UNIVERSITI PUTRA MALAYSIA

UNDERPRICING OF NEW ISSUES LISTED ON THE SECOND BOARD OF THE KUALA LUMPUR STOCK EXCHANGE DURING 1989 TO 1994

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ABSTRACT

This paper studies the underpricing of Initial Public Offerings ("IPOs") listed on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE") during 1989 to 1994. The results show that the average return, based on the difference between the first day closing price and the offer price, is approximately 65%. However, the returns after the first day up-to the first month of listing normally decline, eventhough there are not significantly difference from the returns received on the first day of listing. During the third month of listing, the underpricing becomes larger and this continues up-to the third year, where the average underpricing is 251%. It is clear from this study that the new issues are mostly underpriced.

In this study, the relationships between level of underpricing and other variables like underwriters and auditors involved in the IPOs, the size of public issues and the nature of business of the listing company are also studied.

CHAPTER 1

1.0 INTRODUCTION

Initial Public Offering ("IPO") is defined as the first sale of common stocks by a company to the public. It is a method used by company to get listed on the Kuala Lumpur Stock Exchange ("KLSE") through issuance of shares. As at the end of June, 1997, the KLSE had a total of 657 companies of which 431 (66%) are listed on the Main Board and 226 (34%) are listed on the Second Board with a total market capitalisation of RM755.6 billion. [1]

The Second Board was officially introduced on November 11, 1988. This Board is catered for small-and-medium-sized companies to tap the capital market and grow. The first company, Lim Kim Hai Holdings Berhad, got on the Board in May, 1989. Since then until 1994, there were a total of 131 companies listed on the Second Board. However, during the same period, six companies, i.e. Lim Kim Hai Holdings Berhad, Tiong Nam Transport Holdings Berhad, KYM Holdings Berhad (formerly known as Polypulp Paper Industries Berhad), Corrugated Carton Products Berhad, Mancon Berhad and Actacorp Holdings Berhad, included in this study have been transferred to the Main Board. A complete list of all the 131 companies listed on the Second Board is as given in ***Appendix 1***.

Some of the characteristics of the companies in the Second Board are described in ***Table 1***.

[1] "Not Just About Obeying The Law," *The Edge Communications Sdn. Bhd., August 25, 1997*.

Table 1 (a) Listing By Industry

YEAR	INDUSTRIAL	CONSUMER	TRADING/ SERVICES	CONSTRUCTION	FINANCE	TOTAL
1989	2	-	-	-	-	**2**
1990	9	-	1	2	-	**12**
1991	11	1	3	3	-	**18**
1992	9	5	4	1	1	**20**
1993	11	8	8	4	1	**32**
1994	20	12	8	7	-	**47**
TOTAL	**62**	**26**	**24**	**17**	**2**	**131**

Table 1 (b) Average Offered Price, 1^{ST} Year Average Underpricing, Average Paid-Up Capital and Average Number of Shares Offered

YEAR	AVERAGE OFFERED PRICE (RM)	1^{ST} YEAR AVERAGE UNDERPRICING (%)	AVERAGE PAID-UP CAPITAL ('Mil)	AVERAGE NUMBER OF SHARES OFFERED ('Mil.)
1989	1.25	97	17.073	6.068
1990	1.81	78	16.480	5.674
1991	1.89	34	16.640	5.635
1992	2.31	105	17.603	4.558
1993	2.52	144	17.980	4.290
1994	2.73	117	18.356	4.557
AVERAGE	**2.09**	**96**	**17.355**	**5.130**

The KLSE practise the "Open Market" system. In the open market system, the Securities Commission ("SC") cannot stop an investor from speculating or investing for short-term profits. However, the SC has espoused that investors should understand the risks involved when they make a speculative investment decision. [2] This is particularly true for companies listed on the Second Board. The rationale that "encourages" the speculation on the Second Board is based on the economics of supply and demand. The small number of shares issued per company and the small capitalisation make it easy for large investors to manipulate the stocks.

