CHAPTER 5 CONCLUSION AND RECOMMENDATIONS

This study examines stock market reactions in terms of changes in expected returns to mergers and acquisitions (M&A) that have been announced from 1998 to 2004 in Malaysia. Event-study methodology was applied to determine the abnormal returns and cumulative abnormal returns.

The overall analysis showed that public investors perceive M&A activities between Malaysian firms as highly value generating hence the positively significant combined cumulative abnormal returns of acquirer and target companies.

Acquirer firms showed cumulative abnormal returns of 3.1% for event window t ± 1 which eventually dropped to -1.3% for event window t ± 30. On the other hand, target firms gained 6.1% during the initial three days period and rose further to 8.1% in the 2-month period while the combined weighted average showed a return on 1.5%.

The results show that target firms enjoy a significantly positive increase in value for target firms while acquirer firms received only zero or slightly positive abnormal returns. This study confirms the previous studies by Campa & Hernando (2004), Goergen and Renneboog (2004), and Beitel et al. (2002) that target firms experienced significant positive abnormal returns over acquirer firms.

Cash acquisitions gave the greatest combined CARs around the announcement date followed by mixed payments and finally stock acquisitions. It is interesting to note that stock acquisitions gave the biggest disparity between CAR of acquirer and target companies.

M&A within the financial industry showed lower or even significantly negative cumulative abnormal returns which can be attributed to prior expectations of such mergers due to public release of information before an agreement is signed.

Acquirers of non-conglomerate mergers and acquisitions fared worse than expected. The Malaysian market does not seem to regard specialisation as value generating.

Merging firms with a large relative size disparity favoured target shareholders whereby the gains over the larger event windows were in excess of ten percent.. This is a result of the management and scale synergies available to the target firm. However, the acquirers did not reap any benefits from such an exercise.

5.1 Recommendations

This analysis could be extended by assessing different event window sizes. This includes long-term cumulative abnormal returns in the range of months leading up to and after the announcement date. However, the sample should be carefully selected and adjusted to minimise factors which are not related to the acquisition. The three methodologies used in long-term event studies include the cumulative abnormal returns (CAR) (Agrawal et al. 1992; Rau and Vermaelen 1998), the buy and hold abnormal returns (BHAR) (Barber and Lyon 1997; Loughran and Vijh 1997), and the calendar time abnormal returns (CTAR) methods (Mitchell and Stafford 2000).

Many of the companies listed on the stock exchange have parent or holding companies. The effects of mergers and acquisitions (M&A) on parent companies can be analysed. This applies to both acquirer and target firms.

During the sample selection stage, it was found that most M&As occurred between subsidiary companies owned by the publicly traded holding companies. Therefore, the sample population may be greatly extended by including these transactions into the analysis. However, such a study requires proper weighting on the effects to returns since the subsidiary company only contributes a certain percentage to the parent companies market capitalisation or sales volume. This would also allow industry-specific investigations as the sample size would be significant enough to do a proper analysis.

This study was restricted to M&A transactions which transfers control of the target firms to the acquirer firms. However, significant acquisitions that do not lead to majority shareholding i.e. 20 percent and above could be included in the analysis to extend the sample size.

During the sample selection stage, it was also noticed that certain transactions involve the acquisition of distressed target firms such as those in PN4 condition. After being taken over and it undergoes restructuring, some of these companies are re-admitted into the exchange and it might be worth analysing the effects before and after stock suspension.

Further analysis could be performed in terms of resource movements between the target and acquirer firms. Capron and Pistre (2002) assessed the source of synergies by measuring the extent and direction of post-acquisition resource transfer to and from target firms.