

The Time Series Behaviour of Volume, Initial Return and Economic Condition of the Malaysian IPO Market

Fennee Chong* and Chin-Hong Puah**

This paper analyses the short-run as well as the long-run relationship of the IPO volume, initial returns and economic conditions of the Malaysian IPO market. The ARDL bounds testing approach was used to examine these variables. Empirical results showed that both initial returns and economic conditions have significant long-run relationships with IPO volume. Moreover, these two variables are also found to Granger- cause the IPO volume in the short-run.

Field: Stock markets

1.0 Background of the Study

The Malaysian Stock Market was first established as the Malaysian Stock Exchange in 1960 and continued as the Stock Exchange of Malaysia and Singapore until the setting up of the Kuala Lumpur Stock Exchange Berhad (KLSEB) and Singapore Stock Exchange (SES) in 1973. KLSEB was renamed and is currently known as Bursa Malaysia after the demutualization exercise in 2004.

Similar to other share markers worldwide, the Malaysian stock market was not left behind in the IPO trend. The number of listed companies has grown steadily from a mere 262 companies in 1973 to 1028 companies in 2007. This rapid increase in the number of new listings is attributed to a number of factors, mainly to raise financing for expansion, to reduce the cost of new funds and to reduce the level of leverage (Shamsher et al., 1994).

Pricing behavior of the IPOs across various markets worldwide is one of the most popular research areas in finance for the past four decades. Among others, the winner's curse theory introduced by Rock (1986), signaling theory as well as the lawsuit avoidance theory introduced by Ibbotson (1975) are some of the popular theories used to explain IPO initial underpricing. In addition to the abovementioned theories, researches related to how IPO dynamics and economic indicators are related to underpricing have also been documented (see Lowry and Schwert, 2002; Brailsford, 2004 and McKenzie, 2007).

* Department of Banking and Finance, Faculty of Business and Management, University Technology MARA, 94300 Kota Samarahan, Sarawak, Malaysia. Email: fenneechong@sarwak.uitm.edu.my

** Department of Economics, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia. Email: chpuah@feb.unimas.my