UNDERWRITER'S ATTRIBUTES AND THEIR RELATIONSHIP WITH IPO UNDERPRICING

MOHAMMED ABDULLAH EZZI AMMER

UNIVERSITI UTARA MALAYSIA

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803923

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

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ABSTRACT

Underwriting banks play a vital role in doing a successful initial public offering (IPO), which is considered as an important source of finance for Malaysian companies. This study aims to provide some evidence on the attributes of underwriters that affect the level of underpricing in IPOs in Malaysia. This evidence is on the application of IPO theories that are based on the information asymmetry between the IPO parties, issuing companies, underwriters, and investors. A total of 113 Malaysian IPOs listed from 29 June, 2006 until 24 February, 2011 were included in this study. For achieving the purpose of this study the OLS multiple regression technique was applied. In the multiple regressions, underpricing is used as the dependent variable and underwriter's reputation and spread as the independent variables while leverage, age, offer size, and company size were used as the control variables. The findings show that there is a negative significant relationship between reputation and underpricing. Also, the findings show that underwriter's spread has a positive significant association with underpricing. Besides that, the findings show the relationship between the control variables (leverage, age, offer size, and company size) and the dependent variable. One of these four control variables, leverage, has a positive significant relationship with IPO underpricing while the rest of these variables (age, offer size, and company size) have an insignificant negative relationship with IPO underpricing.

Overall, evidence in this study supports the consensus of the existing international evidence that IPO underpricing increases or decreases following underwriting banks' attributes. These findings have implications for issuing companies, investors, and security analysts.

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AGE	Company age
ASE	Athens Stock Exchange
CIC	Capital Issues Committee
I0	Set Index of KLCI on the day of offering
I1	Set Index of KLCI at the end of the first day of trading
IPO	Initial public offering
IR	Initial return
KLCI	Malaysian weighted index
KLSEB	Kuala Lumpur Stock Exchange Berhad
LEV	Leverage
MAIR	Market Adjusted Initial Return
MESDAQ	Malaysian Exchange of Securities Dealing and Quotation Berhad
MR	Market return
NASDAQ	National Association of Securities Dealers Automated Quotations
OLS	Ordinary least squares
OS	Offer size
P 1	Closing pricing (market price) at the end of the first day of trading
REPU	Reputation
SC	Securities Commission Malaysia
SEOs	Seasoned equity offerings
SES	Singapore Stock Exchange
SIZE	Company size
SIZE	Company size
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In general, initial public offerings (IPOs) are underpriced (Cheung, Ouyang, and Tan, 2009). The underpricing of IPOs is an endless global phenomenon that has been a subject of academic and practical examination for many years. Underpricing is known as the percent of difference between the price at which the IPO securities were sold to investors (the offer price) and the price at which the securities were later traded in the market (Ljungqvist, 2007). Underpricing occurs when the basic market price of newly registered equity goes beyond the issue price (Wang, 2005). IPO underpricing was initially reported by Stoll and Curley (1970), Logue (1973), Reilly (1973), and Ibbotson (1975). Short-run underpricing of IPOs has been documented by Loughran, Ritter and Rydgvis*t* (1994) in 25 countries in spite of the fact that the extent of underpricing varies. The phenomenon of IPOs underpricing have also been examined globally together in developing and developed stock markets.

In fact, Asian markets are not exempt from becoming affected by the phenomenon of underpricing (Yong, 2007). For example, IPO underpricing in China is reported to be high (Su and Fleisher, 1999). According to Dawson (1987), Yong (1991), Kim, Krinsky, and Lee (1995), and How, Jelic, Saadouni, and Verhoeven (2007), Malaysia has been documented as having extensive IPO underpricing. IPO underpricing exists and remains in

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