

# POTENTIAL DEVELOPMENT IPO COMPANY BY USING FINANCIAL PERFORMANCE AND DCF ANALYSIS (CASE STUDY ON 5 COMPANIES NEGATIVE EARNINGS)

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**Abstract:** *Every company that wants to get a source of funds through the issuance of shares must make Initial Public Offering to the public. Companies that go public mean that the company offers ownership of the company to be owned by the wider community. IPO assessment is one of the most valuable factors in the market. Such signals can confirm or reject management's beliefs about future growth opportunities - with real implications for the real economy through the work and investment of the company. This study was conducted to answer the problems faced by investors when determining the company that conducts an IPO but its financial statements are losing money or in the development stage. The methodology used is financial ratio analysis with ten metrics and the results are validated with Moody's Financial Metrics™ data report September 25, 2017 and valuation of the five Companies that have negative earnings. The results of this study show that out of 5 companies only one company is categorized as moderate risk whereas from valuation there is a company whose valuation value is higher than the asset value of the company itself.*

**Keywords:** *Company Valuation, Discounted Cash Flow, Financial Ratio, Initial Public Offering, Negative Earnings.*

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## Introduction

Initial Public Offering (IPO or go public) is a securities offering activity for the first time carried out by companies (issuers) in order to promote the public in the capital market. The decision to go public in addition to issuing the company can also be done by giving it and trading shares in the market also to improve the company as one indicator of the company's performance. Other companies used to go public with other companies, namely, developing, expanding, and increasing company access.

The Companies that conduct IPOs (Initial Public Offering). In the IPO process, after holding a General Meeting and being used to conduct an IPO, then looking for a company and appointing a company as an Underwriter, supporting the profession and supporting institutions. Supporting professionals and supporting institutions to help create various emission documents for the needs of the IPO, one of which is making financial reports. From financial statements, company management can find out what the fair share price of the company.

One problem in pricing on the market is that there is no relevant information. This is caused by a statement before the decision. Both potential investors and publishers and underwriters both face difficulties in assessing and determining IPO prices. In addition, the term information about what and who is going to go public makes potential investors have to do the right analysis before making a decision to buy (order) shares.

Indonesia Stock Exchange contains two boards for listings: (i) Main Board; and (ii) Development Board (with the Main Board, each a "Board"). The placement of a prospective issuer and that prospective issuer's listing depends on the fulfillment of the initial listing requirements on each Board.

The Main Board is intended for prospective issuers and issuers of large companies that have track records, while the Development Board is intended for companies that are not yet able to fulfill the listing requirements of the Main Board and companies that are on the state of reorganization.

Additional procedures for listing on the Development Board include:

A prospective listed company which (i) is suffering an operating loss, (ii) has negative profits; or (iii) has been conducting its operations for less than two (2) years, must:

(a) Obtain business profit and net profit in accordance with the financial projection at the end of the second financial year of the listed date at the latest.

(b) For the prospective listed company whose nature of business needs more time to reach a breakeven point (such as: infrastructure, hard plants plantation, concession of the forest management rights or industrial plantation or other line of business which relates to the public services), they could have an extension up to maximum six financial years for them to start obtaining business profit and net profit.

And basically the Indonesia stock exchange allowed Company which is had negative earnings to be IPO in the development board is as follows:

**Table 1 – General Requirement in Indonesia Stock Exchange**

| GENERAL LISTING REQUIREMENTS ON INDONESIA STOCK EXCHANGE   |  |
|--|--|
| Main Board   | Development Board  |
| A legal Entity in the form of Limited Liability Company (PT) should have:  |  |
| 1. Independent Commissioner consisting of at least 30% of the composition of the Board of Commissioners;   |  |
| 2. Independent Director consisting of at least 1 person of the   |  |
| 3. Audit Committee and Unit of Internal Audit;   |  |
| 4. Corporate Secretary.  |  |
| Operational activity in the same core business more than 36 consecutive months   | Operational activity in the same core business more than 12 consecutive months   |
| Booking business profits at least in the last 1 financial year   | May experience loss, but should have operating & net profit in 2 years based on projection (some particular sectors: at the end of the 6 financial year)   |
| Audited Financial Report over 3 years  | Audited Financial Report over 12 months  |
| The last 2 financial years of Audited Financial Report obtain Unqualified Opinion  | Audited Financial Report obtain Unqualified Opinion  |
| Net Tangible Asset more than Rp 100 billion  | Net Tangible Asset more than Rp5 billion   |
| Number of shares owned by non controlling & non majority shareholder:<br><ul style="list-style-type: none"> <li>• Min. 300 million shares</li> <li>• 20% from total shares, for equity &lt; Rp500 billion</li> <li>• 15% from total shares, for equity Rp500 billion – Rp2trillion</li> <li>• 10% from total shares, for equity &gt; Rp2 trillion</li> </ul> | Number of shares owned by non controlling & non majority shareholder:<br><ul style="list-style-type: none"> <li>• Min. 150 million shares</li> <li>• 20% from total shares, for equity &lt; Rp 500 billion</li> <li>• 15% from total shares, for equity Rp 500 billion – Rp 2 trillion</li> <li>• 10% from total shares, for equity &gt; Rp2 trillion</li> </ul> |
| Number of shareholder more than 1000 parties   | Number of shareholder more than 500 parties  |

