

The Performance of Two Anchor Domestic Malaysian Banks before and after Acquisition

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Received: August 2, 2017

Accepted: September 11, 2017

Online Published: September 25, 2017

doi:10.5539/ibr.v10n10p156

URL: <https://doi.org/10.5539/ibr.v10n10p156>

Abstract

This article is undertaken to assess the performance of domestic Malaysian banks before and after acquisition. This paper focuses on two pairs of anchor banks which merged and acquired other minor banks in Malaysia from year 2001 until 2013. The research period is 2 years before and 2 years after the acquisitions. The method being used in this research is financial ratios and event study. Nine selected financial ratios were used in this research to find the difference between pre and post acquisitions. Whereas event study is used to find the abnormal return, average abnormal return, cumulative abnormal return, and t-test hypothesis. The event window in this research is a total of 21 days before and after the acquisitions including the actual day of the event announcement. The results for this research indicate that there was improvement for Hong Leong Bank and EON Bank. RHB Bank on the other hand was outperforming by Bank Utama. There were limitation when carrying out this research such as difficulties to retrieve the needed annual report and historical price to conduct the investigation. The time lag on certain banks performance may need more time to see a better result while others may perform well in short period.

Keywords: domestic banks performance, acquisition, financial ratios, annual report, financial crisis

1. Introduction

Malaysia banking sector underwent a major transformation in year 2000 due to the Asian Financial Crisis in year 1997. Malaysia Central Bank which is also known as Bank Negara Malaysia (BNM) initially planned for the 58 financial institutions (21 commercial banks, 25 finance companies, and 12 merchant banks) to merge into 10 anchor banks. According to Talha and Sallehuddin (2005), there are two purposes of undergoing mergers, first is to ensure domestic banks are able to handle financial sector liberalization by the year 2003 and also to increase international competitive advantage. Second purpose of undergoing mergers is to create a stronghold of domestic banks to survive when financial crisis occur. Establishment of the 10 anchor banks increases the depositors' confidence and also established stronger and flexible banks (Talha & Sallehuddin, 2005).

The form of 10 anchor banks was resulted from the pressure of the Central Bank as stated in Shanmugam and Nair (2003). According to Shanmugam and Nair (2003), initially Bank Negara Malaysia (BNM) planned to have only six anchor banks in Malaysia and it was announced on 19 July 1999, however, due to objection from various quarters, the government increased the number of 6 anchor banks to 10 anchor banks. The program of having 10 anchor banks is to reduce the numbers of financial institutions in Malaysia from 54 to 10 financial institutions (Shanmugam & Nair, 2003).

Merger is combining two or more companies then the new company can either use a new name or either the name of the buyer or the seller. Whereas, acquisition is where a company becomes history after the strong company acquired the weaker company. According to Ong and Ng (2013), merger and acquisition in Malaysia started in 1970s. During the financial crisis, the Malaysia government found that there was weakness in Malaysia banking system. According to Shanmugam and Nair (2003), during the financial crisis, smaller banks were not able to perform well. Therefore, the merging program of domestic banks aid the banks to be able to compete in global market and able to meet the demand of the changing of domestic economic structure. Other than that, merging and acquisition also helps the banking system to be more efficient (Shanmugam & Nair, 2003).