

CHAPTER I

INTRODUCTION

MERGERS AND ACQUISITIONS IN MALAYSIA

Mergers and Acquisitions (M&A) are activities that corporate players regard as instruments for growth, diversifications, and a host of other motives. These have been the subjects of great interest worthy of detail analysis. The scale and pace of mergers and acquisition are gaining momentum in majority of capital markets worldwide.

The Malaysian capital market is no exception. In early Seventies, Mergers and acquisitions in Malaysian capital market occurred as a result of corporate restructuring to be in line with the requirements of Malaysia government's New Economic Policy.

Eversince late Eighties, Malaysian capital market was obsessed again with merger and acquisition fevers. It started in the form of reverse takeover as a short cut for firms to be listed in Kuala Lumpur Stock Exchange. Subsequently the Government policy of privatisation also add much excitement to corporate acquisition activities.

Mergers and acquisitions are actually no different from other forms of capital investment. It means to say one should go ahead with the purchase if it makes a net contribution to shareholders' wealth. The basic principles of capital investment decision still apply. For some of retail investors, an announcement of an impending takeover could mean an opportunity for quick gains on stock exchange.

Majority of the merger and acquisition activities in Malaysia are between friendly parties with large controlling interests on both sides. This situation helps to ensure sufficient votes to push through the deal. However, in recent years, merger and acquisition activities are more complex. The complexities stem from the intervening parties that are interrelated through their corporate empires. The likelihood is that the scale as well as the financing schemes set a new record each time a new deal surfaces. Examples such as Management Buy Out of News Strait Times, Demerger of Malaysia Helicopter Services and rescuing attempt of ailing company like Tropical Veneer Company Bhd (suspended since Oct 1975) by Berjaya Group. In certain situation, the acquiring firm persists in its takeover attempts despite resistance from the management of the target firm. Then, the more exciting version of takeover occurs. Examples of hostile takeover attempts are acquisition of MPH by Hume in 1989 and the tussle between MUIB and Berjaya Group in 1991. MUIB-Berjaya

tussle was ranked among the most acrimonies and the duration taken was the longest in Malaysian corporate history.

Defination of Terms used in the study

A takeover is defined as a firm gaining direct or indirect control of the assets and/or voting power of another firm. Control is defined by the Companies Act, 1965 as the acquiring party possessing in aggregate more than 33% of the voting rights of a firm being acquired. Subsequently the 33% forms the trigger point for a mandatory offer under the Mergers and Takeover code. Mandatory offer is termed as general offer and is made directly to the shareholders of the other target firm.

Merger between companies is deemed to occur when the two or more companies, usually of about equal size, dissolved to form a newly combined company. The shareholders of this new company are essentially the shareholders of previously independent firms before they lose their economic entity.

In the course of this study, takeover is regarded as synonymous with "acquisition". Acquisitions are mostly carried out by cash term. Sometimes instead of cash, assets can be injected into target company in exchange for shares.

In both cases, control of target firm passes to acquiring firm.

There are also instances whereby acquiring firm may issue its own shares in exchange for target firm. If after the share exchange, control of acquiring firm passes to target firm by virtue of the fact that now target firm holds controlling shares, then a reverse takeover is deemed to have occurred. When reverse takeover happens, the control of acquiring firm passes over to target firm. In Malaysia, the target firm is usually unlisted in Kuala Lumpur Stock Exchange and the acquiring firm is usually listed. In this circumstance "backdoor listing" of unlisted firm occurs.

Further more, "the acquiring firm" is used to denote the firm that seeks to takeover or to merge with another firm. Similarly, the firm which is sought to be acquired is referred to as "the target firm".

Purpose of the study

This case study saw the target firm MUIB is ripe for takeover. It had most of the characteristics of a target firm but its Chief Executive Chairman was no pushover. During the course of tussle, he had engaged several forms of defence strategies to thwart off the takeover attempts (deemed).

On the other hand, the acquirer (Berjaya Group) had met its matching fighter. The tussle saw several corporate manouvres that are worthy of further analysis. The intervention of "white knight", though welcomed by the acquirer was a failure.

The jewels in MUIB's crown were eventually in Hong Leong Credit Bhd's hand after nearly twenty seven months. The sale of MUI Bank and MUI Finance by MUIB also set the largest ever extra ordinary gain by a single firm in Malaysia corporate history.

The purpose of this study is to examine the stock market response in relation to the events of the MUIB-Berjaya tussel. This study hopes to complement the earlier works of researcher's by demonstrating the extent to which the empirical results of the prior study can be used to forecast the market reaction to takeover announcements. It also hopes

to show the response of investors to the effectiveness of corporate strategies in the event of takeover threat.

Close scrutinising of the stock price changes of the firms that are involved in the tussle hopes to demonstrate the importance of examining the sequence of events before and after important announcements.

ORGANISATION OF THE STUDY

This study is organised in the following manner:

Chapter I : Introduces the subject and specifies the purpose of the study.

Chapter II : Presents theoretical background for mergers and acquisitions.

Chapter III : Sets out the Methodology used in the evaluation of the data obtained.

Chapter IV : Gives details of case involved.

Chapter V : Presents empirical results obtained from the findings.

Chapter VI : Summarises the important findings of this study and compares them with the results obtained by other researchers.