Following mutations of companies that are on the Indonesian stock exchange:

**Table 2 – Listed Company on Indonesia Stock Exchange**

| Description      |  | 1977 | 1977-1987 | 1987-1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------------------|--|------|-----------|-----------|------|------|------|------|------|------|------|
| Total emiten     |  | 1    | 24        | 284       | 288  | 277  | 287  | 316  | 331  | 333  | 331  |
| Total new emiten |  | 1    | 23        | 264       | 6    | 9    | 21   | 31   | 22   | 6    | 12   |
| Emiten delisting |  | 0    | 0         | 4         | 2    | 20   | 11   | 2    | 7    | 4    | 14   |

| Description      |  | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------|--|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Total emiten     |  | 336  | 344  | 383  | 396  | 398  | 420  | 440  | 459  | 483  | 506  | 521  | 537  | 566  |
| Total new emiten |  | 8    | 12   | 22   | 19   | 13   | 23   | 25   | 23   | 31   | 24   | 18   | 16   | 37   |
| Emiten delisting |  | 3    | 4    | 8    | 6    | 11   | 1    | 5    | 4    | 7    | 1    | 3    | 0    | 8    |

The author then took the population of the company that IPOs in 2017 and early 2018, where the authors found that there were 5 companies that were at a negative earnings position at the time of IPO and 4 years earlier.

Negative earnings and the presence of intangible assets are used by analysts as an excuse to abandon traditional valuation models and develop new ways that can be used to justify investment in small companies.

This search for a new paradigm is misguided. The problem with young companies is not that they lose money, have no history or do not have very large tangible assets. This is that they are much earlier in their life cycle than established companies and often have to be valued before they have a market established for their products.

So the results of this research can be used to know about their potential development by using financial performance and discounted cash flow analysis.

### **PT Dwi Guna Laksana Tbk**

PT Dwi Guna Laksana Tbk. (DWGL) was founded in 1986 as a general contractor. The Company acquired a Mining Business Licence (IUP) in 2007 and two years later signed its first long-term Coal Sales Agreement (PJBB) with PT Perusahaan Listrik Negara (PLN).

On 13 December 2017, the Company listed 3.1 billion of its shares on the IDX or equivalent to 35.9% of the total issued and fully paid-in capital, at the price of IDR 150 per share. The Company also offered 155 million warrants at the execution price of IDR 187, where every 20 new shares are entitled to 1 warrant.

The proceeds from IPO were used for debts repayment and as the Company's working capital, which comprises 53.9% for payment to coal supplier, 39.3% for the repayment of debt principal and interests to creditors, while the remaining, after deduction of emission costs, will be used as working capital.

The company has a shareholder in the mining business sector, PT Energi Baturbara Indonesia (81.01%) which is part of PT Eksploitasi Energi Indonesia Tbk. Apart from that, the Company has 3 subsidiaries where 2 have been operating in the port service and mining sector.

The company as one of the coal suppliers to PLN with the largest number of long-term contracts has a plan to increase the volume of supply to 5 million tons per year in the next 20 years. Below is the contract between Company and PLN:

**Table 3 – List contract between DWGL and PLN**

| Status | Location                 | Consumer                     | Supplier           | Agreement object | Long duration | Due date   |
|--------|--------------------------|------------------------------|--------------------|------------------|---------------|------------|
| PJBB   | Middle Kalimantan        | PT Perusahaan Listrik Negara | PT Borneo Indobara | 265,000 Ton/year | 20 years      | 16/12/2029 |
| PJBB   | Kendari                  | PT Perusahaan Listrik Negara | PT Borneo Indobara | 65,000 Ton/year  | 20 years      | 16/12/2029 |
| PJBB   | Manado                   | PT Perusahaan Listrik Negara | PT Borneo Indobara | 56,000 Ton/year  | 20 years      | 16/12/2029 |
| PJBB   | Gorontalo                | PT Perusahaan Listrik Negara | PT Borneo Indobara | 56,000 Ton/year  | 20 years      | 16/12/2029 |
| PJBB   | Endog (NTB)              | PT Perusahaan Listrik Negara | PT Borneo Indobara | 140,000 Ton/year | 20 years      | 16/12/2029 |
| PJBB   | Rupa (NTT)               | PT Perusahaan Listrik Negara | PT Borneo Indobara | 45,000 Ton/year  | 20 years      | 16/12/2029 |
| PJBB   | Temate (Maluku)          | PT Perusahaan Listrik Negara | PT Borneo Indobara | 18,000 Ton/year  | 20 years      | 16/12/2029 |
| PJBB   | Barru (South Sulawesi)   | PT Perusahaan Listrik Negara | PT Borneo Indobara | 215,000 Ton/year | 20 years      | 23/04/2029 |
| PJBB   | Paitton (East Java)      | PT Perusahaan Listrik Negara | PT Borneo Indobara | 270,000 Ton/year | 20 years      | 26/06/2032 |
| PJBB   | Tanjung Awar (East Java) | PT Perusahaan Listrik Negara | PT Borneo Indobara | 285,000 Ton/year | 20 years      | 30/12/2033 |
| PJBB   | Pacitan (East Java)      | PT Perusahaan Listrik Negara | PT Borneo Indobara | 475,000 Ton/year | 20 years      | 15/08/2032 |