[2] "How An IPO Is Priced," *The New Straits Times Press (Malaysia) Berhad, April 16, 1997.*

However, another important issue that always link to companies listed on the Second Board is the underpricing of new issues. Underpricing is simply defined as the difference between the offered and the listed price. Investors who buy the new issues get a bargain at the expense of the company's original shareholders. Therefore, it is not surprised that a successful application for shares in an IPO is a sure bet for quick profits, which is why IPOs are often heavily oversubscribed. In Malaysia, the average over-subscription rate of IPOs is 80 times. One of the big puzzles remained in our capital market is the question of "Why is the typical IPO substantially underpriced?" In 1996, an investor was literally assured of an average 100% gain over the offer price of the Main Board IPOs and an average of 200% for the Second Board.

For investors, they buy the new issues because they believe the new issues are underpriced (Rock, 1986). This means the public perceives the purchase to be a short term investment which guarantees big profits with low or minimum risk (Tinic, 1988). With this kind of belief, it is not surprising that every time when there is a new issue, the shares are overwhelmingly oversubscribed. The underpricing of new issues is a universal phenomena, as it is also observed in countries like the United States ("US") and the United Kingdom ("UK"). Studies of IPO pricing in many countries consistently show that investors who purchased shares at the offer price have earned abnormal returns. These abnormal returns could be as high as 5 times of normal returns in developing markets as compared to 1.5 times registered in developed countries. Therefore, chasing after new issues is considered as a prudent investment behaviour in most markets.

2.0 OBJECTIVE OF THIS RESEARCH

The objective of this research is to examine the underpricing of new issues listed on the Second Board. Investors are well-aware that prices of IPOs increase substantially on their first day of going public, especially in healthy economic times. This is an underpricing of the original issue. This research attempts to ascertain the underpricing of 131 new issues listed on the Second Board during the period of 1989 to 1994 and observe the short-term and long-term gains to investors.

This study looks at the level of underpricing on the first day of trading compared to the offer price, excess underpricing after the first day of trading and also attempts to find out the reasons for the initial high level of underpricing of these new issues. Besides the prevailing market conditions at the time of issuing play a significant role in the performance of new issues, other factors such as the size of issues, the percentage of secondary issues and the nature of the business of the listing company are also considered important determinants in the level of underpricing.

In the process of listing, the service of underwriters and auditors is mandatorily required. The level of underpricing of IPOs has been suggested to be related to the type of underwriters and auditors employed, that is the more reputable the underwriters and auditors are, the less the uncertainty, and therefore, less premium on the offer price. This research also tries to ascertain this conjecture on the Second Board's IPOs.

CHAPTER 2

1.0 LITERATURE REVIEW

The empirical evidence accumulated during the recent years for almost every capital market in the world concludes that IPOs provide significant abnormal returns on their first day of listing. While there is considerable debate concerning the underlying rationale for such returns, the literature is almost unanimous on the evidence of deliberate underpricing to compensate for uncertainty.

Studies pertaining to new issues conducted in the US and the UK support this view. Reilly and Hatfield's (1969) report of underpricing of IPOs in the US has been followed by reports of underpricing in several developed and developing stock market. [3] Underpricing of new issues not only occurs in the developed capital markets, but also in emerging capital markets like Malaysia. The only difference is the degree of underpricing between IPOs in developed countries which show lower level of underpricing. Several studies on the new issues in Malaysia report substantial underpricing. However, the shortfall of these studies is that they were conducted based on specific samples for different periods.

[3] Davis and Yeomans (1976) for the UK, Finn and Higham (1983) for Australia, Dawson (1984) for Singapore and Wong Chiang (1986) for Malaysian markets.

Yong's (1989) study entitled Behaviour of New Issues in Malaysia concluded that the returns for new issues in Malaysia from 1983 to 1988, based on the difference between the first day closing price and the offer price, were approximately 167%. This study also indicated that Malaysian new issues were mostly underpriced and over-subscribed. This study also recommended that the authorities concerned in dealing with the new issues should not hesitate to increase the offer price to a more "acceptable" level without the fear of under-subscription.

