

VALUE AND RISK EFFECT OF CORPORATE DIVERSIFICATION FOR MALAYSIAN LISTED PROPERTY COMPANIES (1999 – 2001)

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ABSTRACT

Prior literature finds that corporate diversification reduces the firm's value relative to the sum of shareholders' value and bondholders' value. However, many investors still exercise corporate diversification due to portfolio theory as well as previous empirical studies documented there may exist risk reduction from diversification. In this paper, the researcher conducts a similar study to explore Malaysian listed property companies' value and risk effect arisen from corporate diversification. The aims of this study are to determine: (i) whether corporate diversification or focused strategy makes Malaysian listed property companies achieve higher firms' value; (ii) whether diversified listed property companies have lower risk than focused listed property companies; (iii) whether the Malaysian listed property companies should focus on investing in single property type within single region, or diversify business into several property types across several regions.

A sample of 30 Malaysian listed property companies is selected and covers from 1999 to 2001. To investigate value effect of corporate diversification, firm's excess value is adopted as the comparable variable between diversified companies and focused companies. Risk level of a company is computed as standard deviation of annual returns. Risk return analysis is used as the measurement of diversification through property types and regions. Following Harry Markowitz and other researchers, company's risk-return performance is evaluated by the shape of efficient frontier.

Through statistical testing, the researcher concludes that in Malaysia, corporate diversification destroys listed property companies' values whilst it does not reduce the companies' risks. From another aspect, the researcher finds that companies diversified into several property types across several property regions are performing healthier, as they can operate in lower risk and at the same time can generate higher return.

This study fills in the gap of rare researches on diversification in Malaysia compared to other foreign countries such as US, UK and Australia. The findings of the study also assist the investors and portfolio managers to make sound decisions. Meanwhile, this paper helps the future researchers to carry out any studies on corporate diversification.