DOES ACCOUNTING METHOD CHOICE FOR BUSINESS COMBINATION INFLUENCE IPO VALUATION?

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ABSTRAK

Banyak kajian telah dijalankan mengenai pemilihan kaedah-kaedah perakaunan oleh syarikat yang terlibat dengan terbitan awam awalan (IPO) di mana pemilihan itu digunakan sebagai alat pelarasan pendapatan sebelum terbitan awam (Aharony et al., 1993; Friedlan, 1994; Neill et al., 1995; Black et al., 2002). Kajian ini adalah lanjutan kepada Neill et al. (1995) dengan mengkaji pemilihan kaedah-kaedah perakaunan dan juga penilaian IPO di Malaysia. Kajian lalu menggunakan polisi-polisi perakaunan yang berkaitan dengan susutnilai aset dan penilaian stok, manakala kajian ini memberi tumpuan kepada perakaunan untuk perniagaan-perniagaan disatukan. Berdasarkan sampel 62 terbitan awam awalan antara tahun 2001- 2002, ujian "multivariate" menunjukkan pemilihan kaedah perakaunan yang liberal untuk perniagaan-perniagaan disatukan mempunyai hubungan positif dengan harga tawaran dan negatif dengan harga penutup pada hari pertama diniagakan dan IPO "underpricing", selari dengan hipotesis-hipotesis. Walaubagaimanapun koefisien berkaitan dengan kaedah perakaunan adalah tidak signifikan. Kajian juga mendapati ramalan keuntungan, aset tak ketara bersih dan saiz firma mempunyai kesan positif ke atas harga tawaran awam. Harga penutup pada hari pertama diniagakan adalah dipengaruhi oleh ramalan pendapatan. IPO yang tidak melibatkan penjualan saham oleh usahawan IPO mempamerkan IPO "underpricing" yang tinggi, konsisten dengan Habib and Ljungqvist (2001). *Seperti yang dijangka, salah satu penentu penting kepada IPO "underpricing" adalah kadar lebihan langganan, di mana IPO yang mempunyai lebihan langganan yang tinggi juga memperolehi IPO "underpricing" yang tinggi.*

ABSTRACT

There are numerous studies that examined the choice of accounting methods by IPO firms as a device to manage earnings prior to going public (Aharony et al., 1993; Friedlan, 1994; Neill et al., 1995; Black et al., 2002). This study extends Neill et al. (1995) by examining the association between accounting method choice and IPO valuation in Malaysia. However, instead of using accounting policies that are related to depreciation and inventory, this study looks at accounting method for business combination namely the purchase vs. merger method. By examining 62 IPOs during 2001 and 2002, the multivariate analysis shows that, consistent with the hypotheses, the liberal accounting method for business combination is positively associated with offer price and negatively associated with first day closing price and underpricing. However, none of the coefficients associated with accounting method are statistically significant. IPO offer price is positively influenced by forecasted earnings, net tangible assets and firm size. First day closing price is significantly influenced by forecasted earnings. IPO consists of exclusively new shares issue (i.e. participation ratio by IPO entrepreneurs equals zero) yields higher underpricing, consistent with Habib and Ljungqvist (2001). As expected, another important determinant of IPO underpricing is oversubscription rate with highly oversubscribed IPO generates greater underpricing.

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TABLE OF CONTENTS

LIST OF TABLES

1. Introduction

Initial public offering (IPO) or going public is an important milestone in a company's life cycle. In a typical IPO, a part of the company's shares are sold to public investors. Following the IPO, shares in the company are quoted on a stock exchange for the first time so that investors are able to trade them. Empirical evidence around the world conclusively shows that IPO investors on average earn positive initial returns from purchasing shares at the IPO offer price and selling them at the closing price on the first day of trading. In other words, IPOs are generally underpriced relative to the subsequent market value. IPO underpricing, or positive initial return, is defined as the premium earned by IPO investors on the first day of trading being the difference between aftermarket closing price and offer price divided by offer price.

The majority of previous work on IPO focused on explaining the IPO underpricing phenomenon and identifying its determinants. IPO underpricing represents a cost to the company going public because the company receives less financing than it would have had the IPO offer price been set close to the aftermarket price. An underpriced IPO means that more money is "left on the table" for the IPO investors and relatively less is available in proceeds for the issuing company. In other words, selling shares at IPO for less than their true value results in a wealth transfer from IPO company/selling shareholders to new IPO investors. Underpriced IPOs that are sold at a discount also imply higher losses to the pre-IPO shareholders from greater ownership dilution.

There are numerous studies that examined the determinants of IPO underpricing. The latest include Certo et al. (2001), Ang and Brau (2002) and Daily et al. (2003). Certo

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