Pricing of Initial Public Offerings in Malaysia: 2001-2011

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STATEMENT OF ORIGINALITY

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Khairul Anuar Vasudavan Abdullah
We deceive ourselves by the smallness of our surrenders.

*Derek Kidner*
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The objective of this research is to (i) investigate the level of underpricing of IPOs on the Main Market of Bursa Malaysia between 2001 and 2011, and to identify the trend of underpricing, if any, and (ii) to identify the factors which are related to underpricing. The research identified 15 variables which may be related to underpricing, namely Bumiputera firm, age, size, industry, placement share, gross proceeds, listed firm/entrepreneur shareholder, secondary share, offer price, investment bank reputation, auditor reputation, retained shareholding, subscription rate and stock market performance. 16 hypotheses were developed and tested using descriptive statistics and Spearman rho correlation test. This research found mean underpricing of 12.15% for the period 2001-2011. On a year-to-year basis, the mean underpricing was the highest in 2003 at 27.35%. The IPOs were overpriced in 2001 and 2008 where the mean underpricing was 5.97% and 8.95% respectively for the two years. There was no obvious trend in underpricing during the study period. This research found a positive correlation between underpricing, and placement share and subscription rate, and a negative correlation between underpricing, and secondary share and stock market performance. The subscription rate variable is a consequence of the investment decision made by the investors and only becomes known after the closing of the IPO. The stock market performance on the other hand is an external factor. Hence, only two of the variables related to the firm are correlated to underpricing. One possible explanation for the results is the role played by the regulatory authorities, specifically the Securities Commission, in approving the IPO firms for listing. Investors may have perceived the role of regulatory authorities as certifiers of the quality of the firm and once an IPO firm is approved for listing, the quality of the firm is assured. Therefore investors may be observing external factors such as the stock market performance for investment decisions. It is recommended that investment banks study the process through which investors make their IPO investment decisions and determine the information which they use to make their investment decisions. It is also recommended that the Securities Commission study the effect of firms reserving high proportion of IPO shares for placement relative to the shares reserved for retail investors, and the effect of lowering the maximum percentage of shareholdings which can be held by
major shareholders from the current 75%. One of the possible areas for future research is to explore the other external factors connected to the capital market and performance of the economy which may be related to underpricing such as interest rates, exchange rates and economic growth. Another possible area for research is the relationship between underpricing and qualitative information on the IPO firm, such as quality of directors and management, research and development activities, risk factors which affect the businesses, reliance on exports, and expansion overseas.