

**MERGER AND ACQUISITION ANNOUNCEMENTS AND
THEIR EFFECT ON RETURNS TO SHAREHOLDERS OF
BIDDING FIRMS AND TARGET FIRMS: EMPIRICAL
EVIDENCE FROM MALAYSIA**



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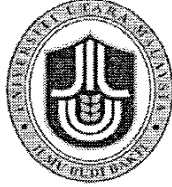


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**Thesis Submitted to
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Pusat Pengajian Ekonomi,
Kewangan dan Perbankan

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Abstract

This study investigates the impact of announcements of mergers and acquisitions (M&As) on stock prices of bidding firms and target firms in Malaysia. Using an event-study methodology to examine the market reaction to the announcements, 59 target firms and 26 bidding firms during the period from 1 January 2011 to 30 June 2015 have been identified. In addition, the acquirer's status is taken into account in this study to examine their impact on abnormal returns (ARs). The data on M&As is obtained from Thomson SDC Platinum Merger and Acquisition Database and also from Bursa Malaysia website. The ARs are derived by using two models, namely the market model (MM) and market adjustment returns (MARs) model. FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) and FTSE Bursa Malaysia EMAS Index (FBMEMAS) are used as the benchmarks. The findings indicate target firms gain significantly on the announcement day (+3.5%). The multi-day windows around the announcement day also show positive cumulative average abnormal returns (CAARs) for the two models and the two benchmarks. +15.83% is reported in the longer window (-20 to +20) and +8.92% in the 3-day window. For bidding firms, no evidence of value creation is observed.

Keywords: mergers and acquisitions, abnormal returns, bidding and target firms, payment method.

Abstrak

Kajian ini meneliti kesan pengumuman penggabungan dan pengambilalihan (M&A) pada harga saham firma pembida dan firma sasaran di Malaysia. Dengan menggunakan kaedah kajian peristiwa untuk mengkaji tindak balas pasaran terhadap pengumuman, sebanyak 59 syarikat sasaran dan 26 firma pembida dalam tempoh 1 Januari 2011 sehingga 30 Jun 2015 telah dikenal pasti. Di samping itu, status pemeroleh turut diambil kira di dalam kajian untuk melihat kesannya ke atas pulangan tidak normal (AR). Data mengenai M&A diambil dari pangkalan data penggabungan dan pengambilalihan Thomson SDC Platinum dan juga dari laman web Bursa Malaysia. Penilaian AR diperoleh dengan menggunakan dua model iaitu model pasaran (MM) dan model pulangan pelarasan pasaran (MAR). Indeks FTSE Bursa Malaysia Kuala Lumpur (FBM KLCI) dan Indeks FTSE Bursa EMAS Malaysia (FBMEMAS) digunakan sebagai penanda aras. Dapatan kajian menunjukkan firma sasaran mengutip perolehan ketara pada hari pengumuman (+3.5%). Jendela pelbagai hari di sekitar hari pengumuman juga menunjukkan kumulatif positif pulangan purata tidak normal (CAAR) bagi kedua-dua model dan dua penanda aras. Selain itu, sebanyak +15.83% dilaporkan di dalam jendela yang lebih lama (-20 hingga +20) dan sebanyak +8.92% di dalam jendela 3 hari. Bagi firma pembida, tiada bukti pembentukan nilai yang dapat diperhatikan.

Kata kunci: Penggabungan dan pengambilalihan, pulangan tidak normal, firma pembida dan sasaran, kaedah pembayaran.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides the background of the study, merger and acquisition activities in Malaysia, problem statement, research questions, research objectives, as well as significance, scope and organization of the study.

1.2 Background of the Study

Literature review on mergers¹ and acquisitions² (M&As) shows two general groups of studies that deal with market reaction to M&As announcements. Various studies have been undertaken in the past to examine the impact of M&A announcements on bidding and target firms. However, current studies tend to focus either on the effect of merger announcements or acquisition announcements separately.

In general, M&As can be classified into three kinds (Ross, Westerfield, & Jaffe, 2009):

1. Horizontal merger and acquisition: both counterparts of the deal are involved in the same industry.
2. Vertical merger and acquisition: both counterparts of the deal are involved in

¹ **Merger:** A merger refers to the absorption of one firm by another; the acquirer firm keeps its name and identity while the acquired firm finishes as a business entity. Consolidation is also considered as merger except the acquirer and the acquired firm create a new entity while the old entities for both firms cease (Ross, Westerfield, & Jaffe, 2009).

² **Acquisition:** Different definitions are provided by literature about acquisition. (Ross et al., 2009) defined acquisition as the process of a firm (acquirer) trying to acquire another firm (target firm) by purchasing its stock in exchange for cash, share of stock or other securities, when acquiring directly from shareholders of a target firm. Another definition by Clayman, Fridson, and Troughton (2012) refers an acquisition as an event when the acquirer purchases only a part of another company.

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