### **PT Indah Prakasa Sentosa Tbk**

PT Indah Prakasa Sentosa Tbk hereinafter is a national company which was established on January 15, 1988. Although it was established in that year actually a business started in the 1960s which started with smallscale trading and transportation business by founder company Alm. Mr. Surya Winata and the Company listed 650,000 of its shares in Indonesian Stock Exchange on April 6, 2018.

They developed from small scale trading and fuel transportation and then believed to be a fuel distribution company for Pertamina up to the distribution of lubricants and LPG and eventually developed by entering the distribution line of fuel oil and LPG to retail through gas station and SPBE to date which also opened the business in the field of logistics and warehousing.

In logistics business also increased from year to year with an average growth of about 14.7% per year with value in 2017 around Rp. 2.757 T, in 2018 around Rp. 3.162 T, and in 2019 around Rp. 3,627 T, with a ratio of about 27% (Rp 854 T FY 2018) from the transport sector and 73% (Rp 2,303 T FY 2018) from logistics industry activities. The potential income is still very large from cargo, with the growth of about 5.8% per year, where 2017 is estimated at about 1,117 million tons and 2018 of about 1,182 million tons

#### **PT Kioson Komersial Indonesia Tbk**

PT Kioson Komersial Indonesia, Tbk is a technology startup company established in June 2015 by and the Company listed 651,497,700 of its shares in Indonesian Stock Exchange on October 5, 2017. Experts in the fields of e-commerce, telecommunication, finance and merchandising, namely Roby Tan, Viperi Limiardi, and Jasin Halim. Carrying tagline “Semua Bisa Online”, Kioson provides a digital platform to give a business opportunity for the people of Indonesia.

The primary strategic policy carried out in 2017 was the acquisition of PT Narindo Solusi Komunikasi (NSK) using Proceeds from the Initial Public Offering (IPO).

#### **PT Marga Abhinaya Abadi Tbk**

Established in 2009, PT Marga Abhinaya Abadi Tbk has built a remarkable journey through both of its property and service businesses with the brands of “Samali Hotels & Resorts” and “Dream Food”. The Company and its subsidiaries had portfolio Hotel and Restaurant as follows:

**Table 4 – List of hotel MABA**

| No | Hotel            | Owner        | Land Area (Ha) | Status      |
|----|------------------|--------------|----------------|-------------|
| 1  | Ammi Cepu        | Subsidiaries | 6,248          | Operating   |
| 2  | Allium Tangerang | Company      | 15,429         | Operating   |
| 3  | Allium Cepu      | Subsidiaries | 5,507          | Operating   |
| 4  | Ammi Medan       | Company      | 15,280         | Planning    |
| 5  | Arum Jogja       | Company      | 1,575          | Planning    |
| 6  | Arum Cepu        | Company      | 2,058          | Development |

**Table 5 – List of Restaurant MABA**

| No | Restaurant  | Owner        | Land Area (Ha) | Status    | Location                 |
|----|-------------|--------------|----------------|-----------|--------------------------|
| 1  | Rantang Ibu | Subsidiaries | 75             | Operating | Jakarta - Kebayoran Baru |
| 2  | Rantang Ibu | Subsidiaries | 443            | Planning  | Jakarta - Pasar Minggu   |

The Company’ stocks were traded on IDX under the stock code “MABA”. Since its listing on Indonesia Stock Exchange on June 22, 2017, the Company’s stocks were suspended twice, they were each on July 10, 2017, and July 13, 2017, due to extraordinary movements that led to significant accumulation on the Company’s stock price. At the closing session at end of 2017,

the Company's stocks were traded at Rp1,200 per share and hit its highest level in July when it was traded at 1 Rp2,590 per share.

### **PT Prima Cakrawala Abadi Tbk**

Established in 2014, The Company's shares are listed and commenced trading on December 29, 2017, in the Indonesia Stock Exchange under the code "PCAR".

