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

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TABLE OF CONTENTS

CONTENTS **PAGE**

ABSTRACT

Literature in the field of M&A shows that acquirers did not gain from the transaction and the successful rate of takeover 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 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. 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 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.

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 acquire. 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 Cap) with RM5.06 billion cash or RM7.30 per share on 21 June 2010. A subsidiary merger is a merger of two companies in which the target company becomes a subsidiary or part of a subsidiary of the parent company (Gaughan, 2002). For example, on 16 February 2005, Opcom Holdings Bhd acquired the entire share capital of Opcom Network Technologies Sdn Bhd, a telecommunication service provider and became a wholly-owned subsidiary of Opcom Holdings Bhd.

The success or failure of M&A transactions is of great importance to the economy as a whole. Successful mergers can create substantial synergies that generate growth and employment for the nation. In contrast, misguided acquisitions can lead to overinvestment in some industries. The lack of experience, expertise and information about any potential merger activity would lead to disastrous M&As. It is therefore essential that CEOs make M&A decisions equipped with all the necessary industrial and financial information, rules and regulations or advice from experts in the field. These advisers are generally affiliated with commercial or investment bank that provide and assist the management and monitor the process of M&As.

In general, the firm's specific and transaction characteristics which reflect complexity of the deals should have an impact on the outcome of the deals (abnormal returns). The characteristics such as transaction size, methods of payments, fees payment, types of merger such as statutory merger, types of industries are useful in determining the abnormal returns of the M&A deals. The more complex the characteristics of the deals, the more impact it has on the outcome of the deals. In addition, the market share of financial advisers, either investment banks or commercial banks, affects not only the deals premium, speed of completion, the success rate but also the abnormal returns (Rau, 2000; Hunter & Jagtiani, 2003; Allen, Jagtiani, Peristiani & Saunders, 2004). This study investigates the main major outcome specifically abnormal returns in the context of Malaysian M&As.

1.1 Developments of the M&As in Malaysia

Malaysian firms have experienced a period of M&A activities since 1980s and this has doubled in number in the 1990s (Song & Chu, 2006). According to Thomson ONE Banker M&A database (2010), M&A activities in Malaysia accounted for a total transaction value of RM 4707.32 million in the 1980s and this has increased dramatically to RM 316,289.165 million in the 1990s. Between 2000 and 2010, the transaction value was RM 333.533.84 million. Table 1.1 shows the ten largest Malaysian M&A activities. The majority of the ten largest deals in Malaysia's history took place in the 2000's. According to M&A database the largest M&A in Malaysian history was the combination of Binariang GSM Sdn Bhd and Maxis