

**TARGET STATUS AND METHOD OF PAYMENT:
A PERFORMANCE ANALYSIS OF ACQUISITIONS IN
MALAYSIA**

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ABSTRACT

This study investigates firms performance in acquisition based on the target status and methods of payment in the Malaysian market over the period 2000-2004. To measure the acquiring and target firms abnormal returns around the acquisition announcements, the study employs the market model with Scholes-Williams adjustments for thin trading. For long-term analysis after acquisition, we use the market-adjusted model and buy-and-hold abnormal approach. The study finds that, in the short-term, acquisition activities create positive gain to both acquiring and target firms, most of which go to the target firms. Further, most of the abnormal returns occurs on day 0 and day 1. This is consistent with a market efficiency situation in which the information content of the acquisition announcement is quickly incorporated into the share prices. However, contrary to most of the earlier findings, this study finds that the low value creation in the acquiring firms becomes significantly negative when it involves acquisition of unlisted private target firms. We reasoned that this is primarily due to the strong bargaining power of the acquired firms since the private targets in Malaysia are typically family-owned or closely held by a limited number of shareholders. It is also found that after controlling for the methods of payment, both the acquiring and target firms in cash offers receive higher gain than share offers. Despite the general belief that acquirers of private targets gain more when share offer is used, this study finds an opposite result. This may be due to the size of the private targets being very small relative to the size of the acquiring firms. Hence target shareholders would not be able to effectively monitor post-acquisition activity of the acquiring firms. Further, the relative size of target to acquiring firm suggests that the larger the target the greater the acquirer's returns. The overall results support the financing signaling hypothesis that share-settlement is viewed negatively by the market regardless of the target status. As for the long-term post-acquisition analysis, evidence reveals that acquiring firms experience wealth losses for three years regardless of the target status and method of payment. This might indicate that market overreacted to the acquisition announcement. Further analysis reveals that the significant underperformance is only prevalent for acquirers of unlisted private targets regardless of method of payment, and for acquirers using share-settlement regardless of target status. When controlling for firm size, book-to-market ratio the results suggest that underperformance may limited to small size acquirers and acquirers with high book-to-market ratio. Further, this study report acquirers returns are not sensitive to the different models of excess return estimation employed.

**STATUS SYARIKAT SASARAN DAN KAEDAH PEMBAYARAN:
SATU ANALISIS PRESTASI PENGAMBILALIHAN DI MALAYSIA**

ABSTRAK (BAHASA MELAYU)

Kajian ini mengkaji prestasi syarikat dalam pengambilalihan berdasarkan status syarikat yang di sasar dan kaedah pembayaran di dalam pasaran Malaysia bagi tahun 2000-2004. Untuk mengukur pulangan luar biasa bagi syarikat pengambil alih dan syarikat sasaran di sekitar pengumuman pengambilalihan, kajian ini menggunakan model pasaran dengan pelarasan Scholes-Williams untuk dagangan tipis. Untuk analisis jangka panjang pasca-pengambilalihan, kajian ini menggunakan dua ukuran pulangan luar biasa, iaitu model pulangan terlaras pasaran dan model pulangan belidandan-simpan. Kajian ini mendapati bahawa, dalam jangka pendek, kegiatan pengambilalihan mencipta keuntungan positif kepada kedua-dua pihak, iaitu syarikat pengambil alih dan syarikat sasaran, dan sebahagian besarnya pergi ke syarikat sasaran. Kajian ini juga mendapati sebahagian besar keuntungan pulangan luar biasa itu berlaku pada hari 0 dan hari 1. Hal ini konsisten dengan situasi pasaran cekap, di mana kandungan maklumat di dalam pengumuman pengambilalihan dipancarkan dengan cepat dan tepat ke dalam harga pasaran saham. Namun, bertentangan dengan penemuan-penemuan sebelumnya, kajian ini mendapati bahawa penciptaan nilai adalah rendah bagi syarikat pengambil alih, dan pulangan ini menjadi negatif apabila pengambilalihan melibatkan syarikat sasaran swasta yang tidak tersenarai. Perkara seperti ini berlaku mungkin disebabkan oleh kuasa tawar-menawar yang kuat daripada firma sasaran kerana syarikat swasta di Malaysia biasanya adalah milikan keluarga atau dipegang oleh sebilangan kecil pemegang saham. Kajian juga mendapati bahawa dari segi kaedah pembayaran, kedua-dua pihak, iaitu syarikat pengambil alih dan syarikat sasaran dalam penyelesaian tunai memperoleh keuntungan lebih tinggi daripada penyelesaian saham. Walaupun kepercayaan umum adalah syarikat yang mengambil alih sasaran swasta akan mendapat keuntungan yang lebih banyak apabila penyelesaian saham digunakan, kajian ini mendapati sebaliknya. Hal ini mungkin kerana sasaran swasta adalah bersaiz kecil secara relatifnya berbanding dengan syarikat pengambil alih, maka pemegang saham dari sasaran swasta tidak akan mampu menjadi pengawas yang berkesan kepada syarikat pengambil alih selepas pengambilalihan. Kajian mendapati bahawa saiz relatif syarikat sasaran mempengaruhi secara langsung keuntungan yang akan diperolehi oleh syarikat pengambil alih. Keputusan keseluruhan menyokong hipotesis isyarat pembiayaan bahawa penyelesaian saham dipandang negatif oleh pasaran tanpa menghiraukan status syarikat sasaran. Bagi analisis jangka panjang pasca pengambilalihan, dapatan kajian menunjukkan bahawa syarikat pengambil alih mengalami kerugian untuk tiga tahun selepas kejadian tanpa mengira status syarikat sasaran dan kaedah pembayaran. Hal ini mungkin menunjukkan bahawa pasaran telah menunjukkan reaksi berlebihan terhadap pengumuman pengambilalihan. Analisis lanjut menunjukkan prestasi rendah hanya berlaku untuk syarikat yang mengambil alih sasaran swasta (tidak tersenarai) tanpa mengira kaedah pembayaran, dan untuk pengambilalihan secara tukaran saham, tanpa mengira status syarikat sasaran. Kajian juga mendapati bahawa prestasi rendah mungkin terhad kepada pengambilalihan yang melibatkan syarikat pengambil alih bersaiz kecil dan yang mempunyai nisbah nilai buku kepada nilai pasaran yang tinggi. Laporan kajian ini juga menunjukkan pulangan bagi syarikat pengambil alih tidak sensitif terhadap model pulangan yang berbeza yang digunakan.

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LIST OF ABBREVIATIONS

AR	Average Abnormal Returns
AMEX	American Stock Exchange
BHAR	Buy-and-Hold Abnormal Returns
CAR(s)	Cumulative Average Abnormal Returns
CAPM	Capital Asset Pricing Model
CIC	Capital Issues Committee guidelines
CTAR	Calendar Time Abnormal Returns
CMAR	Cumulative Market-adjusted Abnormal Returns
CRR	Cumulative Raw Return
DEA	Data Envelopment Analysis
FIC	Foreign Investment Committee
KLCI	Kuala Lumpur Composite Index
KLSE	Kuala Lumpur Stock Exchange
M&A(s)	Merger(s) and Acquisition(s)
MAM	Market-adjusted Model
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
NASDAQ	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
OECD	Organization for Economic Corporation and Development
RM	Ringgit of Malaysia
SC	Securities Commission
SW	Scholes and Williams
The Code	Malaysia Codes on Takeovers and Mergers
UK	United Kingdom
US	United States
US\$	United States Dollar
%	Percent
α	Alpha
β	Beta
σ	Standard deviation