

FN211

Stock Offerings and Investor Monitoring

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Private Equity

Private equity is a business that is privately held and the owners cannot sell their shares to the public

Some business owners hope to go public so that:

- They can obtain financing to support the firm's growth
- They can “cash out” by selling their original equity investment to others

A public offering is feasible if:

- The owners want to sell at least some amount
- The shareholder base will be large enough to make this stock liquid

Public Equity

Ownership and Voting Rights

- Owners of small companies also tend to be the managers. In publicly traded firms, most shareholders are not the managers
- Ownership of **common stock** (หุ้นสามัญ) entitles shareholders to a number of rights
 - Only the owners of common stock are permitted to vote on certain key matters
 - Many investors assign their vote to management through the use of a **proxy**

Benefits of common stocks

- No need to pay fixed payments to investors (pay dividends only when the company has enough profits and cash flows)
 - However, some firms may not even want to pay dividends
- No cash redemption compared to bonds
- More equity leads to higher soundness of the company → collateral for future loans/debt
- Equity raising is easier than selling bonds in regular times

Pitfalls of common stocks

- Ownership dilution
- Dividends are not tax deductible
- Equity raising leads to lower EPS

Public Equity

- **Preferred stock** (หุ้นบุริมสิทธิ) - represents an equity interest in a firm that usually does not allow for significant voting rights
 - Compensated only when earnings have been generated
 - A cumulative provision on most preferred stock prevents dividends from being paid on common stock until all preferred stock dividends have been paid
 - Because the dividends on preferred stock can be omitted → less risk compared to bonds
 - Dividends are not tax-deductible for the firm