Supply of crab meat from Indonesia has a significant effect on the international market. As one of the countries with great natural resources, Indonesia has the ability that exceeds other countries to supply crab meat throughout the year. Indonesia contributes to the supply of crab meat around 40% - 50% of the world's total crab meat supply.

The Company made its first export in 2014, the Company already has permanent customers do routine orders every month. The majority of the Company's customers are crab importers ranging from scale small to large scale located in several states in the United States

The local market customers from the Company are not much because sales to the local market need education related to the crab product itself. Another obstacle is the price of crab which tends to be more expensive compared to the price of crabs, so many potential local customers are not interested in knowing the selling price of the Company's products. The initial sales area of the Company's domestic market is to customers located in Lampung and Jakarta.

### **Literatur Review**

One of the inevitable stages in a company's life cycle is the moment it becomes public through an Initial Public Offering (IPO), which refers to the issuance and sale of shares in the market for external financing (Yalcin et Unlu, 2017). When an initial public offering is made, investors go through the difficulty of pricing these shares because they have little information about the issuing entity. The vast majority of the information comes from the mandatory disclosure prospectus, which contains some financial statements but causes great investor dependence and limitation (Lee et Masulis, 2011).

Based on the study in Amazon.com, the Company who had negative earnings in the beginning period will have potential development in the future if the Company has good management. Aswath Damodaran (2000) has research The Dark Side of Valuation: Firms with no Earnings, no History and no Comparables Can Amazon.com be valued. When the Company has negative earnings, limited history and few comparables the question is not whether these firms can be valued – they certainly can- but whether we are willing to live with noisy estimates of value.

### **Methods**

This research will evaluate and assess the financial performance of the IPO firms who had negative earnings and in the end, the result of financial performance will be validating by e Moody's Financial Metrics™ data report September 25, 2017 and valuation of the five Companies that have negative earnings.

The development conceptual framework that made in this study is already designed according to the study purpose. Here are steps that conducting research in this framework:

1. Gathering data Collection from the Company itself such as Prospectus Report, Financial statement audited and etc.

2. Measurement of financial performance will be validating by Moody's Financial Metrics™ data report September 25, 2017
3. Analyze the problem of negative earnings of the Company
4. Calculated the financial performance using discounted cash flow
5. Give an overlook conclusion after research.

### **Data Analysis**

Prospectus reports, which include financial statements, structure shareholders, the objective for the IPO and other data, give the information necessary to evaluate the company and its performance. And the role of the financial report is to provide information about the company performance and financial position that is beneficial to a wide range of users in making economic decisions.

Financial performance is ability from within the company use capital owned to be effective and efficient get maximum results. So in the other words, financial performance is a measure of successful management in managing capital which is optimally owned to maximizing company value. A financial ratio is an assessment to measure a financial position company so that it can provide an overview of the history of the company and to compile new financial statements using past records.

In this study, authors will evaluate the 5 IPO Companies who had negative earnings using financial ratios and validating by the Moody's Financial Metrics™ data report September 25, 2017.

Based on the report of the rating are classified into with the processing:

**Table 6 – Rating of each category**

| No | Category    | Rating |
|----|-------------|--------|
| 1  | Low risk    | Aaa    |
|    |             | Aa     |
|    |             | A      |
| 2  | Medium risk | Baa    |
|    |             | Ba     |
|    |             | B      |
| 3  | High risk   | Caa-C  |

And the variables that will be used in this research will be described as follows:

**Table 7 –Formula**

| No | Formula          |    | Funds From Operations   |
|----|------------------|----|---|
|    |                  |    | Short-Term Debt + Long-Term Debt  |
| 1  | EBITA            | 7  | Retained Cash Flow  |
|    | Average Assets   |    | Cash and Cash Equivalent  |
| 2  | EBITA            | 8  | Short-Term Debt + Long-Term Debt  |
|    | Interest Expense |    | EBITDA  |
| 3  | EBITA            | 9  | Short-Term Debt + Long-Term Debt  |
|    | Net Revenue      |    | Short-Term Debt + Long-Term Debt + Deferred Taxes + Minority Interest + Book Equity |
| 4  | Operating Profit | 10 | CAPEX   |
|    | Net Revenue      |    | Depreciation Expense  |

**Horizontal Analysis**

Horizontal analysis is done by comparing the number of current year financial statement accounts compared to the same account in the previous period to determine the increase and decrease that occurs in the account. Increase or decrease the account divided by the previous period and multiplied by one hundred percent to determine the percentage increase or decrease in the account and increase or decrease the number of posts calculated as the percentage increase or decrease.

