

IMPACT OF INITIAL PUBLIC OFFERING PRICE SETTING MECHANISM ON ITS RETURN IN MALAYSIA

Prepared by: Chan Wei Qiang

ABSTRACT

This paper attempts to examine the initial return of initial public offerings in Malaysia content using a sample size of 96 companies that listed on either main board or second board of Kuala Lumpur Stock Exchange during 2004-2007. Total costs that issuers have to face including both direct cost as well as indirect cost are tested. In addition, comparison is made in between fixed price issues and book building issues to find out their differences in term of initial return and total cost of public listing. Then, six days cumulative average abnormal return is recorded and observed by researcher to analyze the short term aftermarket performance of IPOs. Researcher finds that IPOs in Malaysia are generally underpriced and there is no significant difference between initial return generated by fixed price compare to book built offerings. However, book building is proven to be more efficient and significantly better than fixed price issues in term of total cost. This finding also discovered that Malaysia equity market is semi-strong form when price changes rapidly in the first trading day to the estimated true value of share price regardless of the methods practiced. For that reason, investors are not possible to gain abnormal return in the aftermarket trading.