 33 samples in this study, the lowest value of Return On

Asset was 225 belonging to the AGAR company in 2018 and the highest value was 18266 belonging to the STAA company in 2022. The mean Return On Asset was 6032.515. This shows that the Return On Asset value is is a relatively small sample size because the mean value is close to the minimum value. The standard deviation is 4915.096, which means the distribution of data variance is small, indicating no data deviations in the Return on Assets (ROA) variable.

Financial Leverage obtained a minimum value of 1928 and a maximum value of 292449. This means that in this study the lowest value of Financial Leverage was 1928 owned by ANDI company in 2018 and the highest value was 292449 owned by CBUT company in 2022. The Mean Financial Leverage is 97358.2424. This shows that the average value is relatively large because the mean value is closer to the maximum value. The standard deviation is 73501.18476 which means that the distribution of data variance is small indicating that there is no data deviation in the financial leverage variable.

Earning Per Share obtained a minimum value of 6.00 and a maximum value of 112.28156. This means that of the 33 samples in this study, the lowest value of Earning Per Share was 6, which was owned by the TAPG company in 2021, and the highest value was 11228156, which was owned by the FAPA company in 2021. The mean Earning Per Share was 1446644. This shows that The mean value is relatively large because the mean value is closer to the minimum value. The standard deviation of 2381198.65839 has a value greater than the mean, indicating a lot of variation in the distribution of the data, thus having a high deviation in the Earnings Per Share variable.

Based on data processing, the results of multiple linear regression analysis were obtained as presented in Table 5.

Table 5. Multiple Linear Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10,600	.743		14,269	.000
	Auditor Reputation	-1,938	1,069	-.469	-1,813	.081
	Return on Asset	.000	.000	.515	1,927	.064
	Financial Leverage	2.622E-7	.000	.011	.059	.954
	Earnings Per Share	-5.891E-8	.000	-.078	-.428	.672

a. Dependent Variable: Stock Underpricing
Source: Field research data processing, 2024

Based on Table 5, the following regression equation model is obtained:

$$Y = 10,600 - 1,938\ X_1 + 0.000\ X_2 + 0.0000002622X_3 - 0.00000005891X_4$$

Based on the regression line equation, it can be explained:

1. Constant value of 10,600 means that if the auditor reputation variable, return on assets, financial leverage, and earnings per If the share is considered constant, the underpricing value of the shares is only 10,600
2. The regression coefficient for the Auditor Reputation variable = -1.938 means that if the Auditor Reputation increases by 1 unit, then Underpricing of shares will occur a decrease of 1.938 assuming the other independent variables are held constant.
3. Coefficient Return on Asset regression = 0.000 means that if Return on Asset increases or decreases by 1 unit, then Underpricing of shares will not occur change.

4. Coefficient Financial Leverage Regression =0.0000002622meaning that if Financial Leverage increases by 1 unit, then Underpricing of shares will occur an increase of0.0000002622 assuming the other independent variables are held constant.
5. Coefficient Earnings Per Share Regression = -0.00000005891meaning that if Earning Per Share increases by 1 unit, then Underpricing of shares will experienced a decrease of0.00000005891 assuming the other independent variables are considered constant.

Based on Table 5, the results of hypothesis testing in this study can be explained, namely:

The Effect of Auditor Reputation on Stock Underpricing

Based on table 5, the calculated t value for linking Auditor Reputation to Underpricing is 1.813 < t table 2.045 with a significance value of 0.081 > 0.05, which means that $H_o$accepted and $H_a$rejected, so it can be explained that there is no influence between Auditor Reputation and underpricing of company shares primary consumer goods during IPO on the Indonesia Stock Exchange.

The Influence of Return on Assets on Stock Underpricing

Based on table 5, the calculated t value for connecting Return on Assets to Underpricing is 1.927 < t table 2.045 with a significance value of 0.064 > 0.05, which means that $H_o$accepted and $H_a$rejected, so it can be explained that there is no influence between Return on Assets and underpricing of company shares primary consumer goods during IPO on the Indonesia Stock Exchange.

The Effect of Financial Leverage on Stock Underpricing

Based on table 5, the calculated t value for connectingFinancial Leverageon Underpricing is 0.059 < t table 2.045 with a significance value of 0.954 > 0.05 which means that $H_o$accepted and $H_a$rejected, so it can be explained that there is no influence betweenFinancial Leverageagainst underpricing of company shares primary consumer goods during IPO on the Indonesia Stock Exchange.

The effect of Earning Per Share on underpricing of shares

Based on table 5, the calculated t value for connectingEarnings Per Shareagainst Underpricing is 0.428 < t table 2.045 with a significance value of 0.672 > 0.05 which means that $H_o$accepted and $H_a$rejected, so it can be explained that there is no influence betweenEarnings Per Shareagainst underpricing of company shares primary consumer goods during IPO on the Indonesia Stock Exchange.

