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THE ACCURACY OF PROFIT FORECAST OF
INITIAL PUBLIC OFFER(IPOs) FOR THE
COMPANIES REGISTERED IN
KUCHING, SARAWAK.

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ABSTRACT

This study examines the accuracy of the profit forecast of initial public offers (IPOs) of the Sarawak-based companies up to the period 31 December, 1995. It also assesses and compares the consistency and reliability of Sarawak-based companies forecast with other studies.

There are very few studies done on the profit forecast of IPOs. Their results indicate that the forecast of IPOs varies in different exchanges of the countries for various reasons. In Malaysia, Shamsher et al (1994) and Isa et al (1995) however, found that a consistent result of profit forecast predictions are generally reliable and falls within an acceptable limit of 10%.

The finding of my study shows that the Sarawak-based companies' IPOs has a positive mean error; 4.02% more than the actual profit. Overall, the finding of this study is also consistent with the finding of Shamsher et al (1994) and Isa et al (1995), on Kuala Lumpur Stock Exchange (KLSE), in which the error falls within the acceptable limit of 10% and the profit forecast information outline in the prospectus contained valid and reliable information.

TABLE OF CONTENTS

	Pages
DECLARATION AND CERTIFICATION.....	ii
ACKNOWLEDGEMENTS.....	iii
ABSTRACT.....	iv
TABLE OF CONTENTS.....	v & vi
CHAPTER 1 :PROFIT FORECAST (FORECASTED EARNING PER SHARE - FEPS)	
1.1 INTRODUCTION.....	1
1.2 MALAYSIAN IPOs DEFINED.....	3
1.3 OBJECTIVES OF THE STUDY.....	6
1.4 RESEARCH DESIGN/METHODOLOGY	
1.4.1 SAMPLE COLLECTION SIZE	7
1.4.2 DATA COLLECTION METHOD.....	8
1.5 LIMITATION OF THE STUDY.....	9
CHAPTER 2 :LITERATURE REVIEW	
2.1 GENERAL.....	11
2.2 FORECASTING EARNINGS.....	12
2.3 DETERMINANTS OF FORECASTING ACCURACY.....	16
2.4 RESULT OF PREVIOUS IPOs STUDIES.....	17
2.5 SHARE PRICE PERFORMANCE OF IPOs.....	22

Chapter 1 PROFIT FORECAST (FORECASTED EARNINGS PER SHARE)

1.1 INTRODUCTION

In Malaysia, capital market is becoming popular to all groups of investors. The interest in this area hightened particularly during 1993 'boom' period whereby Kuala Lumpur Stock Exchange (KLSE) composite index increased from a mere four hundred plus points to about one thousand three hundred in January 1994 but, however, it stablised in the range of 850 points and 1200 points as from March 1994 till December 1995 period.

During the 'boom' period, trading on the KLSE was mainly done on a speculative basis. Most of them discarded the fundamental factors such as forecast earnings per share (FEPS) of the companies in their investment decision making. As such, oversubscription of newly equity shares has become a common phenomena in the Malaysian's capital market. The strong public support to these new equity issues is mainly due to the high expectation return predicted by the investors. Studies on profit forecast conducted by Ariff and Johnson (1990) on Stock Exchange of Singapore (SES), Firth and Smith (1992) on New Zealand Stock Exchange

Chapter 2 LITERATURE REVIEW

2.1 GENERAL

In carrying out the literature review, I discovered that most of the articles needed were not available in the ITM's library. Abstract of relevant articles could be found in the CD-ROM but its full details of the article/reports are not available. The articles/reports attached in this report were obtained from the Asian Academy Of Management Conference (1995) , KLSE Bookshops ,KL, and ITM Sarawak library itself.

During the 1960's investors become more interested in earnings rather than dividend yield measures of company performance, the most common ratios used being earnings per share (EPS) and the related price/earning ratio. This is because the EPS measurement is easily understood and also present a fair measurement for the investors in accessing the companies' prospect (Blake,1990).

According to the works of Firth and Smith (1992) , a large number of studies investigating the accuracy of profits forecast were made by companies' management and investment analysts in which most of the researchers focused on