

Retail IPO in emerging markets

Dmitry Kokorev¹

In our research we analyze major effects which accompany IPO on emerging markets. We focus the attention on such countries as Russia, India, China, Brazil, Poland, Egypt and other emerging markets. We estimate the dependence of underpricing or initial return of IPO (the price change measured from the offering price to the market price on the first trading day) and long-run IPOs performance from such factors as shares allocation (retail/institutional investors), origin of the company, ownership structure before placing (a state ownership/private property), etc. We analyze near 2000 placements which took place through 2003 to the first quarter of 2010.

First of all we try to emphasize basic differences in IPO process in key emerging market countries: Russia, Brazil, China and India. We find that offerings of Chinese companies are the most regulated, though there exists a huge distinction between A-shares and H-shares markets. On the other hand, Brazilian market regulations are closer to developed markets' ones. It should be also mentioned, that such markets as China and India are characterized by high level of individual investors' participation.

At the second step we analyze descriptive statistics of our sample by years and by countries. We predictably find a wave of offerings in 2007 and first half of 2008, and almost none IPOs in the second half of 2008 and the first half of 2009. We also find that "crisis IPO" (offerings which were conducted in first half of 2009) characterized by positive abnormal return in one year period. Comparing core return results (underpricing and long-run 1 to 3 year return) of IPO from emerging markets with similar numbers from US market, we find that investor earn more (in short and long-run) participating in emerging markets offerings.

Our regression analysis was conducted on a sample data of 150 placements which took place in 6 major emerging markets. The most actual question for us is whether retail investors really win from participation in IPO, and if they do, is their level of return differs from institutionals' ones.

As the basic instrument of IPO performance measurement is the concept of abnormal return it is necessary to choose correct benchmark (reference significance) for comparison of such indicators as risk and return, and also for account of abnormal returns. In our research such benchmark is determined as the basic stock-exchange index in every country. For regression analysis we use cross-section data of IPOs abnormal returns.

¹ Researcher (Corporate Finance Center), Ph.D. student (SU-HSE), kokorev.d@mail.ru

Our research has revealed that retail IPOs have greater initial return, than usual IPO. The hypothesis about the lower long-term yield of such placements in comparison with yield of the market is thus confirmed. Surprisingly, IPOs of the state companies have higher underpricing (allowing investors to earn more in the first days of the quotations), than private companies IPO. Even more sticking, long-run abnormal return is also positive (at usual IPO it is negative in average) which shows that privatization IPO is a separate phenomenon. Country specific characteristics matter in retail IPO and sometimes the differences are crucial. Most of the peculiarities depend on the distinctions in institutional environment of the countries and the level of retail investors' participation in IPO. Moreover, countries authorities set various purposes at privatization of the state companies which could also affect IPO performance.