

DO MALAYSIAN SPIN-OFFS CREATE VALUE?

NADISAH ZAKARIA

**DOCTOR OF PHILOSOPHY
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UNIVERSITY OF SALFORD, UK**

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Nadisah ZAKARIA

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College of Arts and Social Sciences
University of Exeter, Exeter, UK

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Nadisah ZAKARIA

Salford Business School
College of Arts and Social Sciences
University of Salford, Salford, UK

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ABBREVIATIONS

AAR	Average abnormal return
ABHAR	Average buy-and-hold abnormal return
ACE	Access Certainty Efficiency
BHARs	Buy-and-Hold Abnormal Returns
CAAR	Cumulative average abnormal return
CARs	Cumulative Abnormal Returns
EMH	Efficient Market Hypothesis
EVA	Economic Value Added
FIC	Foreign Investment Committee
GLF	Government-linked firm
IPO	Initial Public Offering
IRB	Internal Revenue Board
MAR	Mean Adjusted Return
MAS-EWI	Malaysia All-Shares Equal Weighted Index
MAS-VWI	Malaysia All-Shares Value Weighted Index
MESDAQ	Malaysian Exchange of Securities Dealing Automated Quotation
MGS	Malaysian government securities
MITI	Ministry of International Trade and Industry
MM	Market Model
MSIC	Malaysia Standard Industrial Classification
NASDAQ	National Association of Securities Dealer Automated Quotation
NDP	National Development Policy
NEP	New Economic Policy
NGLF	Non government-linked firm
NPL	Non-performing loan
NPLF	Non politically-linked firm
NVP	New Vision Policy
OLS	Ordinary Least Square
PDI	Power Distant Index
PLF	Politically-linked firm
RC	Registrar of Company
ROA	Return-on-asset
ROE	Return-on-equity
RPGT	Real Property Gain Tax
SC	Securities Commission
SIA	Securities Industry Act
SIC	Standard Industrial Classification
UAI	Uncertainty Avoidance Index

ABSTRACT

This thesis primarily investigates the short- and long-run share return performance of Malaysian spin-off firms during the period January 1980 to April 2011. Using daily and monthly data, the study examines the performance of spin-off firms against the benchmarks of Malaysian All-Shares indices.

The results show that parent firms significantly outperformed the market during the few days surrounding the announcement date even after adjustment for size. In the long-run analysis over three years, however, and after allowing for size, this research failed to find abnormal performance for either parents or spun-off entities.

Overall, the results of the research allow us to plausibly argue that the market anticipates both increased value for parent shareholders and potential exploitable stock market inefficiency in the short-run period but not in the long-run.

The present work fills another gap in the spin-off literature by discovering whether political control of firms leads to poor performance for shareholders. The results indicate that parent firms with strong informal ties with leading Malaysian politicians significantly outperformed their counterparts in the non-politically linked group over the short-run period even after eliminating the influence of size. However, holding political-control shares in a portfolio would give a negative return effect to investors over the three-year holding periods.

This research also examines whether increased corporate focus in the event of a spin-off is associated with the short- and long-run share return outperformance. By looking at the share return performance of both focus-increasing and non focus-increasing parent firms, this study provides evidence contradicting the claims of the corporate focus hypothesis. The results show that focus-increasing parent firms significantly underperformed their counterparts in the non focus-increasing group during the few days around the announcement date even after comprehensive size adjustment. It can also be seen that spin-offs by focus-increasing entities fail to demonstrate abnormal performance in the long-run period (three-years).