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.