

ABSTRACT

The limited number of IPOs in Thailand is not in line with the favorable economic indicators. The primary concern is how to increase IPO activity. Underpricing is a key success of IPO. It is the mutual target of the three key participants: issuers, investors, and underwriters. The number of companies going public is higher when IPOs are underpriced.

This research aims to explore the determinants of the initial return of IPO in Thailand. The relationship between the initial returns of IPO and the major elements derived during and after the IPO process until the first trading day is examined. Six major elements are underwriter reputation, ownership concentration, book-building, IPO allocation to institutional investors, the length of the lock up period, and investor interest. The data comprise almost the whole population of 152 IPO companies listed on the Stock Exchange of Thailand (SET) between 2001 and 2011. Two cross-sectional regression models are employed. The first model is used to examine the relationship between the six key factors and the initial returns of IPO. The second model is standardized in order to compare the individual impact of the six major factors on the initial returns.

It is found that only three major elements: ownership concentration, IPO allocation to institutional investors, and investor interest are the key determinants of the initial returns in Thailand. IPO allocation appears to be the strongest factor explaining the level of underpricing. The results indicate that there is a significant and negative relationship between ownership concentration and the initial return of IPOs. The lower the ownership concentration after the IPO leads to greater underpricing. A significant and negative relationship between IPO allocation to institutional investors and the initial return of IPOs is found, meaning that the more shares are allocated to retail investors, the higher the underpricing. The number of newspaper citations is strong enough to enhance the significant and negative relationship between investor interest and the initial return of IPO. IPOs with a higher degree of investor interest, representing more public information, experience lower underpricing than those with a low degree of investor interest. For the three remaining elements: underwriter

reputation, book building, and the length of the lock up period, there is no significant relationship between these three elements and the level of underpricing.

Investors should consider IPO companies that have low ownership retention after the IPO. The majority of IPO shares should be allocated to retail investors. Investors should be cautious when absorbing IPO information from the newspaper. Issuers should reduce their ownership interest in the companies after IPO because lower ownership retention can increase the initial return of IPO. They should use underwriters who have good relations with retail investors. They should use media such as newspapers for investor relations purposes only. Underwriters should consider the share allocation as the most important factor for a successful IPO. They should use discretion for share allocation to the retail investors. They should convince issuers to disperse larger portions of their ownership to the public and do not have to spend more money conducting book building since the size of offering in Thailand is relatively small. To improve the average size of offerings, regulators should encourage the company owners to disperse larger portions of their ownership to the public. The merits of privatization should be reiterated to encourage more state-owned enterprise to go public. With those recommendations, there will be more successful IPOs in the market and the numbers of companies going public will be higher.