The Influence of Auditor Reputation,Return On Assets, Financial Leverage and Earning Per Shareagainst Stock Underpricing

Based on data processing, the F test results were obtained as presented in Table 6.

Table 6. Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13,391	4	3,348	1,038	.405
	Residual	90,317	28	3,226		
	Total	103,709	32			

a. Dependent Variable: Stock Underpricing
b. Predictors: (Constant), Earning Per Share, Financial Leverage, Auditor Reputation, Return On Assets
Source: Field research data processing, 2024

Based on Table 6, the calculated F value is known of 1.038 < F table 2.710 and a significance value of 0.405 > 0.05 which means that $H_o$accepted and $H_a$rejected, so it can be explained that there is no influence between Auditor Reputation,Return On Assets, Financial Leverage and Earning Per Shareagainst underpricing of company shares primary consumer goods during IPO on the Indonesia Stock Exchange.

Coefficient of Determination (R2)

Based on data processing, the R2 test results were obtained as follows.

Table 7. Model Summary

Model	R	R Square	Adjusted R Square
1	.359a	.129	.005

a. Predictors: (Constant), Earning Per Share, Financial Leverage, Auditor Reputation, Return On Assets
b. Dependent Variable: Stock Underpricing
Source: Field research data processing, 2024

Based on table 7, the coefficient is obtained determination with an Adjusted R2 value of 0.005 or 0.5%. This shows that the stock underpricing variable can be explained by the independent variables of auditor reputation, return on assets (ROA), financial leverage and earnings per share (EPS) by 0.5% for the period 2018 to 2022, and the remaining 99.5% of the variation in the dependent variable is explained by other factors that not included in this research.

Discussion

The Effect of Auditor Reputation on Stock Underpricing

The partial test results (t-test) indicate that the Auditor Reputation variable does not have a statistically significant effect on Stock Underpricing in primary consumer goods companies during Initial Public Offerings (IPOs). Statistically, this result is supported by the calculated t-value of 1.813, which is smaller than the t-table of 2.045, with a significance level of 0.081 (greater than $\alpha = 0.05$). This finding indicates that the null hypothesis (H0) is accepted, which means that the signaling effect of Auditor Reputation does not play a role in determining the level of underpricing in the Indonesian stock market for this sector.

Theoretically, highly reputable Public Accounting Firms (KAP) (Big Four) are expected to function as a certification mechanism that reduces information asymmetry and investor uncertainty, thus leading to lower underpricing.(Beatty, 2019)However, these findings imply that this signaling effect has been ignored or overshadowed by other, more dominant factors in the primary market.

The insignificance of Auditor Reputation can be explained by the specific behavior of Indonesian retail investors. Unlike institutional investors who scrutinize audit quality, retail investors tend to be indifferent to whether a company is audited by a Big Four or Non-Big Four firm. Their primary concern is not "who audited the report," but rather "who is the Underwriter." In the local market context, the Underwriter is often perceived as the key "market maker" (or *Bandar*) who has the capability to support the stock price post-listing. Consequently, investors prioritize Underwriter Reputation as the

crucial quality signal, rendering the Auditor's reputation irrelevant in their decision-making process (Prasetyo & Nurhayati, 2021).

Furthermore, regarding the certification role, the distinction between Big Four and Non-Big Four firms appears to have diminished in the eyes of investors. This study suggests that having audited financial statements is viewed merely as a "standard minimum" or adequate requirement for any company going public. Since the primary consumer goods sector is already characterized by stable cash flows and relatively lower risk, the "insurance" value typically associated with Big Four auditors provides no additional information premium. Investors assume that as long as the report is audited by a registered KAP, the information is sufficient, regardless of the auditor's brand size.

This finding is in line with several previous empirical studies. For example, research by Aisyah et al. (2024). In companies in the trade, services, and investment sectors, auditor reputation also found that auditor reputation had no significant partial effect on IPO stock underpricing. This consistent result supports the view that the effectiveness of auditor reputation as a quality signal in Indonesia, at least in some sectors, remains questionable.

The Influence of Return on Assets on Stock Underpricing

The results of partial hypothesis testing indicate that the Return on Assets (ROA) variable does not have a statistically significant effect on Stock Underpricing in primary consumer goods companies during Initial Public Offerings (IPOs). Statistically, this finding is confirmed by the calculated t-value of 1.927, which is still below the t-table of 2.045, and the significance level of 0.064, which is greater than the threshold of $\alpha = 0.05$. The rejection of the alternative hypothesis (Ha) implies that the company's historical profitability as measured by ROA is not a significant determining factor in influencing the level of underpricing in the Indonesian stock market for this sector.

