

THE IMPACT OF UNDERWRITER ON IPO PRICING: EVIDENCE
FROM PAKISTAN.



KHURRAM MEHFOOZ AHMED

01-229191-003

A thesis submitted in fulfillment of the
requirements for the award of the degree of
Master of Philosophy (Management Sciences)

Department of Management Sciences

BAHRIA UNIVERSITY ISLAMABAD

April 2021

ABSTRACT

The present study has conducted to analyze the impact of underwriter reputation on IPO Underpricing in Pakistan, does the underwriter reputation has any impact on it or not. for this purpose, we have taken all the IPOs issued in year 2000-2019, the total number of IPOs issued in the time period under consideration is 115 whereas after scrutiny the data has been reduced to 88 IPOs. These were further divided into two categories of Financial and non-financial firms, as these have different financial, operating and risk characteristics (Boubaker et al., 2018). The number of the Non- Financial firm IPOs in the final data have come to 59 and Financial firm IPOs is 29. Statistical analysis techniques of Descriptive analysis, Correlation Analysis and Regression analysis were used. It is found that underwriter reputation has a positive and significant impact on IPO underpricing in both Financial and Non-Financial firms. The data used in present study is one developing economy of Pakistan, one can investigate validity of used models in cross country analysis in future. This study will guide all the company executives seeking financing via IPO to understand the factors affecting the process and issue successful IPOs.

Keywords:

Underwriter reputation, IPO underpricing, Information asymmetry, Financial firms, Non-Financial firms.

Table of Contents

| | |
|---|-------------------------------------|
| Chapter 1..... | 1 |
| 1. Introduction | 1 |
| 1.1. Background | 1 |
| 1.2. Overview of Pakistani Market..... | 3 |
| 1.3. Problem identification | 4 |
| 1.4. Research Gap: | 5 |
| 1.5. Problem Statement:..... | 5 |
| 1.6. Research Questions:..... | 5 |
| 1.7. Research Objectives:..... | 6 |
| 1.8. Research significance / Contribution: | 6 |
| 1.9. Organization of Study..... | 7 |
| Chapter 2..... | Error! Bookmark not defined. |
| 2. Literature Review: | Error! Bookmark not defined. |
| 2.1. Underwriter Reputation:..... | Error! Bookmark not defined. |
| 2.2. IPO underpricing: | Error! Bookmark not defined. |
| 2.3. Underwriter Reputation and IPO underpricing: | Error! Bookmark not defined. |
| 2.4. Certification Theory: | Error! Bookmark not defined. |
| 2.5. Expected Signs:..... | Error! Bookmark not defined. |
| 2.6. Hypothesis:..... | Error! Bookmark not defined. |
| Chapter 3..... | Error! Bookmark not defined. |
| 3. Methodology..... | Error! Bookmark not defined. |
| 3.1. Research Design | Error! Bookmark not defined. |
| 3.2. Variable Operationalization: | Error! Bookmark not defined. |
| 3.2.1. IPO Underpricing:..... | Error! Bookmark not defined. |
| 3.2.2. Underwriter Reputation:..... | Error! Bookmark not defined. |
| 3.3. Control Variables:..... | Error! Bookmark not defined. |
| 3.3.1. Firm Age: | Error! Bookmark not defined. |
| 3.3.2. Issue Size: | Error! Bookmark not defined. |
| 3.3.3. Total Assets: | Error! Bookmark not defined. |
| 3.4. Regression Model:..... | Error! Bookmark not defined. |
| 3.5. Population and Sample: | Error! Bookmark not defined. |
| 3.6. Sources of Data: | Error! Bookmark not defined. |

| | |
|--|-------------------------------------|
| 3.7. Analysis Technique:..... | Error! Bookmark not defined. |
| Chapter 4..... | Error! Bookmark not defined. |
| 4. DISCUSSION AND ANALYSIS | Error! Bookmark not defined. |
| 4.1. Descriptive Analysis..... | Error! Bookmark not defined. |
| 4.1.1. Descriptive of Non-Financial Companies | Error! Bookmark not defined. |
| 4.1.2. Descriptive of Financial Companies: | Error! Bookmark not defined. |
| 4.1.3. Descriptive of total companies | Error! Bookmark not defined. |
| 4.2. Correlation Analysis: | Error! Bookmark not defined. |
| 4.2.1. Correlation of Non-Financial Companies: | Error! Bookmark not defined. |
| 4.2.2. Correlation of Financial Companies: | Error! Bookmark not defined. |
| 4.2.3. Correlation of Total Companies: | Error! Bookmark not defined. |
| 4.3. Regression Analysis | Error! Bookmark not defined. |
| 4.3.1. Regression of Non-Financial Companies..... | Error! Bookmark not defined. |
| 4.3.2. Regression of Financial Companies:..... | Error! Bookmark not defined. |
| 4.3.3. Regression of total companies:..... | Error! Bookmark not defined. |
| Chapter 5..... | Error! Bookmark not defined. |
| 5. CONCLUSION AND RECOMMENDATIONS..... | Error! Bookmark not defined. |
| 5.1. Conclusion:..... | Error! Bookmark not defined. |
| 5.2. Recommendation of Study: | Error! Bookmark not defined. |
| 5.3. Limitations of Study: | Error! Bookmark not defined. |
| 5.4. Future Directions: | Error! Bookmark not defined. |
| References..... | Error! Bookmark not defined. |
| Appendix: | Error! Bookmark not defined. |

List of Tables

| | |
|---|-------------------------------------|
| Table 4-1: Descriptive Stats of Financial Companies... | Error! Bookmark not defined. |
| Table 4-2: Descriptive of Financial Companies | Error! Bookmark not defined. |
| Table 4-3: Descriptive stats of total Companies..... | Error! Bookmark not defined. |
| Table 4-4: Correlation of Non-Financial Companies ... | Error! Bookmark not defined. |
| Table 4-5: Correlation of Financial Companies..... | Error! Bookmark not defined. |
| Table 4-6: Correlation of Total Companies | Error! Bookmark not defined. |
| Table 4-7: Regression of Non-Financial Companies | Error! Bookmark not defined. |
| Table 4-8: Regression of Financial Companies..... | Error! Bookmark not defined. |
| Table 4-9: Regression of Total Companies..... | Error! Bookmark not defined. |