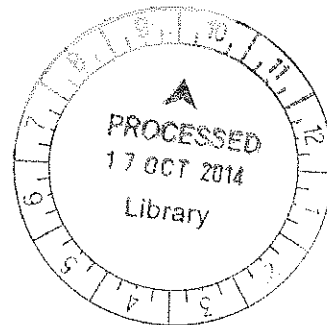


# **INTI INTERNATIONAL UNIVERSITY**

## **MASTER OF BUSINESS ADMINISTRATION**

**Study of short-term abnormal returns of Initial Public Offerings in  
ASEAN stock exchanges**



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Thank You

Chen Yao

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## ABSTRACT

In ASEAN, the optimistic estimation of the economic condition reflects the potential market of the stock exchange. Since primary market is one of the key parts of capital market that deals with Initial Public Offering (IPO), it becomes an interesting topic to develop this study regarding to the factors influence IPO Performance in ASEAN. Malaysia (BM), Thailand (SET), Indonesia (IDX), Singapore (SGX), Vietnam (HOSE) and Philippines (PSE) stock exchanges will be focused. However, Laos' stock exchange (LSX) and Cambodia stock exchange (CSX) have some limitation to provide the relevant information. The time period of this study refers to the IPO in 2013 and investigates their performances. So the objective of this research is to investigate the factors that affect IPO Performance in ASEAN. The limitation and recommendation also will be made also. Furthermore, the Multiple Linear Regression analysis will be applied as the essential analysis technique.

**Key Word: ASEAN, IPO, IPO Performance**

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**LIST OF ABBREVIATIONS**

ASEAN	Association of Southeast Asian
BM	Bursa Malaysia
CAR	Cumulative Abnormal Returns
CAPM	Capital Asset Pricing Model
CSX	Cambodia Stock Exchange
EMH	Efficient Markets Hypothesis
FFR	Free Float Ratio
GDP	Gross Domestic Product
HOSE	Ho Chi Ming Stock Exchange
IDX	Indonesia Stock Exchange
IPO	Initial Public Offerings
ISE	Istanbul Stock Exchange
LSX	Laos' Stock Exchange
MYR	Malaysian Ringgit
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Composite Index
SET	Stock Exchange of Thailand
SGX	Singapore Exchange
USD	USA Dollar



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## CHAPTER ONE: INTRODUCTION

### 1.1 Overview

In this chapter, the background of this research will be introduced clearly. The market focused on is in ASEAN stock exchanges, therefore each of the stock exchanges will be mentioned by its highlighted points especially in 2013. The study will mainly focus on the IPO market in ASEAN, and the scope of the study, problem statement and research objective will be listed below. Besides, the significance of the study will also developed related to the academic, government, investors and industries.

### 1.2 Background

ASEAN is the Association of Southeast Asian Nations. It was established on 8<sup>th</sup> August 1967 in Bangkok, Thailand. It consisted of Indonesia, Malaysia, Philippines, Singapore and Thailand. On 7<sup>th</sup> January 1984, Brunei Darussalam joined ASEAN, and Vietnam joined on 28<sup>th</sup> July 1995. On the same day, 23<sup>rd</sup> July 1997, Laos and Myanmar joined ASEAN. On 30<sup>th</sup> April 1999, Cambodia became today's 10<sup>th</sup> member of ASEAN State. The aims of grouping ASEAN are to stimulate the economic group and regional peace based on corporation and respect; to promote and maintain the close relationship between existing international and regional organizations; to higher living standards through improve communication and transportation facilities; and also to promote the studies of Southeast Asia (ASEAN, 2013).

