Abstract

Initial Public Offers (IPOs) attract much attention in World stock markets. The IPOs do not go unnoticed in emerging markets since they are focal points, particularly if listed alone, and stirs the whole market. As such a single large IPO can have a significant effect in a less developed market. In Kenya, several studies have been undertaken in the past on stock price response to earnings announcements, the effects of election period on stock returns at the Nairobi Stock Exchange, the information content of annual reports and accounts of companies listed at the Nairobi Stock Exchange. However, these studies focus on specific issues that may impact the market returns. Consequently, there is lack of information on the extent to which IPOs influence market returns at the Nairobi Stock Exchange (NSE) as well as exogenous factors that may have influenced the market return. Therefore, this study sought to evaluate the effects that IPO announcements had on the market return of listed stocks at the NSE. In addition, the study assessed the effects of the turnover and volume traded on the market return. The study incorporated all the seven recently floated IPOs at the NSE between January 2006 and March 2009. The main results from the fitted linear regression model showed that all IPOs had a significant effect on the market return. In particular, Co-op bank, KenGen, and Volume traded had a negative effect while the remaining IPOs, elections and turnover had a positive impact on the market returns. The magnitude of these effects ranged from −0.126 to 0.172. This study also employed logistic regression to evaluate the effect of the IPO announcement within the 60-day window period on the market index. The study found that all IPOs had positive a significant influence on the market return except Eveready and KenGen. The findings of this study contribute to the current knowledge on how the IPOs announcements, turnover, and Volume traded affects market return. This will be a source of valuable information to the capital Markets Authority, Nairobi Stock Exchange as well as investors for decision making, legal and Policy formulation.