

**PRICING BEHAVIOUR OF NEW LISTINGS ON BURSA MALAYSIA
DURING 1991-2000**



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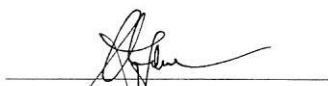
Dear Professor

**FINAL RESEARCH REPORT “PRICING BEHAVIOR OF NEW LISTINGS ON
BURSA MALAYSIA BETWEEN 1991-2000”**

With reference to the above, please find enclosed three copies of the final research report entitled, “ Pricing Behaviour of New Listings On Bursa Malaysia Between 1990-2000” undertaken by three researchers from UiTMCSKS.

Thank you.

Yours faithfully



Chong Fen Nee
Leader
Research Project

EXECUTIVE SUMMARY

The equity market is an integral part of the capital market, enabling companies to raise capital through the issuance and sale of shares and other financial derivatives. It also enhances the marketability and liquidity of these financial instruments by providing the market for their trading. The past thirty years have witnessed numerous companies worldwide raising capital from the equity market, mostly through initial public offerings.(IPOs)

IPOs may be undertaken in the form of new issues (the issuance of new shares for sale), offers for sale (the sale of previously issued shares by the owners of private companies) or a combination of new issues and offers for sale. The rapid increase in the number of IPOs worldwide are attributed to a number of factors. These included the growing awareness among private companies of the benefits of going public, the desire for larger capital bases to capitalise on opportunities, the efforts by national governments either to establish a national capital market or to enhance the efficiency and liquidity of the existing markets to enhance economic growth, the acceleration of the process of privatisation of government entities and the transition from socialist to market-oriented economies in many countries. Specific reasons for IPOs include the desire of companies to reduce the cost of new funds and to reduce the level of leverage. For the original owners of private companies, the reasons for undertaking IPOs include the desire to enhance the liquidity of their investments, realize part of the value of their investments and reduce their exposure to risk through reduction of their equity stake.

Research interest on IPOs was motivated by three commonly observed phenomena pertaining to the price performance of new listings, namely the initial or short-run under-pricing, the 'hot issue' market phenomenon and the long-run under-performance. The initial under-pricing phenomenon referred to the positive difference between the price of new listings on the first trading day with the offer price. The 'hot issue' market phenomenon relate to the observed pattern of recurring cycles in which periods of high positive initial returns were associated with increasing numbers of IPOs while periods of low positive and negative initial returns were

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CHAPTER 1

INTRODUCTION

This chapter provides an insight into the Malaysian share market especially pertaining to its development over the years as well as the attempts of the authorities to make it buoyant, active and the preferred share market in the region. It also covers the problem statement, objectives, significance, methodology and limitations of this study. Finally, the chapter touches on the organisation of this report and provide brief definitions of some of the concepts, terms and abbreviations used in the report.

1.0 BACKGROUND

Compared with the major stock exchanges like New York Stock Exchange (NYSE) and London Stock Exchange (LSE), Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) is relatively young, being established in 1973. In spite of this, according to the Emerging Stock Markets Fact Book 2000 compiled by Standard & Poor, Bursa Malaysia was amongst the top 25 performing emerging stock markets. It recorded a 43.6% change in stock index from the year before, ranked twenty fifth in terms of market capitalization (about US\$145.45 billion) and fifteenth in terms of number of domestic companies listed (498) in 1999. The Malaysian government established the Securities Commission (SC) in 1993 to regulate and develop the Malaysian capital market. Prior to this, the regulation and supervision of the Malaysian capital market were the joint responsibilities of the Registrar of Companies, the Capital Issues Committee, the Panel on Takeovers and Mergers and Bank Negara Malaysia (BNM).