



**Timing, Valuation and Post-Issue Stock  
Performance of the Initial Public Offerings  
(IPOs) and Rights Issues in the UK**

Submitted by

**Heba Ahmed Abass Ali**

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## Abstract

The issuance activity of IPOs and rights issues has shown substantial time-varying fluctuations. These fluctuations are conceptually related to the so-called ‘timing, and ‘hot issues’ markets. This thesis conducts a comprehensive examination of the determinants of timing of IPOs and rights issues in the UK, seeking to inspect and compare the main factors that drive these fluctuations. Specifically, I compare the extent to which the favourable business and economic conditions, bull market timing, investor sentiment, and decreasing adverse selection costs can explain these fluctuations. For IPOs, the overall findings show a strongly and robustly significant evidence in support of adverse selection costs hypothesis. Economic conditions, bull market timing and investor sentiment hypotheses are also important determinants of IPOs timing, but of less significance and robustness. For rights issues, the timing story appears different. The empirical evidence is mostly consistent with the bull market timing hypothesis. Investor sentiment proxy is supported but not robustly consistent across various tests. By contrast, the economic conditions and information asymmetry proxies generally exhibited inconsistent findings.

It has been recently posited that equity-issuing firms behaviourally time their offerings to exploit stock mis-valuations and investor over-optimism. If so, this behavioural timing is expected to be reflected in a direct relation between mis-valuation of IPOs and right issues and poor post-issue stock returns. This mis-valuation is examined **(i)** directly via calculating a ratio of the price to an intrinsic value of the firm (as a proxy for relative overvaluation) and **(ii)** indirectly via looking at the intensity of equity issuance activity since investor over-optimism and stock over-valuations are expected to substantially differ between hot and cold issues markets.

The findings suggest that both IPOs and rights issues are significantly over-valued compared to other non-issuing firms. More importantly, the post-issue stock returns are found to be significantly and robustly different between IPOs and rights issues launched during hot issues markets compared to those launched during cold and normal issues markets, which strongly supports the behavioural timing hypothesis. However, the overall findings derived based on the post-issue stock returns conditional on relative overvaluation are less consistent with the behavioural timing hypothesis.

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