Horizontal analysis is the development of historical performance that filled by trend measurement, consists of:

1. Horizontal analysis of the asset performance
2. Horizontal analysis of the liability and equity performance
3. Horizontal analysis of the statement of profit or loss

**Negative Earnings: Consequences And Causes**

There are many reasons why firms have negative or abnormally low earnings, some of which can be viewed as temporary, some of which are long-term, and some of which relate to where a firm stands in the life cycle.

**a. Temporary Problems**

For some firms, negative earnings are the result of temporary problems, sometimes affecting the firm alone, sometimes affecting an entire industry, and sometimes the result of a downturn in the economy such as commodity where the price increases and decrease based on market and depends on the weather for the production.

**b. Long-Term Problems**

Negative earnings are sometimes reflections of deeper and much more long-term problems in a firm. Some of these are the results of poor strategic choices made in the past, some reflect operational inefficiencies, and some are purely financial, the result of a firm borrowing much more than it can support with its existing cash flows such as inefficient operations or poor decisions and too much debt to fund the operations

**c. Life Cycle**

In some cases, a firm’s negative earnings may not be the result of problems in the way it is run but because of where the firm is in its lifecycles such as companies who had huge investment infrastructure or start-up companies.

**Valuing Negative Earnings Firms**

**a. Expected Revenue Growth**

The key to input this valuation such as past growth rate in revenues at the firm itself, the Growth rate in the overall market that the firm serves and Barriers to Entry and Competitive Advantages possessed by the firm.

**b. Sustainable Operating Margin**

In many ways, the true test of these valuations is being able to visualize what a young, high growth firm will look like when growth stabilizes.

**c. Reinvestment in needs**

Growth in operating income ultimately is a function of how much a firm reinvests and how well it reinvests (measured by the return on capital). This formulation cannot be used to estimate reinvestment needs for start-up firms that are losing money, especially in the years of transition. In steady state, however, the reinvestment needs can be computed using the expected growth rate and the expected return on capital:

$$\text{Expected Reinvestment Rate}_{\text{stable}} = \frac{\text{Expected Growth}_{\text{stable}}}{\text{Return On Capital}_{\text{stable}}}$$

To use this formulation author used a variation of the fundamental growth formula that can be put to use to estimate reinvestments in future years. While the return on capital and reinvestment rate will be negative for firms with negative earnings and compute the typical payoff in revenues that given dollar reinvestment in the form of sales to the capital ratio:

$$\text{Sales to Capital Ratio} = \frac{\text{Revenues}}{\text{Capital Invested}}$$

**d. Firm Valuation and Equity Valuation**

The data analysis process will be utilizing several formulas and concept, that's commonly used in today's financial industry. Those several formulas that will be used in the analysis process will be:

- o Stable investment rate

$$\text{Stable Reinvestment Rate} = \frac{\text{Stable Growth Rate}}{\text{Return on Capital}}$$

- o Free cash flow for the firm

$$\text{Free cash flow for the firm} = \text{EBIT} (1 - \text{tax rate}) - \text{Reinvestments}$$

- o Terminal value

$$\text{Terminal Value} = \frac{\text{Free cash flow for the firm}}{(\text{Cost of Capital} - \text{Stable Growth Rate})}$$

## Results and Discussion

The purpose of this study is to analyze and to measure the financial performance of IPO Company who had negative earnings by using financial ratio analysis, which is classified into profitability, liquidity, activity, and solvency ratios. The data were collected from prospectus reports from all financial calculations of the five Companies, it could be concluded the healthy levels as summarized:

