PRE AND POST-MERGER AND ACQUISITION PERFORMANCE OF COMPANIES IN THE MALAYSIAN ENERGY SECTOR

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DEDICATION

This dissertation is dedicated to my lovely wife, Desy Kristiani, my son Joseph Theodore Harefa, and my unborn daughter. They are a precious blessing from God. To my late father, Emmanuel Harefa, who taught me to listen with curiosity, speak with honesty and act with integrity, and my mother, Katarina Eko Sumastuti. She taught me to accomplish many things by doing them one step at a time.

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ABSTRACT

The Malaysian energy sector companies are experiencing a high competition market of a fast-changing global market that requires them to do a synergy. This study aims to analyze Merger and Acquisition (M&A) performance of Malaysian energy sector companies. The study is important because M&A represents a critical shift in every business strategy. The consolidation needs to be well prepared and conducted systematically to achieve a good result. Company annual financial reports data were gathered for the periods of pre- and post-M&A. The ratio analysis has been conducted using financial ratios related to liquidity, profitability, leverage, and efficiency to evaluate company performance. The finding shows insignificant improvement in liquidity, profitability, leverage, and efficiency after the M&A period. This research implication confirms the findings of previous studies that companies have not had a stronger financial performance after M&A and that M&A was unsuccessful in creating synergy with the effective use of resources on a long-term basis.

ABSTRAK

Syarikat-syarikat sektor tenaga di Malaysia mengalami pasaran persaingan tinggi dari pasaran global yang berubah dengan pantas yang memerlukan mereka melakukan sinergi. Kajian ini bertujuan untuk menganalisis kesan Penggabungan dan Pengambilalihan (M&A) terhadap prestasi syarikat di sektor tenaga Malaysia. Kajian ini penting kerana M&A merupakan pergeseran kritis dalam setiap strategi perniagaan. Penggabungan perlu disiapkan dengan baik dan dijalankan secara sistematik untuk mencapai hasil yang baik. Data laporan kewangan tahunan syarikat dikumpulkan untuk tempoh sebelum dan sesudah M & A. Analisis nisbah telah dilakukan dengan menggunakan nisbah kewangan yang berkaitan dengan kecairan, keuntungan, leverage, dan kecekapan untuk menilai prestasi syarikat. Penemuan ini menunjukkan peningkatan yang tidak signifikan dalam kecairan, keuntungan, leverage, dan kecekapan setelah tempoh M&A. Implikasi penyelidikan ini mengesahkan penemuan kajian terdahulu bahawa syarikat tidak mempunyai prestasi kewangan yang lebih baik selepas M&A dan M&A tidak berjaya mewujudkan sinergi dengan penggunaan sumber secara efektif dalam jangka panjang.

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LIST OF ABBREVIATIONS

CATR	-	Current Asset Turnover Ratio
CR	-	Current Ratio
DA	-	Debt over Assets Ratio
EPS	-	Earnings per Share
EVA	-	Economic Value Added
FATR	-	Fixed Asset Turnover Ratio
GDP	-	Gross Domestic Product
IPO	-	Initial Public Offering
M&A	-	Mergers and Acquisitions
NPM	-	Net Profit Margin
O&G	-	Oil and Gas
ROA	-	Return on Assets
ROCE	-	Return on Capital Employed
ROE	-	Return on Equity
Sdn. Bhd	-	Sendirian Berhad
UTM	-	Universiti Teknologi Malaysia

LIST OF SYMBOLS

α	-	alpha

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter describes the study's background, problem statement, aim and objectives, hypothesis, scope, importance, and chapter structure to analyze the impact of merger and acquisition in the Malaysian energy sector.

1.2 Background of Study

Companies need to have a business strategy plan for establishing a competitive edge in the market. The typical business objective or business target is growth. Growth indicates company accomplishment. It generates new business opportunities, attracts additional clients, increases revenue, and increases company market share.

According to Kumar & Sharma (2019), the company can opt to have an internal growth strategy or organic growth. The company is using its resources for this option, and it has been the primary strategy for many years, practiced mostly by corporates across the globe. On the other hand, inorganic growth is a common way of ascending the ladder using multi-foot, through tie-ups corporate strategy or Mergers and Acquisitions (M&A). A company aims to expand its market with the aid of others. M&A would be a great way to grow the business without waiting for years to pay off the sales and marketing strategy.

