Journal of International Money and Finance
19 (2000) 93–116

Journal of International Money and Finance

www.elsevier.nl/locate/econbase

The performance of initial public offerings in the Mexican stock market, 1987–1993

Douglas A. Hensler [a,*], Martin J. Herrera [b], Larry J. Lockwood [c]

[a] *Lockheed Martin Engineering Management Program, Campus Box 435, University of Colorado at Boulder, Boulder, CO 80309-0435, USA*

[b] *Department of Finance, Monterey Tech University, Guadalajara, Mexico*

[c] *Department of Finance and Decision Science, Texas Christian University, Fort Worth, Texas, USA*

Abstract

This paper documents differences in the performance of bank and nonbank initial public offerings (IPOs) in Mexico during 1987–1993. We measure performance relative to the Mexican stock market index. Banks experience much larger initial underpricing than nonbanks due in part to a hot issue market in 1987. In the aftermarket, excess returns for banks, industrials, and services are not significant. Excess aftermarket returns for brokerage houses are significantly negative. We also find that underpricing of the privatized IPOs diminishes over time, supporting the argument that the Mexican government offered discounts on IPOs issued early in the privatization program. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Initial public offerings; Mexican stock market; Underpricing; After market performance

1. Introduction

The analysis of emerging economies has received profound attention among financial economists in recent years. For example, Barry and Peavy (1994) cite over 250 articles in their bibliography of emerging capital markets. Barry and Lockwood (1995) explain that emerging markets research is hampered from a lack of sophistication in many of these markets. In this paper, we examine the performance of initial public offerings (IPOs) in Mexico, one of the most sophisticated of the emerging

* Corresponding author. Tel.: +1-303-492-1591; fax: +1-303-492-1443.

PII: S0261-5606(99)00042-X

markets (see Price, 1994).[1] We examine all Mexican IPOs during 1987–1993 using daily stock prices, measuring performance of IPOs relative to the IPC (Indice de Precios y Cotizaciones) market index. Tests of performance are reported separately for bank, brokerage house, industrial firm, and service firm IPOs.

Results differ substantially across bank, brokerage house, industrial, and service IPOs in the Mexican market. Bank IPOs experience significantly better initial performance than nonbanks. In the period after the offer date (the aftermarket), bank, industrial, and service sector IPOs produce insignificant excess returns. Aftermarket excess returns for brokerage house IPOs, however, are significantly negative. The data also indicate that a hot issue market existed in 1987. Of the 68 firms in the sample, 12 of 14 banks, 10 of 21 brokerage houses, and 10 of 33 industrial/service firms were issued in 1987.[2] We find that the initial excess return for IPOs issued in 1987 was substantially greater than the initial excess return for IPOs issued in subsequent years.

The remainder of this paper consists of four sections. The next section briefly discusses the IPO process in Mexico. Section 3 discusses the data and methodology. Section 4 presents the results. Section 5 provides summarizing and concluding comments.

2. The stock market and new issue process in Mexico

The Bolsa Mexicana de Valores (or BMV) was founded in October 31, 1894 and started operations in several trading offices and one main office in Mexico City. Initially, the BMV consisted of 70 mining stocks, 20 industrial stocks, and 30 bank stocks. The limited number of listed companies reflected the subordinated role that the stock market played in the Mexican economy. In 1916, the Mexican Federal Government authorized the construction of a new building for the stock market to be dedicated solely to trading in securities. The government also established a body to regulate the BMV consisting of the Secretaria de Hacienda and the Comisión Nacional de Valores (the regulatory agency for the BMV). In 1975, the first stock market comprehensive trading law was enacted.

[1] The international evidence on IPOs is limited, especially for emerging markets. In developed economies, Finn and Higham (1988), Uhlir (1989), Kunz and Aggarwal (1994), Levis (1993), Ritter (1991), Aggarwal and Rivoli (1990) and Reilly (1977) find that IPOs underperform market averages by −2.4% to −13.7% after one year and by −6.1% to −30.6% after three years. For emerging economies, Dawson (1987), and Aggarwal et al. (1993) find market-adjusted performance after one year for Brazil, Chile, Hong Kong, Malaysia, Mexico, and Singapore, to equal −9.0%, +1.1%, −9.3%, +18.2%, −19.2%, and −2.7%, respectively. Loughran et al. (1994) analyze underpricing as well as aftermarket performance of international IPOs. They cite contrasts in regulatory environments, contractual arrangements, and firm characteristics as causes of varying degrees of IPO underperformance across countries. They anticipate underperformance in Asian countries to diminish during the 1990s as compared to the 1980s due to a mitigation of regulatory constraints. As in the U.S., their evidence supports the argument that issuers choose bullish periods to time their offers.

[2] Only 2 of 11 Service sector IPOs occurred in 1987.