**Table 8 – Summary of the total score**

| Category             | Financial ratio             | DWGL                       |       |       |      | INPS                       |       |       |      | KIOS                       |      |       | MABA                       |       |      | PCAR                       |      |      |       |
|----------------------|-----------------------------|----------------------------|-------|-------|------|----------------------------|-------|-------|------|----------------------------|------|-------|----------------------------|-------|------|----------------------------|------|------|-------|
|                      |                             | Score SOE KEP-100/MBU/2002 |       |       |      | Score SOE KEP-100/MBU/2002 |       |       |      | Score SOE KEP-100/MBU/2002 |      |       | Score SOE KEP-100/MBU/2002 |       |      | Score SOE KEP-100/MBU/2002 |      |      |       |
|                      |                             | 2017                       | 2016  | 2015  | 2014 | 2017                       | 2016  | 2015  | 2014 | 2017                       | 2016 | 2015  | 2016                       | 2015  | 2014 | 2017                       | 2016 | 2015 | 2014  |
| Liquidity Ratios     | current ratio               | 1                          | 1     | 3     | 5    | 0                          | 0     | 0     | 0    | 4                          | 1    | 5     | 0                          | 0     | 0    | 0                          | 0    | 0    | 5     |
|                      | Cash ratio                  | 0                          | 0     | 0     | 0    | 0                          | 0     | 0     | 1    | 2                          | 3    | 5     | 1                          | 3     | 3    | 4                          | 1    | 0    | 0     |
| Activity Ratios      | Inventory cycle             | 5                          | 5     | 5     | 5    | 5                          | 5     | 5     | 5    | 5                          | 5    | 5     | 5                          | 5     | 5    | 5                          | 5    | 5    | 5     |
|                      | average collection period   | 5                          | 5     | 5     | 5    | 5                          | 5     | 5     | 5    | 5                          | 5    | 0     | 5                          | 5     | 5    | 5                          | 5    | 5    | 5     |
|                      | Total asset turnover        | 5                          | 5     | 4.5   | 4    | 5                          | 5     | 5     | 5    | 5                          | 5    | 3.5   | 3.5                        | 3.5   | 3.5  | 5                          | 5    | 5    | 5     |
| Profitability Ratios | return on investments       | 2                          | 1     | 1     | 1    | 5                          | 6     | 13.5  | 12   | 1                          | 1    | 1     | 1                          | 1     | 1    | 1                          | 1    | 15   | 1     |
|                      | return on equity            | 0                          | 0     | 0     | 0    | 0                          | 0     | 7     | 20   | 0                          | 0    | 0     | 0                          | 0     | 0    | 0                          | 0    | 0    | 0     |
| Solvency Ratios      | Equity divided total assets | 7.25                       | 7.25  | 7.25  | 10   | 7.25                       | 7.25  | 7.25  | 6    | 7.5                        | 0    | 7.25  | 6                          | 7.25  | 4    | 10                         | 0    | 0    | 7.25  |
|                      | Total weight                | 25.25                      | 24.25 | 25.75 | 30   | 27.25                      | 28.25 | 42.75 | 54   | 29.5                       | 20   | 26.75 | 21.5                       | 24.75 | 21.5 | 30                         | 17   | 30   | 28.25 |
|                      | Category                    | Unhealthy                  |       |       |      | Less Healthy               |       |       |      | Unhealthy                  |      |       | Unhealthy                  |       |      | Less Healthy               |      |      |       |
|                      | Level                       | CCC                        |       |       |      | B                          |       |       |      | CCC                        |      |       | CCC                        |       |      | B                          |      |      |       |

Based on table 1 above it could learn that the company who had IPO and negative loss was unhealthy except PT Prima Cakrawala Abadi Tbk, in 2017 was less healthy.

And based on valuation with the discounted cash flow method, it could be concluded the value of the equity Company and the cause of why are the earnings negative as follows:

**Table 9 – Summary of valuation of the firm**

| No | Description | Total assets      | Value of the equity | Cause negative     |
|----|-------------|-------------------|---------------------|--------------------|
| 1  | DWGL        | 1,690,096,500,000 | 958,563,957,714     | Temporary problems |
| 2  | INPS        | 434,160,800,338   | 81,140,470,331      | Life Cycle         |
| 3  | KIOS        | 44,821,787,626    | 757,012,161,274     | Life Cycle         |
| 4  | MABA        | 621,066,261,145   | 444,985,636,617     | Life Cycle         |
| 5  | PCAR        | 68,012,462,616    | 7,615,553,015       | Long-term problems |

Based on that result from the valuation, we can conclude in the IPO year just PT Kioson Komersial Indonesia Tbk, who had good valuation if we benchmark with the total assets and the cause of negative is because the life cycle, KIOS still develop or penetrate the market but actually the Company has a positive margin in this current year.

The following structure of ownership the Companies before and after the public offering:

**Table 10 – Summary of valuation of the firm**

| Details     | Before the public offering |                 |         | After the public offering |                 |        |
|-------------|----------------------------|-----------------|---------|---------------------------|-----------------|--------|
|             | Total                      | Price value     |         | Total                     | Price value     |        |
|             | Share                      | (Rp100)         | %       | Share                     | (Rp100)         | %      |
| DWGL        |                            |                 |         |                           |                 |        |
| 1. Founders | 5.537.564.724              | 553.756.472.400 | 100,00% | 5.537.564.724             | 553.756.472.400 | 64,11% |
| 2. Society  | 0                          | 0               | 0%      | 3.100.000.000             | 310.000.000.000 | 35,89% |
|             |                            |                 |         |                           |                 |        |
| INPS        |                            |                 |         |                           |                 |        |
| 1. Founders | 500.000.000                | 50.000.000.000  | 100,00% | 500.000.000               | 50.000.000.000  | 76,92% |
| 2. Society  | 0                          | 0               | 0,00%   | 150.000.000               | 15.000.000.000  | 23,08% |
|             |                            |                 |         |                           |                 |        |
| KIOS        |                            |                 |         |                           |                 |        |
| 1. Founders | 500.000.000                | 50.000.000.000  | 100,00% | 500.000.000               | 50.000.000.000  | 76,92% |
| 2. Society  | 0                          | 0               | 0,00%   | 150.000.000               | 15.000.000.000  | 23,08% |
|             |                            |                 |         |                           |                 |        |
| MABA        |                            |                 |         |                           |                 |        |
| 1. Founders | 4.740.000.000              | 474.000.000.000 | 100,00% | 4.740.000.000             | 474.000.000.000 | 80,00% |
| 2. Society  | 0                          | 0               | 0,00%   | 1.185.000.000             | 118.500.000.000 | 20,00% |
|             |                            |                 |         |                           |                 |        |
| PCAR        |                            |                 |         |                           |                 |        |
| 1. Founders | 700.000.000                | 70.000.000.000  | 100,00% | 700.000.000               | 70.000.000.000  | 60,00% |
| 2. Society  | 0                          | 0               | 0,00%   | 466.666.700               | 46.666.670.000  | 40,00% |
|             |                            |                 |         |                           |                 |        |

