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The Accuracy of Price-Earnings and Discounted Cash Flow Methods of IPO Equity Valuation

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Abstract

This paper compares estimates of value derived from conventional discounted cash flow and price earnings valuation methods to the market price. For a sample of 45 firms newly listed on the New Zealand Stock Exchange our results suggest that the best discounted cash flow method and the best price earnings comparable have similar accuracy. The median absolute pricing error is around 20% and the models explain around 70% of the cross-sectional variation in market price scaled by book value. The results serve to corroborate the findings of Kaplan and Ruback (1995).

Citing Literature



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