Journal of
Empirical Research In Accounting

Alzahra University, Faculty of Social Sciences and Economics
Empirical Research in Accounting, Spring 2022, V. 12, No. 43, pp.225-246

A Model of Group Companies Degree and Accounting Information Quality Effects on Initial Public Offering Valuation[1]

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Received: 2021/05/01
Approved: 2021/07/23

Research Paper

Introduction

Every day in all the capital markets of the world, hundreds of companies enter the capital market for the first time by issuing shares, and by doing so, they intend to provide the necessary financial resources for their activity and development. Therefore, it can be said that the financing process is a very important step in the activity and growth of various companies, and for this purpose, the price set by the market for newly listed stocks should reflect the real value of assets and investment opportunities and growth of the issuing company. In this way, the company can be successful in financing itself and provide the funds needed for its activities and development. Early supply pricing studies indicate the existence of two features in them; The first is that the shares of companies in the initial public offering, are usually priced below their intrinsic value, and the second is that these shares perform worse in the long run than the shares of other companies. These characteristics have led researchers to pay close attention to the issue of pricing in the initial public offering in the last two decades. The term public offering is when a company offers shares to the public for the first time in its history. At the time of the initial public offering, managers have confidential information about their future cash flows, investment

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opportunities, and management skills. On the other hand, investors are not sure about the company's forecasts for the initial stock price, and buying the shares of new companies listed on the stock exchange is a more risky process than other companies, because due to lack of trading history, historical information about them is scarce. Accordingly, the emphasis of this study is on the Tehran Stock Exchange and tries to examine the role of accounting information of similar companies in the valuation of shares of new companies listed on the stock exchange and help improve the decision-making of investors and managers of these companies. Some previous studies have examined the relative valuation of the initial public offering based on the previous valuations of similar companies in their initial public offering and found that the bid price of the companies in their first public offering is, on average, significantly higher than their counterparts. While the results of these studies indicate that the bid price in the initial public offering of companies's shares differs from that of their counterparts, it shows that this deviation indicates inaccuracies in valuation and disregard for pricing principles of similar companies. In fact, the accounting information of similar companies should be most similar to the target company in terms of risk, type of industry and performance characteristics, so that the benefits of using this method are greater than the benefits of using a theory-based method, such as discounted cash flow model.

Methodology

The research method is correlational in nature and content, which has analyzed the relationships of variables using data extracted from the financial statements of companies listed on the Tehran Stock Exchange. On the other hand, the present study is post-event (quasi-experimental), ie it is based on the analysis of past and historical information (financial statements of companies). Also, this research is a type of library and analytical studies and is based on combined data analysis. The research is considered as an applied goal and as a descriptive-analytical method. In order to find of answers and asked questions, the data of 77 companies listed in Tehran Stock Exchange selected for ten-year period (from the beginning of 2011 to end of 2018) were extracted and statistical tests were performed on them.

Results and Discussion

The IPO of companies listed on the stock exchange is one of the most important investment opportunities for potential investors in the capital market. A look at the history of the stock market suggests that, the main concern of listed companies in the first step to enter the capital market is what price is appropriate for the initial public offering and can they persuade investors to buy their shares? Given the importance of pricing in attracting investors, this study examined some of the factors affecting the optimal pricing of stocks in the initial public offering. Based on the research findings, it was concluded that the valuation of shares in the initial public offering is possible based on the degree of similarity based on the companies in the group and the quality of accounting information. The value of shares in the initial public offering shows a different reaction to the degree of similarity based on the companies in the group and the degree of similarity based on the quality of accounting information. The value of sales-based shares in the initial public offering shows a different reaction to the degree of similarity based on the companies in the group and the degree of similarity based on the quality of accounting information. The value of pre-tax profit-based stocks in the initial public offering shows a different response to the degree of similarity based on the companies in the group and the degree of similarity based on the quality of accounting information. The degree of similarity based on the quality of accounting information modulates the effect of cohorts on valuation of initial public offering, and the valuation of shares based on cohorts and the quality of accounting information, with incorrect pricing (overvaluation and undervaluation) in initial public offerings. Based on the findings, it can be analyzed that accounting information is part of the set of information that investors use to predict future cash flows to achieve the estimated value of stocks. Based on the studies, it was concluded that little research has been done in line with the present study and the results of this study are only consistent with the results of Brashwood (2015). Because in his research, he examined the quality of accounting information and the degree of companies in the group on the initial public valuation of shares, which concluded that the pricing of shares in the initial public offering is done by comparing companies and relies heavily on similarity coefficients of companies in performance criteria.

Conclusion

The valuation of shares in initial public offering is possible based on degree of similarity on the companies in the group and the quality of the accounting information. Stock valuation in initial public offerings based on profit and sales approaches differs in terms of similarity of group companies and the quality of the company's accounting information. Group companies and the quality of accounting information aren’t associated with incorrect pricing (overvaluation and undervaluation) in initial public offerings .

Keyword: Group Companies, Accounting Information Quality, Valuation of Initial Public Offering of Stocks.

JEL Classification: D70, G40, G41.