UNIVERSITI TEKNOLOGI MARA

THE EFFECTS OF ENGAGING FINANCIAL ADVISERS IN MALAYSIAN MERGERS AND ACQUISITIONS (M&As)

ERIMALIDA BINTI YAZI

Thesis submitted in fulfilment of the requirements
for the degree of
Master of Science Business Management

Faculty of Business Management

DECEMBER 2011

CANDIDATE'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institutions or non-academic institution for any other degree or qualification.

In the event that my thesis is found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to the disciplinary rules and regulations of Universiti Teknologi MARA.

Name of Candidate	:	Erimalida binti Yazi
Candidate's ID No.	:	2008741887
Programme	:	Master of Science Business Management
Faculty	:	Business Management
Thesis Title	:	The Effects of Engaging Financial Advisers in Malaysian Mergers and Acquisitions (M&As)

Signature of candidate	:	
Date	:	27 December 2011

ABSTRACT

Literature in the field of M&A shows that acquirers did not gain from the transaction and the successful rate of takeovers was quite low at about 40% in the 1970s and about 60% in the 1990s. So, this study aims to investigate the effects of engaging financial advisers in merger and acquisition (M&A) transactions. It measures whether different tiers of financial advisers with different expertise, experience and information bring different outcome towards their clients' firms in terms of speed, successful rate and wealth effect. Commonly, the choice of financial advisers to provide M&A advice was essentially determined by their perceived quality or reputation. The determination of the adviser quality was based on the annual adviser league table according to the market share of the advisers for the twelve-month period. Flexible ranking method was used in order to differentiate the quality of advisers. Using flexible ranking method, the financial advisers are ranked every year based on the market share in that particular year. First tier advisers are ranked by 1/3 of the highest market share. Second tier advisers who control another 1/3 of the market share. The rest are third tier advisers. Three models are highlighted in order to determine the effect of engaging financial advisers. Logistic regression was carried out to predict the successful or unsuccessful deals. For speed of completion and abnormal returns, multiple regression analysis was conducted to see the effect of engaging financial advisers. All data were subtracted from Thomson ONE Banker Database. The results from using a three-tier classification method and ranked using the flexible ranking technique showed that third tier advisers were more likely to complete the deals compared to first and second tier advisers. In terms of speed of completion, both top tier and lower tier advisers did not have an impact on the speed of completion. Another finding was financial advisers were not significant in determining the wealth effect of the clients. One possible reason is that using financial advisers is not a popular choice among the potential M&A firms. In Malaysia this was revealed by the small number of successful deals involving financial advisers which is only 7.93% (853 deals) from the total number of deals between 1985 and 2008. The successful number of deals without financial advisers was 52% (5495 deals) during the same period.

TABLE OF CONTENTS

CONTENTS PAGE

CHAPTER 1: INTRODUCTION

1.0 Background of the study

Mergers and Acquisitions (M&As) or takeover activities have increased dramatically over the last decade. This has become part of the worldwide development in corporate restructuring and the general trend all over the world. It is believed that acquisition waves come along with strong economic growth. There are many reasons for firms to engage in M&A such as business expansion, synergy gains, speed to market and financial causes. According to Mat-Nor and Iskandar (1986), the most common reason of acquisition is for diversifying interest. They found that 52 percent of acquisitions reflected this characteristic. Many firms, both large and small, have undergone M&A activities in order to stay competitive in the market. Malaysia is also one of the countries that follow this trend of firms' combinations to improve performance.

A merger is a combination of two or more companies to form a single company, in short two companies become one. Theoretically, mergers involve two firms – the acquiring company or acquirer and target company or acquiree. The acquirer usually initiates the action and is larger in size whereas the target company is a firm that another company seeks to acquire. Two common types of mergers are statutory merger and subsidiary merger. Statutory merger refers to the type of business transaction whereby acquiring firms assume the assets and liabilities of the merged firms (Gaughan, 2002). A good example is the proposal by Hong Leong Bank (HLB) to acquire the entire assets and liabilities of the EON Capital Berhad (EON