

# THE EFFECT OF ACQUISITION ANNOUNCEMENTS ON SHAREHOLDER RETURNS IN THE ELECTRIC UTILITY INDUSTRY

Prepared by: Yeo Yi Shan

## ABSTRACT

---

Statistics involving acquisitions in the utility industry show that 75percent of acquisitions do not work out. Focusing on electric utility firms in this study, a study into the markets' reaction to acquisition activity is an investors' best bet to find out what impact does the different types of acquisition have on the share price. A positive movement of share price will increase the worth of the firm and give investors positive gains. This research shall also look at how the share price of other electric utility firms react to news of Malaysia's biggest electric utility firm, Tenaga Nasional Berhad's (TNB), acquisition announcements.

This study is based mainly on secondary data. The share prices of the sample companies: Tenaga Nasional Berhad (TNB), Powertek Berhad, EPE Power Corporation (EPE), Malakoff Berhad, Mega First Corporation Berhad, Worldwide Holdings Berhad and YTL Power international Berhad were collected and various statistical tests were done on the periods where an acquisitions announcement took place. All announcements made by the sample firms over the period of January 1997 to March 2003 will be taken into consideration. The data collected will be analyzed using the SPSS software version11.0. The event study methodology is employed, which is the residual analysis of the impact of an acquisition event on the rate of return of the stockholder.

It was found that the share market had a positive reaction to acquisition announcements by the electric utility firms although most of them were insignificant reactions. Significant leakages of information before the announcement were detected though. Full acquisitions and acquisitions in the same line of business were favored and lastly, it was discovered that the acquisition announcements made by TNB had insignificant impact on the share price of the other electric firms.