Companies in the Malaysian energy sector are experiencing high competition market of a fast-changing global market. They require synergy, which is in line with one of the critical M&A motives according to Kiymaz, H., & Baker, H. (2008), to acquire market strength or penetrate the new market to bid for significant oil and gas (O&G) projects. By far, oil prices and O&G supply are the most critical factors that affect M&A in this sector (Hsu, Wright, & Zhu, 2017).

1.3 Problem Statement

The O&G industry is a crucial factor to the Malaysian energy sector and the overall economy because it added around 20 percent to the nation's Gross Domestic Product (GDP) in the last few years (BMCC, 2018; Energy Commission, 2019). A study by Solaymani (2019) showed a correlation between global oil prices and Malaysia's real GDP, where lower global oil prices would decrease Malaysia's real GDP. Therefore, companies in the Malaysian energy sector are expected to successfully deliver any major O&G projects that will positively impact the national GDP. Real GDP growth is perceived as an indication that the country's economy is doing well (Callen, 2020).

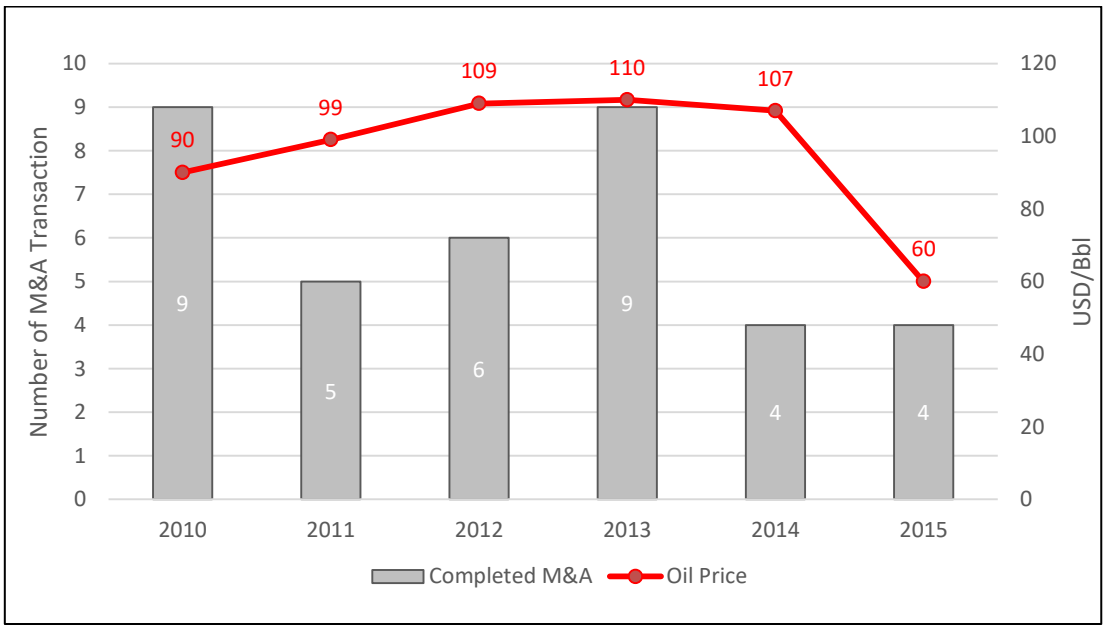

Figure 1.1 Completed M&A of the Malaysian Energy Sector (Source: Bursa Malaysia)

The synergy between companies in the energy sector is needed to gain market power or enter a new market and compete for significant O&G projects. Figure 1.1 above explains that the year 2013 would be the last vigorous year for the M&A episode in the Malaysia energy sector. The downturn of oil prices between mid-2014 to early 2015 was mainly guided by the surging of global oil production and weakening demand conditions, especially between mid-2015 to early 2016, impacting the decline of completed M&A in the Malaysia energy sector.

