Abstract

The study of initial public offering (IPO) underpricing and its post-listing under-performance has been one of those issues that are never laid to rest. The ongoing quest for the reasons behind IPO underpricing and its subsequent poor post-listing returns is what motivates this paper to study these anomalous market behaviours in an emerging market setting such as Malaysia. The primary purpose of this paper is to analyze the existence and magnitude of the underpricing phenomenon and post listing performance of IPOs listed in Bursa Malaysia from 1998 to 2008. Moreover, this study aims to provide an insight primarily into the relationship between IPO initial and long term stock performance and the four main determinants influencing underpricing, namely IPO size, market volatility, underwriter status and reciprocal of IPO price. By analyzing a sample of 313 IPOs, the average market adjusted initial return is 9.4%. The regression-based analysis indicates positive relationship between underpricing and the explanatory variables, namely IPO size, market volatility, underwriter status and reciprocal of IPO price. In addition to this, the findings of the present study lend support to the evidence of fads hypothesis as the sample IPOs was found to under-perform the market over a 36-month period after listing and the univariate regression analysis further reveals that there is a negative relationship between initial market adjusted returns and returns over the 36-month period.