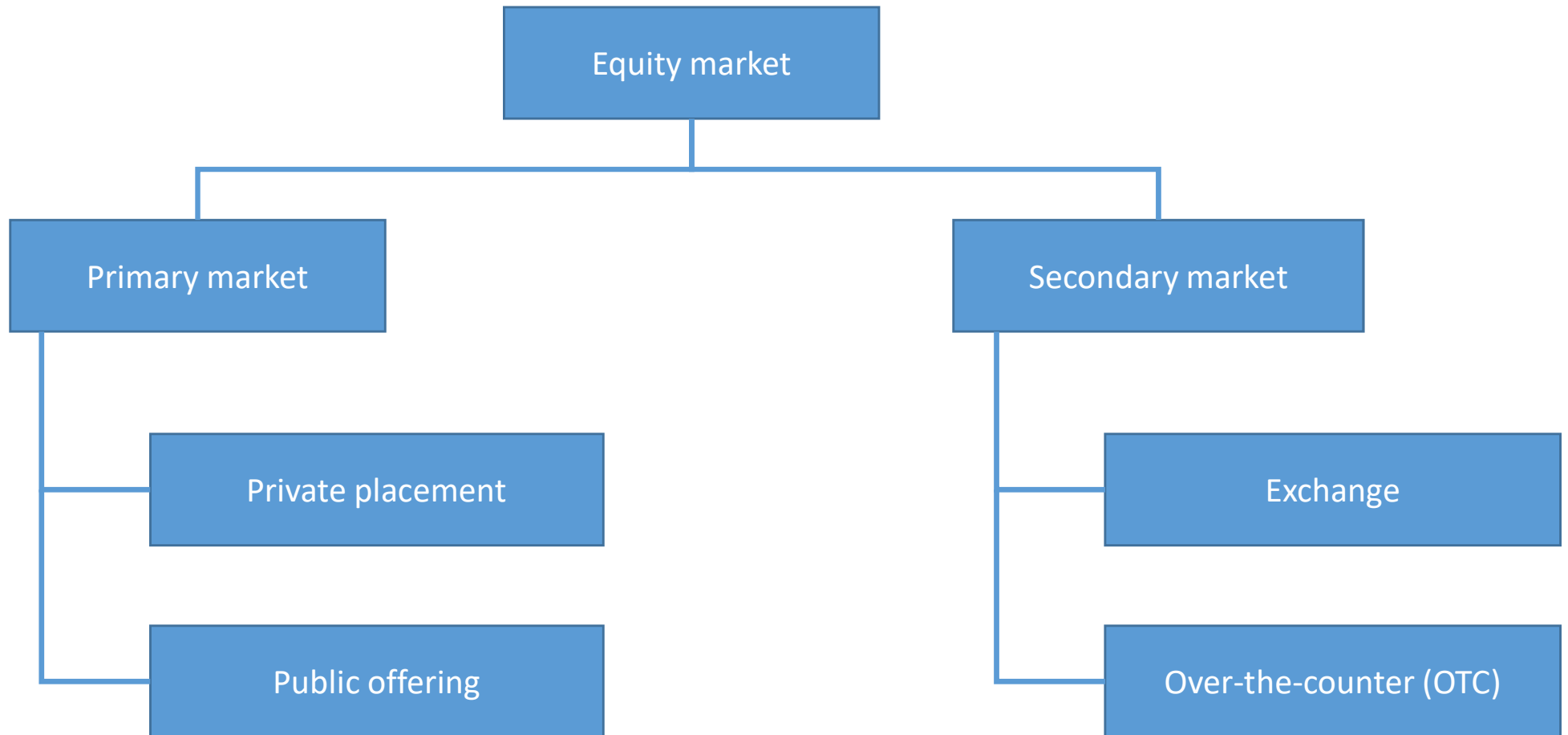
Common stocks and balance sheet

- **Authorized share capital** (ทุนจดทะเบียน)
- **Issued and fully paid-up share capital** (หุ้นที่ออกและชำระเต็มมูลค่าแล้ว)
- **Premium (discount) on share capital** (ส่วนเกินหรือต่ำกว่ามูลค่าหุ้น)
- **Book value** (มูลค่าตามบัญชี) = **Assets – liabilities – preferred stocks**

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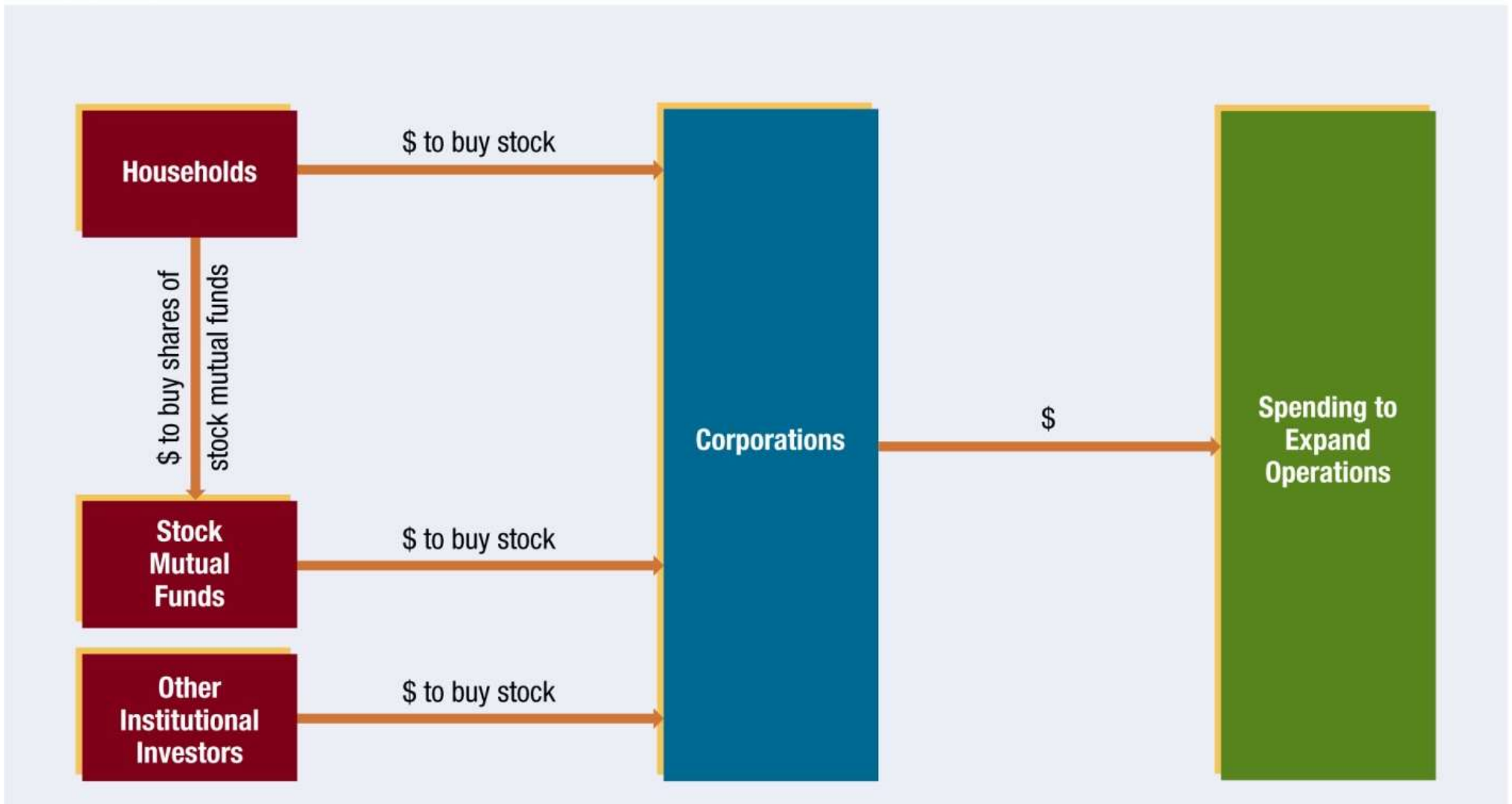
Stock markets



