

Long-term Performance of IPOs in China

Abstract

This paper examines the determinants of post-IPO long-term return and operating performance of companies in China. We divide the determinants into two main groups: investor sentiment and governance systems. We find that investor sentiment is a major determinant of post-IPO performance. In particular, more underpriced IPOs and IPOs offered at a higher P/E ratio earn lower subsequent stock returns. However, the relation is the opposite when we examine the change in operating performance. We argue that the discrepancy is probably due to over-reaction of investors to the implications of the predicted change in performance. Governance mechanisms, such as reputable underwriters, block holders and managerial ownership also have significant impact on post-IPO performance, but only for the later sample period. We interpret this result as an evidence of China's stock market getting closer to the U.S. one, in terms of development of institutional settings. In addition, we also find there is no big difference between IPO and SEO on the long term performance after shares issuing.