On that table above, we can see if the Company issued the shares for public offering more than 20% so it's already comply with the regulation from PT Bursa Efek Indonesia No. Kep-00183/BEI/12-2018.

The number of shares owned by shareholders is not a Controller and not Main Shareholder after Public Offering or for Public Company in the 5 (five) Exchange Day period prior to the most filing application at least 550,000,000 (one hundred fifty million) shares and fulfills the provisions as follows:

III.3.7.1. at least 20% (twenty per hundred) of the total shares paid-up capital, for Prospective Recording Companies that have value equity before the Public Offering up to Rp 500,000,000,000. (Five hundred billion rupiah);

III.3.7.2. at least I5% (fifteen per hundred) of the total shares in paid-up capital, for Prospective Recording Companies that have value equity before a Public Offering of more than Rp 500,000,000,000, (five hundred billion rupiahs) up to Rp.2,000,000,000,000.00 (two trillion rupiahs); or

III.3.7.3. at least 10% (ten per hundred) of the total shares in paid-up capital, for Prospective Listed Company that has value equity before the Public Offering is more than IDR 2,000,000,000,000.00 (two trillion rupiahs).

In the point of investor retail view, the Indonesia Stock Exchange will specify the category of retail investors as one of the points that will be included in the regulation concerning stock rationing during an initial public offering (IPO). This formula is discussed to avoid the existence of purchases by retail investors in only one or two certain people, because they have large amounts of funds. As a result, the enthusiasm for increasing the number of retail investors has been neglected.

"We are currently reviewing the allocation of shares allotment in the IPO. The portion of fix allotment (pooling allotment) and pooling allotment (centralized allotment) are sometimes larger, while pooling is sold to small communities so that the stock price is less attractive," said Director of Rating IDX company, Samsul Hidayat in Jakarta, Tuesday (5/12) as reported by Antara.

The hope is that retail investors in the future can participate in enlivening the development of the capital market and actively investing in the Indonesian stock exchange. which is currently being formulated by the OJK, SRO and the Indonesian Securities Companies Association (APEI). Now OJK has issued the SEOJK preparation regarding the Implementation of the Initial Bid, Offer, Allotment and Distribution of Equity-Type Securities in the form of Electronic Shares, and intend to request a response to the draft circular letter to the financial service industry and the public with the deadline no later than January 15, 2019.

And about the pricing IPO shares it came from the securities companies as underwriter after negotiate with The Company who want IPO and basically underpricing is a common phenomenon at the initial public offering, but there is no theory that can explain what is the main cause, so now this phenomenon is still controversial. However, a number of explanations regarding the phenomenon of underpricing have been proposed to clarify the IPO process. Brau and Fawcett (2006) formed eight sub-groups of underpricing categorized based on the underlying premises. The premise underlying the explanation of the underpricing phenomenon is: information asymmetry (Baron 1982), information asymmetry (Rock 1986), legal protection, functions of marketing, liquidity, spinning and flipping, and premise based on behavioral theory.

This study explains the phenomenon of underpricing based on the premise of information asymmetry Benveniste and Spindt (1989), which is nothing but the development of the premise of information asymmetry Rock (1986). Benveniste and Spindt (1989) developed a theoretical model that explained the IPO underpricing and its relation to partial adjustments. The essence of this model is: underwriters should reward investors for their willingness to honestly show interest in buying shares during the book-building period. Benveniste and Spindt (1989) argue that the existence of book-building practices makes it possible for underwriters to gather information from informed investors. When the offer price range has been determined in the short prospectus (preliminary prospectus), the underwriter and the issuer continue the "road show" to market their company's shares to prospective investor. During the "road show" the underwriters estimate the strength of demand for shares, which they then mark as an indication of the interest of potential investors. If there is strong demand, the underwriter will set a higher stock bid price. If potential investors are aware of these price changes and remain willing to pay the price requested by the underwriter, then naturally the underwriters provide more attractive returns. Underwriters must offer several combinations of benefits, including a combination of allocation or rationing of IPO shares and initial stock price fixing that "invites" underpricing. In this case when the underwriter knows that stock demand tends to increase, the

bid price will be corrected up, but not at the full market value level. In this case the bid price is only partially corrected in response to the emergence of private information. Price correction at the next level is expected to form underpricing as compensation for information held by investors.

