

# **Share Issuing Privatizations in China:**

## **Determinants of Public Share Allocation and Underpricing**

### Abstract:

Share issuing privatizations (SIPs) in China are partial in nature and involve the sale of newly issued shares. Using data on 430 Chinese SIPs during 1994-2002, this paper empirically investigates the firm and stock market characteristics that determine what fraction of shares is sold to the general public and the degree of underpricing. We find that in early privatization years, the government issues more shares in highly leveraged firms and state-owned enterprises that receive more subsidies. Variables capturing the firm's growth opportunities positively affect public share allocation whereas profitability has a negative impact, but only in later privatization years. The determinants of underpricing further illustrate the uniqueness of SIPs compared to private-firm IPOs. Overall, there is little evidence that information asymmetries regarding firm value influence first-day returns whereas stock market conditions have some impact. After accounting for the endogeneity of the change in government ownership, we find that public share allocation significantly positively affects underpricing.