Stock markets

- When a firm goes public, it issues stock in the **primary market** (ตลาดแรก) in exchange for cash
- Going public has 2 effects on the firm – ownership structure and capital structure
- Stock markets are like other financial markets in that they link the surplus units (that have excess funds) with deficit units (that need funds)
- The **secondary market** (ตลาดรอง) allows investors to sell the stock they previously purchased to other investors

How Stock Markets Facilitate the Flow of Funds



Initial Public Offerings

A first-time offering of shares by a specific firm to the public

Process of Going Public

- **Developing a Prospectus** - The issuer must develop a prospectus (หนังสือชี้ชวน) containing detailed information about the firm, including financial statements and a discussion of risks.
- **Pricing** - The lead underwriter must determine the **offer price** at which the shares will be offered at the time of the IPO.

Initial Public Offerings

Process of Going Public

- **Allocation of IPO Shares:** The lead underwriter may rely on a group (called a syndicate) of other securities firms to participate in the underwriting process and share the fees to be received for the underwriting
- **Transaction Costs** - Usually 7% of the funds raised but lower for bigger companies

Summary of Bookbuilding Process Just before the IPO

POSSIBLE OFFER PRICE	TOTAL SHARES DEMANDED	TOTAL PROCEEDS TO ISSUER
\$13	3,000,000	\$39,000,000
\$12	3,500,000	\$42,000,000
\$11	4,000,000	\$44,000,000
\$10	4,300,000	\$43,000,000

Initial Public Offerings

Timing of IPOs

- Initial public offerings tend to occur more frequently during _____ stock markets

Initial Returns of IPOs

- The initial (first-day) return of IPOs in the U.S. has averaged about 20% over the last 30 years

IPO - Google

Google's IPO

- On August 18, 2004, Google engaged in an IPO that generated \$1.6 billion
- **Estimating the Stock's Value** - investors multiplied Google's earnings per share by Yahoo!'s PE ratio
- **Google's Communication to Investors before the IPO** - Google provided substantial financial information about its operations and recent performance
- **The Auction Process** – Google used a Dutch auction process allowing all investors to submit a bid for its stock by a specific deadline
- **Results of Google's Dutch Auction** - resulted in a price of \$85 per share