M&A in strategic management continues to gain prominence, and post-acquisition performance draws much attention in studies. Most of the research evaluating the impact of post-acquisition on performance identified such effect to be positive (Rahman, 2002; Lipson & Mortal, 2003; Akben-Selcuk & Altiok-Yilmaz, 2011, Rani, Yadav & Jain, 2015; Jallow, Masazing, & Basit, 2017; Mall & Gupta, 2019; Beverly, Sutejo, & Murhadi, 2019). M&A leads to improved company performance. On the other hand, other research shows evidence that M&As do not contribute synergy in the long run, even leading to a detrimental effect (King, Dalton, Daily, & Covin, 2004; Cabanda & Pajara-Pascual, 2007; Kumar, R., 2009; Aureli, S., 2015; Aik, Hassan, Hassan, & Mohamed, 2015; Pervan, Višić, & Barnjak, 2015; Rao-Nicholson, Salaber, & Cao, 2016).

The findings in the M&A report are indeed contradictory. The evidence is conflicting, and no consensus has been reached about whether M&As would add value. The Malaysian energy sector companies' performance, which exercised M&A to remain competitive in the oil and gas construction industry, needs to be investigated. This study will analyze whether M&A is improving company performance by doing a financial ratio analysis.

1.4 Aim and Objective of the Study

This study aims to analyze the effect of M&A on company performance in the Malaysian energy sector. The objectives of this study are listed below.

1. To study the effect of M&A on company Liquidity Ratio
2. To study the effect of M&A on company Profitability Ratio
3. To study the effect of M&A on company Leverage Ratio
4. To study the effect of M&A on company Efficiency Ratio

1.5 Hypotheses of Study

The null hypotheses to be tested in this study are arranged for each ratio and summarized below.

(a) $H_0$1 There is no significant difference in the Liquidity ratio pre and post-M&A

(b) $H_0$2 There is no significant difference in the Profitability ratios pre and post-M&A

(c) $H_0$3 There is no significant difference in the Leverage ratio pre and post-M&A

(d) $H_0$4 There is no significant difference in the Efficiency ratios pre and post-M&A

1.6 Scope of the Study

This study's scope is limited to the public companies in the energy sector listed on Bursa Malaysia, which have initiated and concluded the M&A between 2010 to 2015. The total number of companies that were analyzed in this study is 23. The timeframe is specified considering the availability of company annual financial

report data for four (4) years pre and four (4) years post-M&A. The company's annual financial report data were retrieved from Bursa Malaysia.

1.7 Importance of study

The study is important because it represents a critical shift in every business strategy. The consolidation needs to be well prepared and conducted systematically to achieve a good result. This study will shed light for investors and firms in Bursa Malaysia on the significance of M&A in studying firm performance and help researchers in the construction industry regarding the impact of mergers and acquisitions on financial performance.

1.8 Definition of Key Terms

Merger and Acquisition is defined as combination of one entity assets and liabilities with another entity through merger or acquisition / purchase (Kumar, & Sharma, 2019)

Current Ratio (CR) is a ratio to assess the company's ability to achieve its short-term obligation (Rani et al., 2015).

Return on Capital Employed (ROCE) is a ratio to assess the company's overall profitability related to its capital employed (Rani et al., 2015).

Return on Equity (ROE) is a ratio to assess the company's overall profitability related to its equity (Rani et al., 2015).

Net Profit Margin (NPM) is a ratio to assess the company's overall profitability related to its profit (Rani et al., 2015).

Debt over Assets Ratio (DA) is a ratio to assess company indebtedness (Rani et al., 2015).

Fixed Asset Turnover Ratio (FATR) is a ratio to assess the company operating performance related to its fixed asset (Rani et al., 2015).

Current Asset Turnover Ratio (CATR) is a ratio to assess the company operating performance related to its current asset (Rani et al., 2015).

1.9 Chapters Structure

Chapter 1 described the research background which leads to the study's current issue. This chapter addressed the study's aims and objectives, hypotheses to be examined, the study's scope and importance, and the chapter's structure.

Chapter 2 discussed the empirical literature in the financial area, including journals papers, books, web articles, and government reports that study M & A's impact of M&A on the company performance. These past studies did a financial ratio analysis to assess the long-term company performance. This chapter provided a contrasting view on company performance after the M&A event took place.

Chapter 3 explained the research methodology, data source, importance of financial ratio analysis, type quantitative analysis for the study, and answers to the research questions.

Chapter 4 provided a review of the study analysis. It provided the financial ratios calculation summary for study objectives. Microsoft Excel was utilised to carry out the quantitative analysis and its result is presented. This chapter provided descriptive analysis and discussion of the quantitative analysis results.

Chapter 5 presented the study findings, limitation of the study, conclusion of the study, and recommendations for future studies.

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