

Effect of  
Mergers and Acquisitions  
on Malaysian Shareholder Value

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## **Abstract**

This paper investigates the reaction of financial markets and the value generated to shareholders by the announcement of mergers and acquisitions involving firms listed on the Malaysian stock exchange, Bursa Malaysia over the period 1998–2004 which is after the Asian financial crisis. Cumulative abnormal shareholder returns due to the announcement of a merger reflect a revision of the expected value resulting from future synergies or wealth redistribution among stakeholders. In the short-term, target firm shareholders receive on average significant positive cumulative abnormal returns for event windows of up to one month centred on the announcement date. Acquirers' cumulative abnormal returns are zero or slightly positive. From a sectoral dimension, financial industries exhibit lower merger value because regulations require publicised pre-merger approvals. Announcements involving cash payouts generate the higher aggregated returns compared to share issues or a mixture of both payment methods. Contrary to expectations, the equities market in Malaysia does not reward acquisitions in related industries with short-term abnormal gains. Merging firms' relative size comparisons indicate that the benefits only accrue to the target shareholders.

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## **List of Symbols and Abbreviations**

AAR	average abnormal return
ACP	Amanah Capital Partners Berhad
AEB	Austral Enterprises Berhad
AR	abnormal return
BHAR	buy and hold abnormal return
BHL	Ban Hin Lee Bank Berhad
BLB	Berjaya Land Bhd
BNM	Bank Negara Malaysia
CAAR	cumulative average abnormal return
CAPM	capital asset pricing model
CAR	cumulative abnormal return
CTAR	calendar time abnormal return
EBB	EON Bank Berhad
ECB	EON Capital Berhad
EON	Edaran Otomobil Nasional Berhad
FIC	Foreign Investment Committee
GCM	Gold Coin (M) Berhad
HHB	Hock Hua Bank Berhad
I&P	Island & Peninsular Berhad
ICP	Industrial Concrete Products Berhad
IT	Information Technology
KCH	Kedah Cement Holdings Berhad
KLCI	KLSE Composite Index

KLSE	Kuala Lumpur Stock Exchange
KLSE-RIS	Kuala Lumpur Stock Exchange – RIIAM Information System
LBO	leveraged buyout
M&A	merger and acquisition
MBO	management buyout
MCB	Malayan Cement Berhad
MIDF	Malaysian Industrial Development Finance Berhad
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOU	memorandum of understanding
MOX	Malaysian Oxygen Berhad
MTC	Malaysian Tobacco Company Berhad
NIOI	Nissan Industrial Oxygen Incorporated Berhad
NPB	Negara Properties (M) Berhad
OLS	ordinary least square
OSK	O.S.K. Holdings Bhd
PBB	Public Bank Berhad
PFB	Public Finance Berhad
RHBC	RHB Capital Berhad
ROC	Registrar of Companies
RPM	Rothmans of Pall Mall (M) Berhad
RUB	Ranhill Utilities Berhad
SBB	Southern Bank Berhad
SC	Securities Commission
STB	Sapura Telecommunications Berhad

T&T	Tan & Tan Developments Berhad
UBG	Utama Banking Group Berhad
WTO	World Trade Organisation