ASEAN covers 3% of the total land area of Earth which is around 4.46 million km<sup>2</sup>. There are about 600 million people which are 8.8% of world's population. The combined nominal Gross Domestic Product (GDP) was USD 2.3 trillion in

2012 which is around 5.7% grew than the previous year. It ranked the 8<sup>th</sup> largest economy in the world. The service sector became the catalyst for the growth of the economy. To conclude, the service sector contributed the largest share of GDP in ASEAN which increased from 35% to nearly 60% (ASEAN Secretariat News, 2013). The estimation of GDP in ASEAN is going to increase to over USD 3.7 trillion in 2018. The optimistic prospect of the economy could reflect the profitability of the organizations. The better the performance of the organization, some of them are ready to go public will issue new securities and some listed companies will positively affect their stock price in the stock exchanges. Therefore, the investors will be more confident and willing to do investments in the capital market.

The primary market is one of the parts of capital market that deals with issuing new securities in the purpose of raising funds, higher reputation and become more profitable in the long run. The terminology Initial Public Offering (IPO) is used to define the companies that carry out the aim of obtaining capital from the equity market (Kaya, 2012). In a primary issue, the companies issues securities directly to investors. By selling the stocks in a public offering, the founders can diversify their holdings and reduce the risks as well. Besides that, publicly held companies can easier find potential investors at an established price. Therefore, companies with IPO will become more liquidity and better access to additional capital. Meanwhile, investors doing more investments nowadays since it could gain higher return than deposits.

In fact, the phenomenon of underpricing of IPO is ubiquitous. The terminology of IPO underpricing means pricing of the share value below its market value. It also means the stocks offered to investors have been underpriced (Kaya, 2012). Investors get a signaling that gaining high interest and the market demand will increase. It offers the chance for investors to gain positive abnormal returns.

Abnormal returns are the differences between the return on a stock or entire portfolio and the stock market index's performance (Investor Words, 2014). Therefore the market index will be considered to measure the abnormal returns. So based on previous studies, IPO provide positive abnormal returns in the short run because of its underpricing phenomenon. Meanwhile, investors doing more investments nowadays since it could gain higher return than deposits.

However, the underpricing phenomenon only exists in the short term. As time passes, more information available in the market and the stock price will be adjusted towards the fair price. Therefore, the level of asymmetric information will be adjusted downward relatively. So the abnormal returns are easier to gain in the short run and some scholars also investigated that the short term abnormal returns are exist in the primary market. In this study, the abnormal returns in ASEAN stock exchanges will be analyzed.

### **1.3 Problem Statement**

The underpricing phenomenon is one of the abnormal phenomena that could provide abnormal returns. There are lots of studies focuses on IPO performance in different countries. For example, for the short term and long term performance of IPO in Chinese market, Mao and Datar (1998) collected the number of IPO in Shanghai and Shenzhen Stock Exchanges from 1990 to 1997. They found there were about 388% underpricing of IPO. Besides, Jing (2002) investigated the Chinese market from 1996 to 1997, and the results showed that there were around 127.31% of initial returns of the new issues. Regarding to the IPO abnormal returns that computed by Cumulative Abnormal Return model, the results showed that there was about -10.89% of returns (Peng, 2008). Dimitrios (2012) evaluated the short-run and long-run performance of IPO in Cyprus stock market during the period 1999 to 2002. And the author found that initial returns

were existed. The large positive initial returns indicated that the IPO provide abnormal returns. Venkata (n.d) analyzed the Indian Financial Markets for the period of 2000 to 2010 and found that the IPO underpricing is important characteristics of IPO progress. Filsaraei (2013) investigated IPO performance in Iranian stock market during the period of 2001 to 2012. The oil and chemical industries were selected to be analyzed. The results showed that the positive abnormal returns are existed for newly issuing shares. Therefore, this underpricing phenomenon exists worldwide, and offers the chance for investors who holding IPO shares to gain abnormal returns. Therefore, the IPO in ASEAN stock market will be analyzed to prove that this phenomenon exists in ASEAN as well.

Besides, there is a lack of studies that investigate the short-term abnormal return of Initial Public Offerings in ASEAN as a whole. Therefore, it is necessary to do the investigation and compare the countries different factors that influence IPO performances during the time period of 2013.

