



UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF MERGER AND
ACQUISITION ANNOUNCEMENT
ON THE STOCK PRICE IN
MALAYSIA**

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ABSTRACT

Merger announcements might lead to expectations about a positive perception in the stock price of the potential of these mergers for both the acquirer firm and the target firm. In this study, we investigate the impact of announcement of merger and acquisition to the stock price in Malaysia. The objective of this study is examine whether announcements of merger and acquisitions affect the stock price of the company. This study using daily stock price and FBM KLCI to calculate the abnormal return. The data are collected for 4 years from 2013 to 2016. Between that years, there is 840 announcement of merger and acquisitions in Malaysia. For this study we select the company that are listed in Bursa Malaysia and 100% acquire the target company. Because of limitation of data, the company used in this study is 111 company. This study only focus on investigating acquirer firm abnormal return. This huge reduction in number of companies due to only a few of them are listed in Bursa Malaysia and also limitation to get the stock price of the company. In this study, we found that there is significant abnormal return before and after merger and acquisition. Other than that, we also found that announcement of merger and acquisitions had giving impact towards stock price of company.

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CHAPTER ONE INTRODUCTION

1.1 INTRODUCTION

The process of initial merger and acquisition in Malaysia started with banking sector. The country had witnessed its banks mergers as early in 1932, late 1960s and the process peaked in mid-1980s as a result of economic recession. There is 80 banks in Malaysia before the economic recession. The crisis in that time revealed the weakness of the banks' financial positions and their inability to adjust new conditions. This condition lead a number of weak commercial banks and finance companies into solvency & financial distress. The bank are getting worst condition due to high non-performing loans and over-lending to the property sector. Consequently, the financial company faced a huge loss. To maintain the stability of financial system, Bank Negara Malaysia implemented a rescue scheme to maintain the stability of the financial system in Malaysia. The rescue scheme involved the Central Bank of Malaysia acquired shares in some of the assets and liabilities of the insolvent companies by stronger companies.

Other than financial firms, non-financial firms also involved in the movement of merger and acquisition activities. As reported by Bursa Malaysia, merger activities by other non-financial firms was started in 1993. First company was involved in merger and acquisitions activities is Usaha Tegas Sdn Bhd. Usaha Tegas Sdn Bhd is a company led by billionaire Ananda Krishnan. This company was acquire Voit Corporation, which is a company located in Mexico City. Within 1993 to 1997, only 12 companies involved in merger and acquisition announcement.

Next recession happened in 1997-1998. During that time, many Asian countries have undergone massive reforms in their financial and non-financial sector. Malaysia also one of the country that are affected. In 1997, there is only 7 companies that are involved in merger activities. One of them is Telekom Malaysia Berhad. Telekom Malaysia Berhad was acquire two communications companies which is Smart Corporation PCL and Digital Phone Co Ltd. On July 1997, the Governor of Bank Negara Malaysia (BNM) announced a merger programme as an encouragement for them to doing merger. In order to compete in the global stage, many companies had