Dawson (1987) compared the performance of new issues in markets of Hong Kong, Singapore and Malaysia for a period from 1978 to 1983. The study found positive initial returns on these three markets with the Malaysian market being the highest with an average of 167%. However, subsequent positive returns were no longer available on the Hong Kong and Singapore markets on the secondary market. With the Malaysian stocks, the price changes were still positive and kept increasing eventhough at a smaller rate compared to the initial pricing.

Ariff and Chung (1995) in their study of IPOs in Australia, Malaysia, Singapore, the UK and the US revealed the extent of underpricing in these five markets. The average underpricing for Australia was 29%, for Malaysia was 104%, for Singapore was 37%, for the UK was 9% and for the US was 19%. Therefore, from these five-country samples, the average underpricing of new issues in the three developed countries, i.e. Australia, the UK and the US, could be estimated to be 19% relative to the average of 70%, which was very high in the two emerging markets. It also appeared that the level of underpricing in these two emerging markets was about three-and-a-half times that in the developed capital markets.

Yuen (1995) in his study for new issued A shares (these shares could only be traded by Chinese nationals with yuan in mainland markets) listed on the Shanghai Stock Exchange for a period of five years found that these new issues were underpriced as high as 400%. These included an average underpriced of 306% in 1994 and an average of 400% for new issues listed between 1990 and 1993. This incorrectly valued new issues have misled the public and fuelled speculation as investors tended to underestimate the risk associated to the IPOs. In this study also, it was found that IPOs in Hong Kong were underpriced by an average of 25% between 1988 and 1992. These figures were adjusted to 19% after accounting for normal market change.

A very large percentage of shares outstanding were also found to have changed hands on the first few after-market days and buyers would be able to make a lucrative amount with the large discrepancy between IPOs and the actual market price.

Brennan and Franks (1996) found that IPOs in the UK were often deliberately underpriced as a means of the founding directors retaining control of their floatation. This study also concluded that the greater the underpricing, the smaller the size of shares held after an IPO by outside shareholders. By underpricing, the offer became more attractive, the rationing of shares become more acute and the lower the likelihood of outsiders purchasing stakes which might give leverage over control of the company.

Menon and Williams (1990) in their study of Auditor Credibility and Initial Public Offerings concluded that there was an important attribute of auditor credibility that brought to an audit management. It was contended that information asymmetry problem also led to a demand for credible auditors in companies going public. Companies have incentives to provide favourable future earnings by employing reputable auditors. The limited information available on companies going public could be overcome by employing credible auditors which could convey monitoring cost advantage as well. Investment bankers also have a preference for credible auditors since they rely on audited financial statements in certifying the value of the company and determining whether to underwrite the offering.

CHAPTER 3

1.0 RESEARCH DATA AND METHODOLOGY

A sample of 131 companies were selected for the period 1989 to 1994. Public records in various issues of Malaysian Business, Investors Digest, publications available through Internet, Daily Report of the KLSE, annual reports of the SC and the KLSE were assessed to obtain values for the variables. In addition, resource centres of KLSE and MIDF Consultancy were also utilised.

To analyse share price movements subsequent to listing of each new issue, the offer price and prices on the first day, first week, first-, third-, sixth-month of trading and so on until the thirty-sixth month of trading were extracted. Next, for each new issue, the rate of underpricing over (a) a shorter time period of less than 12 months and (b) a long time period over the next three years were estimated. This would help to distinguish short and longer term price changes. The formula used is as shown below:-

Underpricing on the first day of listing, $r_i = [(P_i - P_{offer}) / P_{offer}] * 100\%$

where r_i is the return for period i,
P_i is the closing price for time i

and P_{offer} is the offer price

CHAPTER 4

1.0 COMPARATIVE FINDINGS AND DISCUSSION

1.1 Short And Long-Run Performance Of New Issues

There is a common perception that IPOs are underpriced, not only in Malaysia but even in more devolved markets such as the US. Underpricing of IPOs naturally provides opportunities for investors to generate wealth. For investment bankers, underpricing is a way of ensuring good respond to an issue. Overpricing the issue might turn the investors away and result in the failure of the issue. However, underpricing is a double-edged weapon, because if a company underprices its issue too much, it is losing out on the opportunity to raise funds at cheaper rates. The premium pricing in a free market is a delicate balancing act for both new issuers and their investment bankers.

