

ABSTRACT

This project investigates the initial returns and long run performance of initial public offerings (IPO) at the Nairobi Securities Exchange (NSE) using a sample of 5 companies in Kenya both locally and internationally owned which include Safaricom, KenGen, Kenya-Re, Access Kenya and Eveready issued in the period between 2006-2008. It also examines explanatory factors such as issue size, the degree of debt financing, ex-ante uncertainty, and the underlying property types of the companies involved. The results are in line with those previously found in studies of common stocks. Numerous studies have examined the performance of Initial Public Offerings (IPOs) and documented the existence of short-run excess returns in combination with long-run underperformance. Evidence is presented that the reputation of the lead manager and the age of the firm have a negative effect on the level of underpricing and that the sales growth rate has a significant positive effect on the long-run performance of IPOs. Also investigated in this project is whether the classical abnormal price behavior surrounding IPOs also exists in the Kenyan share markets. The work is organized as follows. The next chapter discusses the related literature and states the theoretical implications that can be derived from this literature. Chapter 3 describes the sample collection procedures and methodology. In chapter three is the data collection, analysis and evaluated results.