IPO - Facebook

Facebook's IPO

- On May 18, 2012, Facebook engaged in an IPO that generated \$16 billion
- Facebook's opening price was \$38/share. The price fluctuated through the day with a high of about \$43. Many traders lost experienced substantial profits are losses in the first day.
- 3 months after the opening, the price fell to \$20/share
- **Lesson** - A company can be very valuable yet overpriced
- But hold on... what are the current stock price and market capitalization of Facebook?

Initial Public Offerings

Long-Term Performance Following IPOs

- There is strong evidence that, on average, IPOs of firms perform poorly over a period of a year or longer
- From a long-term perspective, many IPOs are overpriced at the time of the issue
- This weak performance may be partially attributed to irrational valuations at the time of the IPO, which are corrected over time

Stock Offerings

Secondary Stock Offerings

- A secondary stock offering is a new stock offering by a specific firm whose stock is already publicly traded
- Corporations sometimes direct their sales of stock toward their existing shareholders by giving them preemptive rights
- Private placement vs public offering

Private placement and public offering

- Private placement (PP) is issued to specific investors or institutions
- Public offering (PO) is announced to everyone, including IPO
- Advantages of PO
 - PO can help raising capital needed to the company
 - Increase liquidity once listed in exchange markets
 - Firms will be monitored by stock analysts
 - Have market price
- Disadvantages of PO
 - Advisory & underwriting fees, public information
 - Ownership dilution

Stock Repurchases

- Firms tend to repurchase some of their shares when share prices are at very low levels
- Many stock repurchase plans are viewed as a favorable signal
- But some investors may ask why the firm does not use its funds to expand its business instead of buying back its stock

Stock Exchanges

Organized Exchanges (ตลาดรองที่เป็นทางการ)

- Each organized exchange has a trading floor where floor traders execute transactions in the secondary market for their clients
- New York Stock Exchange (NYSE) is by far the largest
- Stock Exchange of Thailand (SET) is the main stock market exchange in Thailand
- **Listing Requirements** - minimum number of shares outstanding and a minimum level of earnings, cash flow, and revenue over a recent period

Stock Exchanges

Roles of organized exchanges

- Provide liquidity to investors
- Provide confidence to investors with no counterparty risk
- Provide symmetric information
 - If specific information has not arrived yet, exchanges will show *signs (H, SP, etc.)*

Stock Exchanges

Stock Quotations Provided by Exchanges

- **52-Week Price Range** - The stock's highest price and lowest price over the previous 52 weeks are commonly listed just to the left of the stock's name
- **Symbol** - Each stock has a specific symbol that is used to identify the firm
- **Dividend** - The annual dividend (DIV)
- **Dividend Yield** - Annual dividend per share as a percentage of the stock's prevailing price

Stock Exchanges

Stock Quotations Provided by Exchanges

- **Price-Earnings Ratio** - Represents its prevailing stock price per share divided by the firm's earnings per share generated over the last year
- **Volume** - Stock quotations also usually include the volume of shares traded on the previous day
- **Closing Price Quotations** - Stock quotations show the closing price ("Last") on the day (on the previous day if the quotations are in a newspaper).

CPALL - CP ALL PUBLIC COMPANY LIMITED

[Stock Quotes](#)
[Historical Quotes](#)
[Company Highlight](#)
[Board of Directors](#)
[Major Shareholders](#)
[Financial Stmt.](#)
[Right & Benefits](#)
[Sector Comparison](#)
[Company News](#)
[Factsheet](#)
[IAA Consensus](#)

CPALL

Last Trade

60.00

Change

+0.25 ▲

% Change

+0.42%

Prior	59.75	Volume (Shares)	11,945,482
Open	59.75	Value ('000 Baht)	716,811.25
High	60.50	Par Value (Baht)	1.00
Low	59.50	Ceiling	77.50
Average Price	60.01	Floor	42.00

Last Update 17/02/2017 22:59:53

 Market Status : **Closed**

* Market data provided for educational purpose use only, not intended for trading purpose.