In 1994, the average underpricing of new issues listed on Second Board during the first day of listing was 93%. However, for the entire sample under study (1989 to 1994), the figure was 65%. The measure of underpricing and exuberance of the markets in 1994 can be seen from the level of underpricing of these issues. Nineteen companies generated about 100 to 228% of underpricing out of a total of 47 companies listed in that year. Some market sources attribute the big underpricing to a general bull market in financial stocks, but others acknowledge that such a huge first-day increase in share prices could also mean initial valuations were not set properly to begin with.

(a) Short-Run Performance

The extent of underpricing over the first six months upon listing is as summarised in *Table 1 (a)*

Table 1 (a) Short-Run Underpricing

PARTICULAR	FIRST DAY	FIRST WEEK	FIRST MONTH	THIRD MONTH	SIXTH MONTH	AVERAGE
1989	72%	84%	28%	85%	92%	72%
1990	59%	53%	45%	54%	63%	55%
1991	40%	40%	36%	39%	22%	36%
1992	42%	38%	43%	46%	61%	46%
1993	84%	80%	97%	128%	208%	119%
1994	93%	88%	81%	92%	95%	90%
AVERAGE	**65%**	**64%**	**55%**	**74%**	**90%**	**70%**

A look at all the 131 companies listed on the Second Board show that the first day average underpricing is 65%. However, there is a slight downward pressure in the first-week and month, but the premiums recovered higher than first-day level over the three and six months. The lowest underpricing among the companies during their first day of listing was -8.4% (Trenergy (Malaysia) Berhad) and the highest was 228% (EPE Power Corporation Berhad). There were two new issues marketed below the offer price, i.e. Trenergy (Malaysia) Berhad and Seng Hup Electrical Company Berhad.

Companies are conservative and therefore do not set higher offer price for the fear that the results cannot match expectations later. Investment bankers tend to advise companies to price their offers "cheaply" because that would guarantee a sell-out and yield positive returns. A high price would mean dull trading on the first day. For instance, MTD Capital Berhad (listed in 1994) which had the highest offer price rose only 50% above its issue price of RM6.60 on debut compares to the average of 65% for all the companies listed on the Second Board during the period of study. This is also much lower than 1994's average underpricing of 93%.

Underpricing allows the new issues to do well during the first day of listing, thereby helping the issue to maintain a good image. Underpricing also leads to expectations among speculators that new shares are sure winners by holding the stocks in the short-run only. The loosers of new issues due to underpricing are the original owners, those who decided to sell their private holdings to the public, it is an opportunity cost for them. On the other hand, the winners (in most cases) are the investors who bought the new issues at the IPO price. Let's take Lim Kim Hai Holdings Berhad as an illustration. The company's share was offered at RM1.50 per share and closed at RM1.91 on its first day of trading. This provides a 27% return on its first day of listing.

(b) Long-Run Performance

Table 1 (b) Long-Run Underpricing

PARTICULAR	FIRST YEAR	SECOND YEAR	THIRD YEAR	AVERAGE
1989	97%	133%	116%	115%
1990	78%	93%	219%	130%
1991	34%	235%	218%	162%
1992	105%	168%	143%	139%
1993	144%	130%	442%	239%
1994	117%	344%	367%	276%
AVERAGE	**96%**	**184%**	**251%**	**177%**

In the long-run, most shares are able to hold the prices at such levels long after their debut, suggesting the enormous price gains are due to serious underpricing of new issues rather than speculation. Even though underpricing is common in emerging markets, however, the scale seen in Malaysian issues is phenomenal. This can be seen from the level of underpricing in 1994, which is 276%, as compared to previous year's 239%.

