

Thesis Title Pricing of Initial Public Offerings of Common Stock New Issues and Their Price Performance in Securities Exchange of Thailand.

Author Miss Jirawan Kitchaicharoen

M.Econ. Economics

Examining Committee :

Lecturer Dr. Songsak Sriboonchitta	Chairman
Assoc. Prof. Dr. Aree Wiboonpongse	Member
Assist. Prof. Suraporn Wisitsuwan	Member

Abstract

Initial Public Offerings of Common Stock New Issues have become a preferred method of raising capital. However, the conditions under which this method of raising capital is successful or not generally depend on the pricing of initial public offerings of common stock new issues. The pricing of initial public offerings must be appropriate, because the pricing which is too high or too low can have a negative effect on both underwriters and issuers. The model used in pricing of offerings plays an important part in pricing of initial offerings. Hence, this study has two objectives: (1) To study the model used by underwriters to determine the price of initial public offerings of common stock new issues, and (2) To study the price performance of common stock new issues after trading in the Securities Exchange of Thailand and evaluate pricing

The study of pricing of initial public offerings of common stock new issues is a study of the models used to determine the prices of 30 common stock new issues which were chosen as a sample for this study and which were offered in the Securities Exchange of Thailand during the years of 1993 to 1995. The data used in this study was primarily gathered from interviews with underwriting companies. The results of this part of the study found that the model most used to determine the initial offering price was the P/E ratio model. 66.67 percent of the sample common stocks analyzed used this model. The P/E ratio model is a model which is easy to use and to understand. So it is preferred by companies offering common stock new issues, which measure company achievement using annual net profits and which have been in operation for a period of time before issuing common stocks for trade in the stock market. This model is preferred for use with stocks in the finance and securities and commerce sectors. The second most used model was the Discounted Cash Flow (DCF) model which was used by 40 percent of the sample common stocks analyzed in this study. This model is primarily used for companies who have

received concessions or whose future cash flow can be predicted. This model is preferred to use with stocks in the communication and energy sectors. The Book Building method, a method by which a range of prices is used to test market demand, was used by 20 percent of the stocks sampled. Generally, this method was used for the size of offering values larger than one billion baht, because of the large costs involved in using this method. The next method was the Net Asset Values (NAV) model. It was used by 16.67 percent of all samples analyzed. The NAV model is appropriate for analyzing companies with high values and volatile profit returns, which are, for example, the stocks in the property sector. The Dividend Discount Model (DDM) was used for only one stock sampled. And none of the stocks sampled used the book value method to determine the pricing. However, all stocks sampled had higher initial values than those that derived from the book value method.

In addition to these models, the pricing of initial public offerings of common stock new issues must also consider other factors as well. Examples of other factors are the quality of the issuers, stock market conditions, investor demand, and experience and judgment of underwriters.

The study of the price performance of common stock new issues was conducted by analyzing the average excess return rates of common stock new issues after trading in the stock market. The result of the study showed that the average excess return rates were highest in the first day of trading and were equal to 45.67, 47.11 and 46.86 percent per month which were derived from the market adjust excess return, two parameter, and aggregated RATS models respectively. However, the study results from the sample of 30 stocks were not significant at the 0.01 level. But, when six of the common stock new issues, which came under heavy profit speculation, were removed from the analysis, it was found that the remaining 24 stocks had the highest average excess return rates on the third day of trading at values equal to 13.37, 13.70 and 14.92 percent per month and were significant at the 0.01 level by using market adjust excess return, two parameter, and aggregated RATS models respectively. The average excess return rates for both tests of the samples of 30 and 24 stocks gradually decreased and had the lowest value in the ninth month of trading. The average excess return rates from all three models were congruent, that is they all had positive values for the entire time period being studied. This shows that for the most part the common stock new issue price determinations were lower than the market values or were underpriced.

From the study results it is suggested the securities and exchange commission should enact regulations that force underwriters to show the methods by which they determine the prices for initial public offerings in prospectuses for common stock new issues in order that small investors can learn origin of the initial public offering price and have good decision to invest on common stock new issues in the initial market.