

Under pricing and long run performance of Initial Public Offering in Sri Lanka

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ABSTRACT

Initial Public Offerings have been one of the popular ways of financing businesses in Sri Lanka. Financial Literature has shown a considerable interest on the effects of this method of financing on share prices. Numerous studies have been found that IPOs are normally underpriced in the short term and underperformed in the long run. This study examined the long run performance of IPO in the Sri Lankan financial market consist sample of 27 issues during the period 2000 to 2009. Abnormal return and cumulative average return were calculated from daily and monthly share returns by using the market model. Cross sectional patterns and regression model are used for further identification. The findings shows that IPOs in Sri Lankan financial market are significantly under performed by 32.4 % with wealth relative of 0.97. These results are confirmed by cross sectional analyses too.