THE EFFECTS OF INSTITUTIONAL OWNERSHIP, LEVERAGE AND EARNINGS PER SHARE ON OFFER PRICE: AN EMPIRICAL STUDY OF IPO IN MALAYSIA

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ABSTRAK

Kajian ini mengkaji kesan penglibatan institusi, penghutangan dan pendapatan sesaham terhadap harga tawaran pada 71 buah tawaran awam awal (TAA) di Malaysia dalam tempoh dari tahun 2011 hingga 2015. Kajian tersebut menguji hipotesis kajian dengan menggunakan kaedah regresi berganda keratan-rentas. Hasil kajian menunjukkan bahawa hubungan negatif antara penglibatan institusi dan harga tawaran IPO. Ini menunjukkan bahawa peratusan penglibatan pelabur institusi yang tinggi dalam pasaran TAA membawa risiko rendah kepada TAA, oleh itu harga tawaran yang rendah ditetapkan sejak pelabur yang kurang arif meminta pulangan awal yang tinggi daripada pelaburan, di mana menyokong Teori Sumpahan Pemenang. Selain itu, didapati bahawa pendapatan sesaham berhubungan secara positif terhadap harga tawaran TAA. Ini menunjukkan bahawa firma yang berkualiti dapat menjana keuntungan yang baik pada masa akan datang, di mana menyokong Teori Isyarat. Di sebaliknya, tiada hubungan antara penghutangan dan harga tawaran TAA daripada keputusan kajian tersebut.

Kata Kunci: Tawaran awam awal (TAA); Harga tawaran; Penglibatan institusi; Penghutangan; Pendapatan Sesaham; Teori Sumpahan Pemenang ; Teori Isyarat

ABSTRACT

This study examines the effects of institutional ownership, leverage and earnings per share on the offer price in 71 Malaysian IPOs within the periods from year 2011 to 2015. This research examines the hypotheses by employing cross-sectional multiple regression. The finding indicates that there is a negative relationship between institutional ownership and IPO offer price. This implies that high percentage of institutional investors involve into IPO markets lead to less uncertainty of IPOs, and hence low offer price is issued since uninformed investors require high initial returns from investing, which supports Rock's Winner's Curse Theory. Moreover, earnings per share is positively related to the IPO offer price. This indicates that a good quality firms able to generate favorable profits in future, in which support signaling theory. However, there is no relationship between leverage and IPO offer price is found from the results.

Keywords: IPO; Offer Price; Institutional Ownership; Leverage; Earnings per Share; Winner Curse Theory; Signaling Theory

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LISTS OF ABBREVIATIONS

ACE Market	=	Access, Certainty, Efficiency Market
β_0	=	The regression intercept
β	=	The regression coefficients of respective variables
ε	=	Error term of regression
EPS	=	Earnings Per Share
Eq	=	Equation
H_1	=	First hypothesis
H_2	=	Second hypothesis
H_3	=	Third hypothesis
IPO	=	Initial Public Offering
LEV	=	Leverage
LR	=	Lock-up Ratio
MESDAQ	=	Malaysian Exchange of Securities Dealing and Automated Quotation
OFFER	=	IPO offer size
OFFSZ	=	Supply of IPOs
P/E	=	Price-to-earnings Ratio
PRIV	=	Institutional Ownership
SC	=	Securities Commission

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The definition of initial public offering (IPO) is the sale of securities to public that performed first time to the public by going through the primary market (Brealey et al., 2008), with the aim of raising capital (Boonchuaymetta and Chuanrommanee, 2013). The firm who is private hands will be transformed as public share after being traded equity capital market (Younesi et al., 2012). According to Costa et al. (2013), IPO provides opportunity to examine a critically important issue in the liveliness of a company, whereby typically large price movements or returns are observed over a very short event window. Normally, the issuing IPOs are normally done by small and younger companies that would like to expanse their capital.

Nowadays, IPOs have become more popular investment choices for both small and large investors. Unlike debt market, especially the bond market, IPO becomes more popular investment choices for institutional investors and retail investors (Abdul-Rahim and Yahya, 2015). This is due to the expectation of the group of potential investors and their diversity in which able to prompt companies to have chances to acquire the expected amount of capital. IPOs provides opportunities for investors to obtain more profit once the shares are issued and traded publicly, in which able to enhance liquidity in order to allow firm for raising capital on the favorable term (Ritter, 1998). According to Mello and Parsons (1998), the purpose of firms going to public in which to enlarge their borrowing power by virtue of a dispersed ownership.

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