The Determinants of Equity Market Timing: Evidence from IPOs and SEOs in Thailand

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Extended Abstract

Equity market timing refers to firms using equity for financing when their shares are overvalued and thus their cost of capital will be relatively low (Baker & Wurgler, 2002). The existence of this phenomenon is rather controversial in the existing literature. This paper uses a comprehensive set of initial public offering (IPO) and seasoned equity offering (SEO) events during the period from 2000 to 2014 to investigate this issue in Thailand. In particular, we investigate three main research questions: Firstly, does equity market timing occur in Thailand? Secondly, what factors determine the presence of equity market timing? Thirdly, what factors determine the level of equity market timing?

Initially, we observe the presence of equity timing in Thailand for both IPO and SEO events. We find that firms tend to go public in favourable periods. The volume of IPO issuance fluctuates considerably during our investigation period with 207 firms issuing stock via IPOs in hot markets, whilst only 66 firms go public in cold markets. Similarly the volume of SEO issuance is much higher in hot markets than cold markets. There is a significant increase of cash holding after stock allocation for both IPO and SEO events which implies that one of motivations in conducting the stock is taking the benefit of opportunity windows.

We use robust probit regression analysis to examine the issue of which factors determine the presence of equity market timing. The empirical results for IPOs demonstrate that the likelihood of equity market timing increases with higher ownership concentration and larger boards of directors and the portion of the audit committee on the board. On the other hand, stock overvaluation, a higher fraction of institutional shareholders, a higher proportion of independent directors on the board, female managers, older CFOs, the financial education of the CFO, a longer process of IPO allocation and book building mechanisms have negative effects on the propensity of timing the equity market. For SEO issuance, the empirical results show that equity's overvaluation, the portion of institutional ownership, the fraction of foreign shareholders, the percentage of women on board of directors, the proportion of the audit committee on the board, the presence of a female CFO and the financial education of managers have a positive influence on the possibility of timing the equity market with follow-on stock. On the contrary, ownership concentration, board independence, the presence of an

older CFO, CEO duality and the use of private placement mechanisms have a negative effect on the prospect of timing the equity market.

Our third research question relates to the factors that affect the level of equity market timing. We use OLS and GLS regressions to analyse IPOs. We find strong evidence that overvalued equity, the percentage of managerial ownership, the size of the board of directors, the proportion of the audit committee on board, the presence of older CFOs and use of a book building approach positively influence the amount of money raised from going public. In contrast, the amount of proceeds is not significant impacted by a higher portion of institutional ownership, ownership concentration, a larger proportion of independent directors, the presence of women on the board, female managers, older CEOs, the financial education of managers, CEO duality and the duration of IPO allocation. Similar analysis of SEOs shows that the level of equity market timing increases with CEO duality and the use of the private placement approach. On the contrary, the overvaluation of stock, proportion of managerial and foreign shareholders, the proportion of independent directors on the board, the proportion of the audit committee on the board, the size of the board, female CEO, older CEO and the financial education of CFO negatively and significantly influence the proceeds from SEO allocation. However, the percentage of institutional shareholders and women on the board of directors, the existence of military experience on the board, the presence of an older CFO and the financial education of the CEO do not significantly affect the proceeds from SEO allocation.

Overall, our study illustrates that the purpose of funding affects how listed companies in Thailand behave regarding the timing and amount of fund raising in the equity market. Many different factors affect funding decisions and the significance of these depends on whether the fund raising is via an IPO or a SEO.

References

Baker, M. & Wurgler, J. (2002) Market timing and capital structure. *The Journal of Finance*, 57(1), 1-32.