Theoretically, a high ROA should act as a positive signal (an indicator of financial health) that can reduce information asymmetry and increase the stock offering price, thereby reducing underpricing. However, this insignificance suggests that the profitability signal is ineffective or overshadowed by psychological market factors. This result can be explained through the lens of Behavioral Finance, specifically the theory of Herding Behavior. In the Indonesian capital market, retail investors tend to exhibit irrational behavior where investment decisions are not driven by fundamental analysis like ROA, but rather by the psychological impulse to "follow the crowd" or Fear of Missing Out (FOMO). This indicates the presence of Noise Trader Risk, where investors react to market sentiment and momentum rather than valid fundamental information. Consequently, long-term fundamental factors such as ROA become less relevant than the massive buying pressure driven by herd behavior to achieve short-term capital gains.

Second, investors have reservations about the reliability of historical ROA after an IPO. Newly public companies face significant changes in their capital structure and the intended use of funds, which can lead investors to disregard past ROA as an accurate projection of future profitability. This argument is supported by research findings. Kaylee & Wenny (2024) which concluded that the demand for shares and share prices at IPO were not significantly influenced by the ROA value.

The findings of this study are consistent with several recent empirical studies conducted between 2020 and 2025 on the Indonesia Stock Exchange. For example,

research by Sidabutar & Tumewu (2024) as well as Lukman & Kunawangsih (2023) also shows that the ROA variable tends to have no significant effect on IPO underpricing, while external signals such as underwriter reputation are more dominant. In conclusion, for primary consumer goods companies, internal profitability factors, while important, are not strong enough to significantly influence IPO pricing decisions.

The Effect of Financial Leverage on Stock Underpricing

The partial test results (t-test) indicate that the Financial Leverage variable (a proxy for debt risk) does not have a statistically significant effect on the phenomenon of Stock Underpricing in primary consumer goods companies conducting Initial Public Offerings (IPOs). Statistically, this result is indicated by a very low t-value of 0.059 and a very high significance value of 0.954 (far above the threshold of $\alpha = 0.05$). This finding leads to the acceptance of the null hypothesis (H0), which firmly concludes that debt risk does not affect the level of underpricing of initial shares in this sector.

Theoretically, a high financial leverage ratio should act as a negative signal, increasing uncertainty and the risk of financial failure for investors. Logically, compensation for this risk would be realized in lower stock prices, which would imply greater underpricing. However, these contrasting results can be explained. First, this study focused on primary consumer goods companies. This sector is known for its stable cash flow and resilience to economic fluctuations. Investors may assume that the stability of a company's earnings offsets the risks posed by high debt levels, thus making the historical leverage level stated in the prospectus less of a primary consideration in the offering price valuation.

Second, the debt information presented is historical data from before the IPO. Investors tend to focus more on future prospects and the intended use of IPO proceeds, which are typically used to repay debt or finance expansion. These fundamental changes in the post-IPO capital structure are considered more relevant, thus marginalizing historical leverage signals and rendering them insignificant in shaping market initial return expectations.

This finding is consistent with recent literature, which indicates a research gap or ambiguity in Indonesia regarding the influence of leverage. Research by Jannah (2023) and findings in the study Damanik & Sembiring (2020) The results also show that financial leverage has no significant partial effect on IPO underpricing. Therefore, although debt risk is a fundamental indicator, it is not a significant determinant of initial public offering prices in the primary consumer goods sector.

The Influence of Earning Per Share on Underpricing of Shares

The partial test results show that the Earnings Per Share (EPS) variable, as the main indicator of profitability per share, statistically has no significant effect on Stock Underpricing in primary consumer goods companies during Initial Public Offerings (IPOs). This finding is supported by a calculated t-value of 0.428 (far below the 2.045 table) and a high significance value of 0.672 (exceeding the threshold of $\alpha = 0.05$). Formally, these results accept the null hypothesis (H0), indicating that the company's earnings per share before the IPO is not a significant determinant in influencing the level of underpricing.

In theory, high EPS should serve as a strong signal of quality to the market (Signaling Theory). Good EPS indicates superior historical profitability, which ideally would increase investor demand and allow underwriters to set higher offering prices, thereby reducing underpricing. However, the insignificance of EPS in this study suggests that this signaling effect is distorted or underestimated by primary market investors.

The main reason for this insignificance can be explained through Behavioral Finance perspectives rather than traditional market efficiency. Investors in the Indonesian primary market exhibit characteristics of Noise Trader Risk, where trading decisions are driven by sentiment and noise rather than fundamental analysis of metrics like EPS. This behavior triggers Herding Behavior, where retail investors ignore the company's actual profitability and instead "follow the crowd" due to the Fear of Missing Out (FOMO). In this psychological state, the high demand for IPO shares is fueled by the hype and the perception of quick gains (initial return) rather than the issuer's historical earnings performance. Consequently, historical EPS becomes irrelevant as investors prioritize market momentum over fundamental substance.