(c) Listing By Industry

This research also attempts to look at the level of underpricing for companies listed in different industries.

Table 1 (c) Short-Run Underpricing By Industry

PARTICULAR	FIRST DAY	FIRST WEEK	FIRST MONTH	THIRD MONTH	SIXTH MONTH	AVERAGE
INDUSTRIAL	67%	62%	57%	78%	106%	74%
CONSUMER	75%	66%	62%	68%	76%	69%
TRADING/ SERVICES	78%	73%	81%	92%	128%	90%
CONSTRUCTION	80%	89%	105%	116%	122%	102%
FINANCE	74%	76%	66%	53%	12%	56%
AVERAGE	**75%**	**73%**	**74%**	**81%**	**89%**	**78%**

For the last nine years, the economy of Malaysia has been enjoying an average annual growth in GDP of 8%. Mainly due to this factor, companies listed under the construction sector enjoying an average of 102% underpricing during the first six-month of listing as compared to Second Board's industry average of 78%. In the short-run, construction sector's companies out-performed companies of other sectors.

Table 1 (d) Long-Run Underpricing By Industry

PARTICULAR	FIRST YEAR	SECOND YEAR	THIRD YEAR	AVERAGE
INDUSTRIAL	107%	210%	206%	174%
CONSUMER	93%	214%	302%	203%
TRADING/ SERVICES	125%	256%	536%	306%
CONSTRUCTION	98%	256%	334%	229%
FINANCE	122%	104%	175%	134%
AVERAGE	**109%**	**208%**	**311%**	**209%**

In the long run, trading/services sector out-performed construction and other sectors with an average underpricing of 125% for the first-year, 256% for the second-year and 536% for the third-year. However, the level of underpricing for construction sector remains high at second spot with an average underpricing of 98% for the first-year, 256% for the second-year and 334% for the third-year.

Five out of the top ten performers (measured by the level of underpricing) are dominated by industrial products related companies, while three from trading/services sector and the remaining two from companies related to construction. However, the bottom ten under-achievers are companies from all the five sectors except finance.

1.2 Underwriters

Almost all companies go public primarily because they need money for investments. All other reasons are of secondary importance. Once public, companies can easily go back to the market to raise more cash. Public companies tend to have higher profile than private companies. This is important in industries where success requires customers and suppliers to make long term commitments. Credible experts like underwriters (in this research, underwriter is referred to investment banker and are used interchangeably) and auditors are necessary to ensure investors that their money is well-invested. In addition, the advise of credible neutral advisors need to be sought to evaluate the company. [4]

Rock (1986) proposed that the issuing companies and investors are uncertain about the value of the new issues, therefore, the shares must be offered at the discount to guarantee purchase by the uninformed investors. Therefore, one of the biggest challenges that facing the underwriter for a new issue is setting the offer price when there is no price history for the company. There are potential costs from over or underpricing. [5] If the underwriter sets the offer price too high, then the underwriters risk an under-subscription. On the other hand, if the underwriter sets the offer price too low, the existing shareholders of the company, i.e. the owners prior to the IPO, will suffer an opportunity loss.

In order to reduce the risk of under-subscription of new issues, the underwriter has greater incentive to reduce the offer price. This is particularly true in emerging

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[4] Welch, Ivo *"IPO - The Initial Public Offerings Resource Page,"* The Anderson School of Management at UCLA, May, 1997.
[5] Lewis, Craig "Issuing Securities and Capital Structure," Owen Graduate School of Management, Vanderbilt University, 1995.

markets like Malaysia where market conditions do change substantially between the time a price is determined and the actual time of approval.

However, the other side of the argument is that, share pricing is largely a function of investor demand, which helps to push up or down the prices. [6] The role of the underwriter is to place part of the company's shares, where it is also not the underwriter's interest of floating the company at a price that is not sustainable. On the other hand, it is also common for underwriter to price the new issues at a discount to either the issuing company's nearest listed competitors, or to the sector, or to the market. The rationale of this is being to give investors the incentives to subscribe for the new issues. Competitive pricing should also stimulate demand in the after market when the shares begin trading.

