

**MERGER & ACQUISITION IN MALAYSIA:
PROFITABILITY DRIVERS OF SHORT-TERM WEALTH
AND POST ACQUISITION OPERATING PERFORMANCE**

BY:

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Puan

KELULUSAN PERMOHONAN PELANJUTAN TEMPOH PENYELIDIKAN KALI PERTAMA

Tajuk Projek . - y Profitability Drivers Of Short-Term Wealth Of Merger And Acquisition In
Malaysia
Kod Projek 600-RMI/SSP/DANA 5/3/Dsp (174/2011)
Ketua Projek p_n. Nurhazrina Mat Rahim

Dengan segala hormatnya, perkara di atas adalah dirujuk.

2. Institut Pengurusan Penyelidikan (RMI) telah menerima dan **meluluskan** permohonan pelanjutan tempoh penyelidikan kali pertama daripada puan mulai 31 Mei 2012 sehingga 30 November 2012 selama enam (6) bulan sahaja. Oleh yang demikian, puan diminta menyiapkan dan menamatkan projek penyelidikan di dalam tempoh tersebut.

3. Disamping itu juga, puan perlu berusaha untuk membentang dan menerbitkan kertas kerja di dalam prosiding atau jurnal yang berindeks Scopus / ISI atau mempatenkan kerja penyelidikan puan sebagai salah satu hasil utama penyelidikan.

4. Sehubungan itu, RMI berharap pihak puan dapat memberikan kerjasama untuk menamatkan dan menyempumakan projek penyelidikan serta menggunakan keseluruhan peruntukan projek penyelidikan dengan penuh kebijaksanaan dengan mengikut mengikut garis panduan yang telah ditetapkan dalam surat kelulusan RMI sebelum ini.

Sekian, harap maklum dan terima kasih.

"SELAMAT MENJALANKAN PENYELIDIKAN DENGAN JAYANYA"

Yang benar

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5.2 Enhanced Executive Summary

There is high number of announced M&A deals in Malaysia, little is known about the determinants of short-term wealth effects of M&As in emerging market Malaysia, in particular the third M&A wave. The purpose of this paper is to analyze the short-term wealth effects of M&As in Malaysia. In addition, this study also examines the factors that affect the short-term shareholders' wealth during M&A announcements in Malaysia. The short-term wealth effect is measured by the Cumulative Average Abnormal Returns (CAARs). For the purpose of this study, the wealth effects of a sample of 180 target and 196 bidding companies announced in Malaysia during the period from 2001 to 2009 are analyzed. Results of the study revealed that there are positive market reactions by both target and bidding shareholders towards M&A announcements. However, target shareholders earned significantly higher CAARs than bidding shareholders. There is sufficient evidence to suggest that economic condition surrounding merger announcements, type of acquisition (diversified/related), premium paid and status of bid (successful/failed) affect the short-term wealth effects of target and bidding shareholders during M&A announcements. However, the impact on the target and bidding shareholders are different. Relative size negatively affects bidding shareholders wealth. Target with higher ROE also earned significantly higher returns.

In addition this paper also examines the operating performance of the same sample of Malaysian companies involved in Mergers & Acquisitions (M&A). However, the samples used in this analysis are only for the period 2004 to 2008. The analysis is based on accounting measures to test the effects of M&As on the corporate performance of companies. It tests two hypotheses: first, whether there have been significant differences in corporate performance following the M&A event. Second, whether the type of acquisition (related or diversified) has an impact on corporate performance. Empirical results revealed that post-acquisition profitability and asset turnover, on average, show no improvement compared with pre-merger values. Similar result is also obtained for D/E ratio where there is no improvement following M&As. However, companies which acquired target in different industries show significant improvement in asset turnover. Thus, operating synergy was created for companies involved in diversified M&As.

5.3 Introduction

In Asia, the merger and acquisition (M&A) path has been popularly used as an external growth strategy. This was evidenced by the increased volume (8%) in M&A deals in Asia despite a large decrease (-7%) in global deals volume in 2008. Companies pursue M&A strategies for various reasons and these might differ between the bidding and target companies. Bidding companies pursue M&A as a response to international competition and to cope with rapidly changing economic environments (Saul, 1985; Ahern & Weston, 2007). Furthermore, bidding companies also motivated by the desire to gain monopoly power (Halpern, 1983) and the potential of working out a financing arrangement with institutions in the financial markets. In contrast, target companies may pursue an M&A to replace incompetent managers (Halpern, 1983).

The announcement of M&As is regarded by shareholders as one of the financial signals that may signify benefits forthcoming (Maria, 2009). From previous literature, there is conclusive evidence that target firms earn positive abnormal returns during the investigated M&A announcement periods. For example, Servaes (1991), Kaplan & Weisbach (1992), Davidson III & Cheng (1997), Gondhalekar & Bhagwat (2003), Goergen & Renneboog (2004), Chong, Liu, & Tan (2006), Kiyamaz & Baker (2008), Martynova & Renneboog (2011). However, evidence with regard to the resultant position of the bidder is not clear. Some studies found that bidders gained negative abnormal returns (Servaes, 1991); Kaplan & Weisbach, 1992; Andrade, Mitchell, & Stafford, 2001; Gondhalekar & Bhagwat, 2003; Chong et al., 2006; Kiyamaz & Baker, 2008; Paliwal, 2008), others concluded that bidders earned positive abnormal returns. For example, Da Silva Rosa, Limmack, Supriada, & Woodliff (2004), Goergen & Renneboog (2004), Lowinski, Schiereck, & Thomas (2004), Mangold & Lippok (2008), Amporn (2009), Martynova & Renneboog (2011).

Other than discussions on the impact of M&As towards shareholders' wealth, numerous literatures have been published to examine factors affecting short-term wealth for both target and bidding shareholders during the period surrounding an M&A announcement. Among the most frequently discussed factors have been (1) the economic conditions surrounding merger announcements (2) types of acquisition (diversified/related) (3) methods of payment (4) premium paid (5) deal attitudes (friendly/hostile) (6) relevant industry and (7) the status of bids (successful/unsuccessful). Other factors examined are pre-acquisition performance, proportion of state owned shares, managerial capability of acquirer and free cash flows (Changqi & Ningling, 2010).