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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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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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


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 mergers and acquisitions (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

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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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References


Hill.


