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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


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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<td>Access, Certainty, Efficiency Market</td>
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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 expand 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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REFERENCES