However, Brunei, and Myanmar don't have stock exchange. Laos' stock exchange (LSX) doesn't have detail IPO information. It only shows three listed companies. And Cambodia stock exchange (CSX) doesn't have new IPO in 2013. It only showed two listed companies in 2012. Therefore, Malaysia (BM), Thailand (SET), Indonesia (IDX), Singapore (SGX), Vietnam (HOSE) and Philippines (PSE) stock exchanges will be analyzed in this research paper.

## **1.4 Stock Exchanges**

### **1.4.1 Malaysia (BM)**

Stock exchange of Malaysia was founded in 1964 that known as stock exchange

of Malaysia and Singapore. In 1973, Malaysia and Singapore stock exchange was separated into Kuala Lumpur Stock Exchange and Stock Exchange of Singapore. In 2004, Kuala Lumpur Stock Exchange was renamed Bursa Malaysia. The main purpose is to make stock exchange become more customer and market oriented, and enhance the competition and towards the global trends as well. Malaysia's capital market over tripled to MYR 2.5 trillion since 2000 and Bursa Malaysia's market capitalization are around MYR 1.6 trillion in 2013 (The Star Online, 2013). Nowadays, the stock exchange serves over 60 nations' investors and offers attractive dividend yields in Asian Pacific region (ASEAN Exchanges, 2012).

#### **1.4.2 Thailand (SET)**

The Bangkok Stock Exchange was privately held in 1962 but fail since its poor performance. And then the Stock Exchange of Thailand (SET) was established in 1975 and started officially trading. Until 2011, there are about 545 companies listed in the stock exchange, and the total assets worth USD 261.3 billion. At the end of June 2012, the market capitalization increased to USD 308 billion. In ASEAN, SET has the highest daily turnover which is nearly USD 1 billion in 2012 that significantly to become one of the top two stock exchanges within the region (ASEAN exchanges, 2012). In 2013, the daily trading value rose to USE 1.6 billion and kept the highest position in ASEAN. Furthermore, in this year, market capitalization from IPO reached to a record high of USD 10.77 billion that become the biggest IPO in ASEAN (SET news, 2013).

#### **1.4.3 Indonesia (IDX)**

Indonesia Stock Exchange (IDX) was previously known as Jakarta Stock exchange until merging Surabaya Stock Exchange in 2007. There are about 464 companies listed in the stock exchange until May 2013 and combined with a

market capitalization of USD 426.78 billion. The robust demand of Indonesian stocks recent years is due to the large increase of IPO and rights issues. It represents the strong expansion of Indonesia's economy. IDX's market capitalization rose from 1/3 of GDP in 2010 to 1/2 of GDP in 2013. However, its equity market remains small compare with other regional peers. And it aims to achieve USD 750 billion of IDX's capitalization in 2015. The sustainable growth indicates the bright future of Indonesia's capital market (Global Business Guide, 2013).

#### **1.4.4 Singapore (SGX)**

On 1<sup>st</sup> December 1999, Singapore Exchange (SGX) was founded. SGX provides the biggest Asian offshore market of equity futures market in the world. In 2012, the stock market capitalization increased by 20% to USD 760.2 billion and totally had an USD 261.4 billion turnover (Xin Hua, 2013). Furthermore, there are about 32 growth stocks in SGX listed stocks. The companies with growth stocks prefer to retain more earnings to do investments rather than payout high dividends. Therefore, growth stocks focus on consistent and higher than industry average income growth (Howie, 2013). As Asian Gateway, SGX connect investors worldwide and also have over 40% of companies listed on SGX that originating outside of Singapore (ASEAN exchanges, 2012).

#### **1.4.5 Vietnam (HOSE)**

In 2000, Ho Chi Ming City Securities Trading Center was founded in Vietnam. On 8<sup>th</sup> August 2007, it was renamed as Ho Chi Ming Stock Exchange (HOSE) and officially launched. HOSE stimulated the growth of market and ease trading such as introduces the continuous order matching and online trading in 2007 and 2009 respectively. These improvements let the market became more liquidity and the increased the participants of individual investors. Furthermore, it also led