UNDERWRITER’S ATTRIBUTES AND THEIR RELATIONSHIP WITH
IPO UNDERPRICING

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UNDERWRITER'S ATTRIBUTES AND THEIR RELATIONSHIP WITH IPO UNDERPRICING

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By

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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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TABLE OF CONTENTS

DECLARATION i
PERMISSION TO USE ii
ABSTRACT iii
ACKNOWLEDGEMENT iv
TABLE OF CONTENTS v
LIST OF TABLES viii
LIST OF FIGURES viii
LIST OF ACRONYMS ix

CHAPTER 1: INTRODUCTION

1.1 Background of study 1
1.2 Background of the Malaysian IPO Market 4
1.3 Problem statement 7
1.4 Research questions 10
1.5 Research objectives 10
1.6 Significance of study 10
1.7 Organization of the study 11

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction 12
2.2 Theories of IPO underpricing 12
  2.2.1 The winner’s curse 13
  2.2.2 Signalling 14
  2.2.3 Book-building 14
2.3 Prior studies on IPO underpricing in general 15
  2.3.1 Underpricing of IPOs in Malaysia 15
  2.3.2 Underpricing of IPOs in several countries 18
2.4 Prior studies on the attributes of underwriters and their relationship with IPO underpricing

2.4.1 Underwriter's reputation

2.4.5 Underwriters spread

2.5 Summary

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
3.2 Research framework
3.3 Hypotheses Development
  3.3.1 Underwriter's reputation
  3.3.2 Underwriters spread
3.4 Model Specification and Analysis
3.5 Measurement of Variables
  3.5.1 Dependent variable
  3.5.2 Independent variables
  3.5.3 Controlled variables
3.6 Data collection
  3.6.1 Population
  3.6.2 Data
3.7 Summary

CHAPTER 4: ANALYSIS AND FINDINGS

4.1 Introduction
4.2 Analysis
  4.2.1 Descriptive statistics
  4.2.2 Results of correlation analysis
  4.2.3 Regression analysis
  4.2.5 Summary of the findings
4.3 Summary

CHAPTER 5: DISCUSSION AND CONCLUSION

5.1 Introduction
5.2 Overview of research process
5.3 Summary of the findings
5.4 Recommendation for future studies
5.5 Conclusion

REFERENCES

APPENDICES

Appendix 1 List of the Malaysian companies that went public during the period of the study
LIST OF TABLES

Table 2.1 Summary of IPOs underpricing in Malaysia 17
Table 2.2 Summary of IPOs underpricing around the world
Table 3.1 Independent Variables and their Expected Signs 35
Table 4.1 Descriptive Statistics 46
Table 4.2 Pearson correlation 48
Table 4.3 Model summary 49
Table 4.4 Coefficients 51
Table 4.5 Summary of the findings 42

LIST OF FIGURES

Figure 3.1 Research framework 31
# LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>Company age</td>
</tr>
<tr>
<td>ASE</td>
<td>Athens Stock Exchange</td>
</tr>
<tr>
<td>CIC</td>
<td>Capital Issues Committee</td>
</tr>
<tr>
<td>I0</td>
<td>Set Index of KLCI on the day of offering</td>
</tr>
<tr>
<td>II</td>
<td>Set Index of KLCI at the end of the first day of trading</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial public offering</td>
</tr>
<tr>
<td>IR</td>
<td>Initial return</td>
</tr>
<tr>
<td>KLCI</td>
<td>Malaysian weighted index</td>
</tr>
<tr>
<td>KLSEB</td>
<td>Kuala Lumpur Stock Exchange Berhad</td>
</tr>
<tr>
<td>LEV</td>
<td>Leverage</td>
</tr>
<tr>
<td>MAIR</td>
<td>Market Adjusted Initial Return</td>
</tr>
<tr>
<td>MESDAQ</td>
<td>Malaysian Exchange of Securities Dealing and Quotation Berhad</td>
</tr>
<tr>
<td>MR</td>
<td>Market return</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>National Association of Securities Dealers Automated Quotations</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary least squares</td>
</tr>
<tr>
<td>OS</td>
<td>Offer size</td>
</tr>
<tr>
<td>P1</td>
<td>Closing pricing (market price) at the end of the first day of trading</td>
</tr>
<tr>
<td>REPU</td>
<td>Reputation</td>
</tr>
<tr>
<td>SC</td>
<td>Securities Commission Malaysia</td>
</tr>
<tr>
<td>SEOs</td>
<td>Seasoned equity offerings</td>
</tr>
<tr>
<td>SES</td>
<td>Singapore Stock Exchange</td>
</tr>
<tr>
<td>SIZE</td>
<td>Company size</td>
</tr>
<tr>
<td>SIZE</td>
<td>Company size</td>
</tr>
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<td>UK</td>
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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 Rydqvist (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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REFERENCES


62