The empirical evidence on whether IPOs tend to be overpriced or underpriced strongly supports the contention that the offer price on IPOs is too low. In Malaysia, for instance, across all new issues listed on the Second Board during the period of 1989 to 1994, the average underpricing was 65% (during their first day of listing). Therefore, the underwriters involve in the new issues have the huge responsibility to ensure that the offer price of IPO should really reflect the true value of the companies.

[6] *"The Sombre And Sensitive Of Pricing,"* The Financial Times Limited, November 9, 1994.

In Malaysia, new issues are subjected to public scrutiny by the investment bankers (any one or more of the merchant banks available in the country), the SC (Capital Issues Committee prior to March, 1992), the Registrar of Companies and KLSE. [7] Merchant banks that are acting as the underwriters for the new issues are categorised using two-tier system. Presently, there are twelve merchant banks in the country, of which five, namely (i) Aseambankers Malaysia Berhad, (ii) Commerce International Merchant Bankers Berhad, (iii) Arab-Malaysian Merchant Bank Berhad, (iv) RHB Sakura Merchant Bankers Berhad and (v) Perwira Affin Merchant Bank Berhad are grouped under Tier-1 and others are considered as Tier-2. The involvement of these underwriters in IPOs is summarised in ***Table 2 (a)***.

Table 2 (a) Underwriters Involved In IPOs

TYPE	'89	%	'90	%	'91	%	'92	%	'93	%	'94	%	TOTAL	%
Tier-1	2	100	5	42	10	56	11	55	17	53	34	72	79	60
Tier-2	0	0	7	52	8	44	9	45	15	47	13	28	52	40
TOTAL	2	100	12	100	18	100	20	100	32	100	47	100	131	100

There is no obvious sign showing the popularity for companies listed on the Second Board to engage Tier-1 merchant banks as their underwriters. However, as Second Board companies slowly attract more investors, the listing companies also tend to consider engaging Tier-1 merchant banks as their underwriters. This can be seen as in 1994, 34 out of 47 or 72% of the companies listed employed Tier-1 merchant banks.

[7] Shamsher, M., Nassir, A.M., and Ariff, M., "Analysis of Underpricing in the Malaysian New Issues Market During 1975-1990: Are New Issues Excessively Underpriced?" *Capital Market Review, 1994.*

Table 2 (b) ***Classification of Underpricing of IPOs Based on the Underwriters Chosen***

TYPE	'89 (%)	'90 (%)	'91 (%)	'92 (%)	'93 (%)	'94 (%)	AVERAGE
Tier-1	71	38	41	42	80	98	62
Tier-2	-	74	40	29	89	79	62
AVERAGE	**71**	**56**	**40**	**36**	**85**	**89**	**62**

As can be seen from ***Table 2 (b)***, there is no evidence that IPOs by Tier-1 merchant banks tend to have lower underpricing than the IPOs of the Tier-2 merchant banks. However, it is important to note that underpricing of new issues is also relatively linked to general market conditions. IPOs which come out during bear markets or recession time are generally not greatly underpriced. This may be due to a generally depressed overall market.

It may be important, however, not necessary to find an underwriter who is expert in certain industry over the others. [8] Such underwriter is more likely to be familiar with the structure of the industry, therefore, pricing and syndicating the new issues should be easier and further ensure the successful floatation of the issues. However, the issue of having certain underwriters specialise in certain industry may not be applicable in Malaysia, at least for the time being. There is not really any investment bank that specialises in any particular industry. This scenario may be attributed by two main reasons; (i) Second Board is only categorised into five different industries, which may not raise the need for the investment banks to specialise in any particular industry and (ii) majority of the companies going public have established banking relationships with certain banking group which also provides finance and commercial banking services, therefore, it is only logical if the service of the merchant bank of the same banking group is acquired.

