



**A paper submitted to Institut Teknologi MARA
in partial fulfillment of the requirement for the
Bachelor of Business Administration in Finance (HONS.)**

***DETERMINATION OF VALUATION TECHNIQUES
FOR TARGET COMPANY ON
TRADING / SERVICES SECTOR***

ADVISOR

TOH PUAN DR. HAYATI MOHAMMAD

BY

**NOOR AZIZAH BINTI ZI
94874347**

NOVEMBER 1996

ACKNOWLEDGEMENT

Alhamdulillah; with the grace of Allah S.W.T., I managed to complete this project paper after much time and patience that have been indulged.

Special gratitude is dedicated to the people who were involved in preparation of this paper and for their comments, remarks and views.

To my advisor, Toh Puan Dr. Hayati Mohammad, I would like to extend my utmost appreciation and thanks for her guidance and advise throughout the period in preparing this paper.

To the librarians of Kuala Lumpur Stock Exchange, thank you for their assistance in supplying the data and information that related with my study. Apart from that, I am indebted to my colleagues who have assisted me in preparing the paper.

An honour of gratitude is dedicated to my dearest parents, Encik Zi and Puan Ensah who have enriched my life beyond measure and to my sister and younger brothers always be on my side. Thank you.

MAY ALLAH BLESS ALL OF YOU

ABSTRACT

Mergers and acquisitions activities have played an important role in the growth of the firms and these activities have become popular in Malaysia. Determination and valuation of target companies are important in order to determine appropriate purchase price for mergers and acquisitions activities to be successful and beneficial to those parties involved. The rationale of mergers and acquisitions suggest that the acquirer company expects the acquisition to generate positive return rather than any other motives.

This paper examines the valuation techniques or approaches that are being used to value the target company in Trading / services sector, which is listed on Kuala Lumpur Stock Exchange main board. The valuation emphasised on the liquidation value approach, the comparable value approach and the discounted cash flow approach to determine whether the target company companies were purchased based on value maximising behaviour.

The three approaches mentioned before are suitable to apply in determining the value of target companies on trading / services sector. It was found that 6.67 % of the sample showed the value of company was above the purchase price by using liquidation and comparable value approach. By using discounted cash flow, only 13.33 % of the sample transacted below the value of the company. The comparison between sectors in KLSE main board indicate that certain approach are suitable to certain sector, depending on the nature of the sectors or companies.

TABLE OF CONTENT

	PAGE
<i>ACKNOWLEDGEMENT</i>	<i>i</i>
<i>ABSTRACT</i>	<i>ii</i>
<i>LIST OF ABBREVIATION</i>	<i>iii</i>
<i>LIST OF APPENDICES</i>	<i>iv</i>
<i>LIST OF FIGURES</i>	<i>v</i>
<i>LIST OF TABLE</i>	<i>vi</i>

CHAPTER 1 INTRODUCTION

1.1 OVERVIEW	1
1.1.1 DEFINATION OF MERGERS AND ACQUISITIONS	5
1.1.2 CLASSIFICATION OF MERGERS AND ACQUISITIONS	7
1.2 OBJECTIVE OF THE STUDY	8
1.3 SCOPE AND LIMITATION OF THE STUDY	9
1.3.1 SCOPE OF THE STUDY	9
1.3.2 LIMITATION OF THE STUDY	11
1.4 TERMINOLOGY	12

CHAPTER 2 LITERATURE REVIEW

2.0 LITERATURE REVIEW	15
------------------------------	-----------

CHAPTER 3 THE LEGAL FRAMEWORK

3.1 INTRODUCTION	26
3.2 TAKE-OVER OFFER PROCESS	28
3.3 RULES AND REGULATION ISSUED BY REGULATORY BODIES	33

CHAPTER 4 RESEARCH METHODOLOGY

4.1 INTRODUCTION	36
4.2 BACKGROUND OF THE STUDY	36
4.2.1 THE LIQUIDATION VALUE APPROACH	37
4.2.2 THE COMPARABLE TRANSACTION VALUE	
APPROACH	38
4.2.3 THE DISCOUNTED CASH FLOW VALUE APPROACH	38
4.3 RESEARCH DESIGN	39
4.4 HYPOTHESIS OF THE STUDY	41
4.4.1 LIQUIDATION VALUE APPROACH	41
4.4.2 COMPARABLE TRANSACTION VALUE APPROACH	41
4.4.3 DISCOUNTED CASH FLOW APPROACH	42
4.5 IDENTIFICATION OF SAMPLES	43
4.6 DATA COLLECTION	44
4.7 ANALYSIS OF DATA	45
4.7.1 LIQUIDATION VALUE APPROACH	46
4.7.1.1 LIMITATION OF LIQUIDATION APPROACH	48