The findings of this study are consistent with several empirical studies on the Indonesia Stock Exchange, which also found that EPS is not always a determining factor in underpricing. Research byAmelia & Adrianto (2020) and studies by Setyaningsih (2020) also concluded that EPS has no significant effect on underpricing, indicating that investors in the IPO context often rely on other signals to assess a company's risk and profit potential.

The Influence of Auditor Reputation, Return On Assets, Financial Leverage and Earning Per Share Against Stock Underpricing

The results of simultaneous hypothesis testing, involving Auditor Reputation, Return on Assets (ROA), Financial Leverage, and Earning Per Share (EPS), collectively indicate that these four variables do not have a significant influence on the Underpricing of Shares of primary consumer goods companies during Initial Public Offerings (IPOs). This finding is confirmed by the calculated F value of 1.038, which is below the F table value of 2.710, as well as the significance level of 0.405, which far exceeds the threshold of $\alpha = 0.05$\$. This rejection of the alternative hypothesis (Ha) strengthens the conclusion of the previous partial test, implying that both non-financial quality signals (Auditor Reputation) and internal company profitability and risk signals (ROA, Financial Leverage, and EPS) together fail to be the main determinant factor in explaining the level of underpricing.

The limitations of this model in explaining the underpricing phenomenon are emphasized by the very low value of the Coefficient of Determination (Adjusted R2), which is only 0.005, equivalent to 0.5%. This value means that only 0.5% of the variation in stock underpricing can be explained by the combination of the four independent variables during the period 2018 to 2022. The remaining, very large 99.5% of the variation in the dependent variable, must be explained by other factors outside the research model that are not included in the analysis.

Therefore, it can be concluded that in the context of initial public offerings of primary consumer goods companies, pricing decisions and initial returns are dominated by Behavioral Finance factors rather than fundamental metrics. The unexplained 99.5% variation suggests the strong presence of Noise Trader Risk, where market participants

trade on noise and sentiment rather than intrinsic value. Moreover, the phenomenon is driven by Herding Behavior, where retail investors in Indonesia tend to disregard internal fundamental information (like ROA or EPS) and instead "follow the crowd" due to the Fear of Missing Out (FOMO). In this environment, the allocation strategy of the underwriter and high levels of oversubscription become the primary triggers for buying decisions, rendering fundamental accounting signals irrelevant.

This insignificant result is consistent with several previous studies on the Indonesian capital market. For example, this finding is in line with research by Liana & Astuti (2020)as well as Damanik & Sembiring (2020) which also separately concluded that ROA and Financial Leverage tend not to have a significant effect on the underpricing of IPO shares. The same applies to EPS, where several studies such as those conducted by Amelia & Adrianto (2020) found that earnings per share signals failed to be a strong predictor of initial public offering (IPO) pricing. This inconsistency suggests that for companies in the primary consumer goods sector, IPO investors are more influenced by short-term orientation, market sentiment, underwriter reputation, and oversubscription dynamics, rather than by a thorough analysis of internal fundamental data contained in financial statements. Therefore, it can be concluded that underpricing in this sector is more of a market phenomenon driven by external factors than by the internal quality signals measured in this model.

CONCLUSION

Based on the results of a regression analysis on a sample of primary consumer goods companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange during the 2018–2022 period, it was concluded that, partially or simultaneously, the variables Auditor Reputation, Return on Assets (ROA), Financial Leverage, and Earnings Per Share (EPS) did not have a significant effect on Stock Underpricing. The inability of these internal fundamental variables to explain the underpricing phenomenon is confirmed by the very low Adjusted R2 value of only 0.5%. This result indicates that the majority of underpricing variation (99.5%) in this sector is driven by behavioral factors and non-fundamental market signals, rather than by historical financial performance or audit quality.

The main limitations of this study are the very low explanatory power of the model, where almost all of the variation in underpricing failed to be explained by the independent variables used, and the limited population focus on 48 companies from the primary consumer goods sector. For future research, it is strongly emphasized that studies should move beyond traditional accounting variables. Future models must incorporate behavioral and market variables that better capture investor psychology. Specifically, variables such as Investor Sentiment (Sentiment Analysis), Transaction Volume, and Market Turnover should be prioritized. These metrics are crucial to measuring the impact of Herding Behavior and market euphoria (FOMO), which have proven to be more dominant drivers of IPO pricing in Indonesia than static financial ratios like ROA or EPS.

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