THE IMPACT OF ACQUISITION ANNOUNCEMENT TO STOCK RETURN OF BIDDER COMPANIES (MALAYSIAN PROPERTY SECTOR'S CASE) 1999-2005

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ABSTRACT

The empirical study examines the stock performance through determination of stock price of bidding companies where the bidding companies usually incur a negative abnormal return. The conventional wisdom from merger studies in recent years is that shareholders of acquired companies earn positive abnormal returns in the days or months surrounding merger, whereas the returns to acquiring companies are more mixed Lahey (1985).

In this research the target companies will not be taken into consideration because most companies being acquired in Malaysia were small companies which have not been listed yet in Bursa Malaysia. The focus is solely on the performance of bidder companies. Besides that, this research will specifically focus on the property sector in Malaysia because different kind of sector might affect the result of the study. Most of the companies taken were taken from the period of 2000 until 2005 to avoid any other factors that might affect stock performance of companies such as economic downturn that usually occur once in ten years time.

The basic calculation for the research is to know how the real prices of stock differ from its expected price. Its expected prices are derived based on the market movement as the benchmark. Thus, when acquisition announcement is made, significant changes to the price is studied to determine whether acquisition announcement has or not, significant effect to the price of stock and then to the return of stock.

CHAPTER 1
INTRODUCTION

Studies made regarding this case, suggests that shareholders of the target firms gained from the acquisition process while the bidding firms show no signs of improvement. The abnormal returns for target firms increase in two days before the announcement of bid. These rises could be due to a number of reasons and leakage of information to the outsiders and also shareholders. The biggest increase on returns for target firms occurs on the day of the announcement of the bid. After the announcement, the returns stabilize with no significant changes either positive or negative. Becher's (2000) study on bank mergers found a negative effect on bidder firm's return and positive effect on target firm's return.

At the first place we may question on why a comp y must merge with or acquired other company. Is it to reduce the risk of competition between companies or strengthen the position of the company. On the other hand, we may think that when a company acquire another company it will be an extra cost to acquire, so why the company must incur the extra cost. Or could it be one of the strategic planning of the company.

An acquisition is a capital investment decision and the ultimate goal is to maximize shareholder wealth. There are immediate factors, however, that encourage companies to acquire other companies such as diversification, elimination of operating inefficiencies, tax considerations, and market power.