Volume Bid	Bid	Offer	Volume Offer
732,300	59.75	60.00	281,000

Remark: Volume/value included volume/value from Auto Matching, Trade Report, and Odd Lot

[Intraday chart](#)

Statistics

As of 17/02/2017

P/E	33.16	Dividend Yield	1.50%
Earning Per Share (Baht)	1.38	Dividend Per Share (Baht)	0.90
P/BV	13.14	Stock Dividend (Share)	N.A.
Market Cap (M.Baht)	538,986.08	Listed Shares	8,983,101,348
52 week high/low **,*	65.50/40.50	NVDR volume *	1,564,100

[Statistic and Glossary](#)

Stock Market Indexes

- Examples of US indices
 - Dow Jones Industrial Average (30 stocks)
 - Standard & Poor's 500 Composite (500 largest firms)
 - NASDAQ Composite (>3,000 firms)
 - Wilshire 5000 (>6,000 stocks)
- Thai indices
 - SET (Stock Exchange of Thailand > 500 companies)
 - MAI (Market for Alternative Investment, > 100 companies)

Stock Market Indexes

- Foreign and international stock market indices
 - Nikkei 225 (Japan)
 - Hang Seng (Hong Kong)
 - SSEC (Shanghai Composite)
 - DAX (Germany)
 - FTSE 100 (England)
 - MSCI (Morgan Stanley Capital International)

Markets and investors

Participation in Stock Markets

- Investors can be classified as individual or institutional
 - Individual investments commonly exceeds 50% of the total equity
 - Because of the size of investment, institutional investors can significantly affect stock market prices

Markets and investors

How Investor Decisions Affect Stock Prices

- Demand and supply affect stock prices
- Overall, the general market price is determined by the participation of investors in aggregate

Investor Reliance on Information

- Favorable news – stock is undervalued
- Information is incorporated into stock prices through its impact on investors' demand and supply

Monitoring Publicly Traded Companies

- What is the easiest way for shareholders to monitor the firm?
- What else can investors do?

Monitoring Publicly Traded Companies

- The easiest way for shareholders to monitor the firm is **to monitor changes in its value** (as measured by its share price) over time
- If the stock price is lower than expected, shareholders may attempt to take action to improve the management of the firm
- Investors also **rely on the board of directors** of each firm to ensure that its managers make decisions that enhance the firm's performance and maximize the stock price

Monitoring Publicly Traded Companies

Role of analysts

- Analysts are often employed by securities firms and assigned to monitor a small set of publicly traded firms
- Analysts cannot be supervised by the division that provides advisory services, and their compensation cannot be based on the amount of advisory business they generate
- Securities firms must disclose summaries of their analysts' ratings for all the firms that they rate so that investors can determine whether the ratings are excessively optimistic

Monitoring Publicly Traded Companies

- If shareholders are displeased with the way managers are managing a firm, they have 3 choices
 - Do nothing and retain their shares
 - Sell the stock
 - Engage in shareholder activism

Shareholder Activism

1. Communication with the Firm - Shareholders can communicate their concerns to other investors in an effort to place more pressure on the firm's managers or its board members

Monitoring Publicly Traded Companies

2. Proxy Contest - Shareholders may also engage in proxy contests in an attempt to change the composition of the board

3. Shareholder Lawsuits - Investors may sue the board if they believe that the directors are not fulfilling their responsibilities to shareholders

Monitoring Publicly Traded Companies

Limited Power of Governance

- There is some evidence that the governance is not very effective
- In spite of the Sarbanes-Oxley Act, shareholder activism, proxy contests, and shareholder lawsuits, the agency problems of some firms remain severe