This research investigates the active role of underwriters in managing information during the initial public offering. The active role of the underwriter takes place during the book-building period in the premarket period, which in turn is considered a crucial period in determining the efficiency of the IPO. In the book-building period, the underwriters not only distributed prospectuses to heterogeneous prospective investors, but also collected information on the extent to which potential investors' buying interest in the shares offered (Benveniste and Spindt 1989). Based on this information raising, underwriters indicate that investor classes are institutional investors and individual investors, and then estimate the initial share price. This class of investor classes is deemed necessary, because large-scale institutional investors often have broad insight into market demand, prospects of listed companies and their competitors. Institutional investor interest in initial shares means a commitment to buy and maintain stock ownership for a longer period of time in the aftermarket period. Conversely, this is not indicated by individual investors. That is why institutional investors are favorite investors for underwriters.

The underwriter as the central figure in the process of selling the initial shares, of course, not only organizes various information management activities as a source of pricing strategies. The role of underwriters also includes the reputation of underwriters in the industrial world. The reputation of underwriters is also proven to have an influence on underpricing (Carter and Manaster 1990; Michaely and Shaw 1994).

High reputed underwriters are proven to have an influence on the formation of underpricing in a low value. This is very expected by the issuer, because the stock price is not considered too low at the time of the initial share sale. In the next section, this study also examines the effect of underpricing on price stabilization. In the Indonesian capital market, price stabilization after the first trading day of IPO shares in the primary market, lasts up to 30 trading days on the secondary market.

### **Conclusions**

Based on that result, authors found that PCAR has good score and KIOS has good result from the DCF calculation but each Company still have potential to develop in the future where each problem is because the company is still development.

Based on result and conclusion above . the author have a view for each companies as follows:

#### **PT Dwi Guna Laksana Tbk**

The cause of negative earnings in DWGL actually because they have bank and other financial institutions loans, so the main objective for the Company to IPO is to make a settlement for any loans in the Company and their subsidiaries. Other than that the Company has made allowance for the receivables, write off their obsolete inventory and project advances.

So authors can view why DWGL has negative earnings because they have temporary problems or in the stage has leverage problems such as too much debt to fund its operations and poor

decisions made in the past by management and the continuing costs associated with such decisions

#### **PT Indah Prakasa Santosa Tbk**

The cause of negative earnings in INPS actually because they still build infrastructure so they must fund their investment with financial institutions loans, so the main objective for the Company to IPO is 47% to had acquisition on PT Jono Gas Pejagalan who has infrastructure in trading Gas Energy and Lubricants and 45% use for additional Company working Capital. Actually, the Company has operating profit but they had big interest expense so they had a loss.

So authors can view why INPS has negative earnings because they have life cycle such as require huge investments up front for their investment after the firm has established and generated revenue, the earnings will turn positive.

#### **PT Kioson Komersial Indonesia Tbk**

The cause of negative earnings in KIOS actually because they still build infrastructure and this Company can be categorized as start-up Company, so the main objective for the Company to IPO is 78% to had acquisition on PT Narindo Solusi Komunikasi who has supply chain for voucher to the Company and 21% use for additional Company working Capital. After this acquisition, the Company had the possibility to turn negative earnings into positive earnings because the financial statements of PT Narindo Solusi Komunikasi have positive earnings.

So authors can view why KIOS has negative earnings because they have life cycle such as the Company still on the development stage as young start-up companies after the firm has established and generated revenue, the earnings will turn positive.

#### **PT Marga Abhinaya Abadi Tbk**

The cause of negative earnings in MABA actually because they still build infrastructure (Hotel and Restaurant) so they must fund their investment with financial institutions loans, so the main objective for the Company to IPO is 32% to settle their part of bank loans, 49% is used to loan to subsidiaries to development their Hotel and Restaurant and 19% use for additional Company working Capital. Actually, the Company has operating profit but they had big interest expense and depreciation so they had a loss.

So authors can view why MABA has negative earnings because they have life cycle such as require huge investments up front for their investment after the firm has established and generated revenue, the earnings will turn positive.

#### **PT Prima Cakrawala Abadi Tbk**

The cause of negative earnings in PCAR actually because they policy to target the market share because the main consumer of the Company is Exporter to the United States, so the main objective for the Company to IPO is 20% to improve and develop their facilities in the Company and their subsidiaries and the 71% going to additional Company working capital..

So authors can view why PCAR has negative earnings because they have long-term problems such as too focus as exporter or marketing policy and poor decisions made in the past by management and the continuing costs associated with such decisions.

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