UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF MERGER AND ACQUISITION ON RETURN ON EQUITY, EARNINGS PER SHARE, AND DIVIDEND PER SHARE OF SELECTED COMMERCIAL BANK'S IN MALAYSIA

ATHIRAH BINTI RAHMIDI
2020989119

Final Year Project submitted in fulfilment
of the requirements for the degree of
Bachelor of Business Administration (Hons.)
(Investment Management)

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

As organizations seek to grow into new markets and obtain a competitive advantage, mergers and acquisitions are becoming more common in the professional services industry. A merger occurs when two companies agree to integrate their existing operations into a single new entity. Companies do this for a variety of reasons. One of these goals is to broaden their reach and increase market share. The purpose of this research are aims to explore whether there is a significant or insignificant impact on the performance of banks in term of Return on Equity, Earnings per Share, and Dividend per Share of selected commercial banks after the M&A which are the common matrix been used by investor in determining the investment decision. Samples taken from five selected commercial bank that involves in merger and acquisition process for a duration of 10 years which collected from 5 years before and after the merger and acquisition process has occurred. The data in this research was analysed using panel data. Financial ratio analysis comparison and regression analysis are used by researcher as research methodology. The findings of this study reveals that, the merger and acquisition have a positive and significant impact towards earnings per share and dividend per share. This findings will enables the organizations to build a better competitive position within the industry and provide an investor an overview of the performance for better decision making in the future.

Keywords: Merger and Acquisition, Return on Equity, Earnings per Share, Dividend per Share

ACKNOWLEDGEMENT

The completion of this research could not have been possible without the participation and assistance of so many people whose names may not all be enumerated. Their contributions are sincerely appreciated and gratefully acknowledged. I would like to express my deep appreciation and indebtedness to my advisor, Sir Azman bin Ali for his guidance and endless support in the process of completing this report.

I also want to thank the panel 1 and 2, Puan Norashikin Ismail and Sir Husnizam Hosin, which contributes for a better idea to obtain the better result of the research during the presentation.

To all relatives, friends, colleagues and others who in one way or another shared their support, either financially, morally, and physically, thank you very much.

Above all, to the Great Almighty, the author of knowledge and wisdom, for his countless love. Thank you for giving me the opportunity to embark on my Bachelor of Business Administration (Investment Management) and for completing this long and challenging journey successfully.

TABLE OF CONTENTS

CHAPTER ONE
INTRODUCTION

1.1 Introduction

Malaysia's banking system underwent a drastic transformation in 2000 as a result of the Asian Financial Crisis in 1997. The Malaysian Central Bank, or Bank Negara Malaysia (BNM), had proposed to merge 58 financial institutions into six major financial groups, including 21 commercial banks, 25 financing organisations, and 12 merchant banks. The six key groups are Maybank, Multi-Purpose Bank, Bumiputra-Commerce Bank, Perwira Affin Bank, Public Bank, and Southern Bank, but the shareholders rejected the scheme. Malayan Banking Bhd, Bumiputra-Commerce Bank Bhd, RHB Bank Bhd, Public Bank Bhd, Arab-Malaysian Bank Bhd, Hong Leong Bank Bhd, Perwira Affin Bank Berhad, Multi-Purpose Bank Berhad, Southern Bank Bhd, and EON Bank Bhd announced their plans to merge 58 banking institutions into ten anchor groups following the consideration (Shanmugam & Nair, 2003). Mergers serve two purpose. Firstly is to ensure that domestic banks are capable of handling financial sector deregulation by 2003, and the second purpose is to boost international competitiveness. The next goal of mergers is to build a bastion of domestic banks that will be able to endure in the event of a financial catastrophe (Salehhudin & Talha, 2005).

The notion of combining banks began in the mid-1980s as a result of the economic downturn, but the process did not progress as planned since the shareholders of financial and banking institutions were primarily concerned with safeguarding their own interests. Several weak commercial banks and finance firms were forced into insolvency and financial distress as a result of the crisis. A rescue plan was implemented by Bank Negara Malaysia in order to protect the financial system's stability. In 1997, only 34 commercial banks remained.

During the 1997-1998 financial crisis, a new banking tragedy happened. Bank Negara Malaysia acted fast to defend financial institutions after the expensive experience of the mid-80s crisis rescue effort. On July 29, 1997, the Governor of Bank Negara Malaysia (BNM) announced a plan to consolidate local banking firms into ten