The Malaysian IPO Market: Volume, Initial Returns and Economic Conditions

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This paper analyses the time series behaviour 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. Furthermore, these two variables are also found to Granger-cause the IPO volume in the short-run.

Keywords: IPO volume; Initial returns; Economic conditions; ARDL

1.0 Background Of The Malaysian Stock Market

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. It was subsequently listed on the Main Board on 18 March, 2005. Bursa Malaysia comprises the Main Board, the Second Board and The Malaysian Exchange of Securities Dealing and Quotation Berhad (MESDAQ). The Main Board is the funding and investing avenue for bigger capitalized companies whilst smaller companies will seek to be listed on the Second Board. MESDAQ provides a means for high growth and technology related companies in Malaysia to raise capital. It was absorbed into Bursa Malaysia on 18 March, 2002. Kuala Lumpur Stock Exchange Composite Index (KLCI) is a capitalization weighted index and is used as indicators of the performance of the stock market as a whole.

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