[8] "Choosing The Right Underwriters For Your IPO," *Equity Analytics, Ltd*

1.3 Auditors

Prior researchers have studied the valuation effects of selecting a credible auditor for the IPO. Simunic and Stein (1987) examined the market premium over book value ratio of the market value of equity to its book value concluded that companies associated with Big-8 rather than non-Big-8 auditors were able to obtain a higher premium. This phenomena is considered acceptable as companies making IPOs typically are little known to investors, who, in the absence of alternative source of information, must place substantial reliance on the credibility of the auditors. Since the actual quality of the audit is not observable, auditors attempt to communicate their quality through such signals as brand names and reputations. As a consequence, different levels of credibility are offered in the market at different fees.

Table 3 (a) Auditors of The IPOs

TYPE	'89	%	'90	%	'91	%	'92	%	'93	%	'94	%	TOTAL	%
Big-6	1	50	4	33	8	44	10	50	17	53	28	60	68	52
Non-Big-6	1	50	8	67	10	56	10	50	15	47	19	40	63	48
TOTAL	**2**	**100**	**12**	**100**	**18**	**100**	**20**	**100**	**32**	**100**	**47**	**100**	**131**	**100**

This research categorised the auditors involved in the IPOs into two types, namely Big-6 and Non-Big-6 auditors. The Big-6 auditors include Coopers & Lybrand, Price Waterhouse, Ernst & Young, KPMG Peat Marwick, Arthur Anderson and Kassim Chan. As shown in ***Table 3 (a)***, the number of companies being audited by Big-6 auditors are almost the same with Non-Big-6.

Second Board was only introduced in 1989. During the first three years, Non-Big-6 auditors were more acceptable by companies. However, as more companies become to realise the important of credible auditors in public listed companies, starting 1992, Big-6 auditors have slowly taken-up a bigger market share at the expense of Non-Big-6 auditors. By the year 1994, 28 (60%) out of 47 companies sought listing on the Second Board engaged Big-6 auditors. This has resulted in a slight overall domination (52%) of companies audited by Big-6 auditors.

Table 3 (b) Level of Underpricing

TYPE	'89 (%)	'90 (%)	'91 (%)	'92 (%)	'93 (%)	'94 (%)	AVERAGE
Big-6	115	75	41	60	79	95	78
Non-Big-6	27	51	40	22	90	89	53
AVERAGE	**71**	**63**	**40**	**41**	**85**	**92**	**66**

As mentioned earlier, the credibility of the auditors also plays an important role in deciding the level of underpricing. Throughout the years of review, except 1993, the level of underpricing for companies audited by Big-6 auditors is higher than Non-Big-6 auditors. Investors perceive companies auditors by Big-6 auditors are more prudent and provide more accurate information pertaining to the companies present financial statements and also forecast of the companies' future earnings. These results are inconsistent to the theory.

1.4 Number of Shares Offered

For a company listed on the Second Board, at least 25% but not more than 50% of the issued and paid-up capital of the company is in the hands of the public. The supply of the shares in an open market is also believed to play an important role in the level of underpricing of companies listed on the Second Board.

***Table 4* Number of Shares Offered**

YEAR	AVERAGE PAID-UP CAP (MIL SHARES)	AVERAGE NO. OF SHARES OFFERED (MILLION)	PERCENTAGE OF SHARES OFFERED
1989	17.1	6.1	36
1990	16.5	5.7	34
1991	16.6	5.6	34
1992	17.6	4.6	26
1993	17.9	4.3	24
1994	18.4	4.6	25
AVERAGE	**17.4**	**5.1**	**30**

In this study, it is found that the average paid-up capital (number of shares) and the average number of shares offered to the public are about 17.40 million and 5.1 million (or about 30% of the paid-up capital) respectively. Therefore, using 30% of the companies' shares in the hands of the public as a benchmark, it is also found that the average underpricing for companies which shares are more than 30% control by the public is 68%. Conversely, for companies which have less than 30% of their shares offered to the public, the level of underpricing is 75%. This scenario can be explained using the theory of supply and demand. Under the scarcity of supply situation, the demand tends to be high, therefore, the level of underpricing tends to be higher too.