

# THE EFFECT OF PARTIAL MERGER & ACQUISITION ACTIVITIES ON TARGET FIRM'S PERFORMANCE: A CASE STUDY FROM BANKING AND FINANCE INDUSTRY IN VIETNAM

Cao Dinh Kien<sup>1</sup>, Le Thai Phong<sup>2</sup>, Tran Thi Kim Anh<sup>3</sup>, and Nguyen Bao Tuan<sup>4</sup>

## *Abstract*

Using 25 M&A transactions in banking and finance industry during the period 2005-2013, we examine the impact of partial M&A deals on performance of target firms in banking and finance industry in Vietnam. We find that most of M&A transactions in banking and finance industry in Vietnam are partial transactions. Moreover, in term of performance, the partial M&A transactions have a significant negative impact on ROE, ROA, and EPS of the target firms.

*Keywords: Partial acquisitions, banking and finance industry*

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## **1. Introduction**

In recent years, financial markets around the world are unstable. Especially since 2007, we have witnessed a financial crisis spreading across the world. During the crisis, most of the countries are in trouble and the level of competition is getting tougher everywhere. However, these difficulties also are a potential motivation for economy to develop in many aspects. Among these aspects, we realize that there is a huge increase in merger and acquisition (M&A) activities around the world in general and in Vietnam in particular. In fact, there are many big deals in Vietnam since 2005, especially in banking and finance industry.

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<sup>1</sup> PhD, Foreign Trade University, Vietnam.

<sup>2</sup> PhD, Foreign Trade University, Vietnam; E-mail: [lethaiphong@gmail.com](mailto:lethaiphong@gmail.com)

<sup>3</sup> PhD, Foreign Trade University, Vietnam.

<sup>4</sup> Foreign Trade University, Vietnam.

According to Afolabi (2011), the primary motives for M&A are cost savings and revenue enhancement. Firms involved in M&A activity are expected to benefit from larger economies of scale and accrue more revenue through the effects on firm size, firm scope (through either product or geographic diversification), or market power. Those who advocate mergers will argue that the merger will cut cost or boost revenues by more than enough to justify the price premium (Ismail et al., 2011). Moreover, M&A activity is a source for corporate growth. Saboo and Gopi (2009) suggest that mergers and acquisitions are used for improving competitiveness of companies and gaining competitive advantage over other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, and capitalizing on economies of scale.

Therefore, evaluating the impact of M&A activities on firms' performance is important. Performance and valuation effects due to M&A are difficult to observe because the visible result might be acknowledged only after a long time period. There are numerous studies investigating the impact of M&A events on the performance of participants, including Yeh and Hoshino (2000), Loughran and Vijh (1997), Limmack (1991), Datta et al. (2001)... However, there is virtually no empirical evidence related to this topic in Vietnam. This study aims to fill the gap by examining the impact of M&A activities on Vietnamese targets' performance.

Due to the restrictions from Vietnamese government, most of the M&A transactions in banking and finance industry are partial deals. In a partial deal, a buyer can not buy a majority stake of a target. After the partial deal, the buyer holds a non-controlling interest of the target. The literature shows that the partial M&A transactions should not have any impact on the performance of both buyers and targets. However, in case of Vietnam, the partial M&A transactions should have a positive impact on the performance of targets since one of the most important motivations for the transactions is the cooperative motivation. Sale and purchase shares of Vietnamese banking and finance firms

mostly occurred collaboratively in order to support the development of each other. Moreover, the majority of big transactions has the participation of at least one foreign investor, who has experience in managing firms. Therefore, partial M&A events should have a positive impact on Vietnamese targets' performance.

The main objective of this study is to assess how partial M&A transactions affect performance of target firms in banking and finance sector in Vietnam since, among leading sectors of the economy, banking and finance sector is a quite sensitive sector that have a major impact on the stability and development of Vietnam economy. We find that most of M&A transactions in banking and finance industry in Vietnam are partial transactions. Moreover, in term of performance, the partial M&A transactions have a significant negative impact on ROE, ROA, and EPS of the targets.

## **2. M&A activities in banking and finance industry in Vietnam**

Under the global competitive pressure, M&A activity is one of the most important survival solution for banks. There are three main reasons for the efficiency and effectiveness of this solution. Firstly, M&A activity increases operational efficiency of the banks and reduces inefficient functions. Secondly, diversification of product and service could be created by merging companies. While adding advanced options for current product and service lines, bank managers can generate more revenue for their business. Otherwise, synergies relating human resource can also be resulted from M&A, as employees from involved companies will be combined and they can support each other. Last but not least, companies involved in an M&A deal can expand their business from existing facilities and distribution network of the target instead of building from the beginning, which helps saving time and money.

In order to improve economic development, Vietnam government has simultaneously conducted reforms for two entities, including state-owned enterprises and banking system. According to the State Bank, Vietnam has 89 banks including 5 state-owned commercial banks, 37 joint-stock commercial

banks, 6 branches of foreign banks, 4 joint-venture banks and 5 wholly foreign-owned banks .

### Banking Sector Chartered Capital by Type

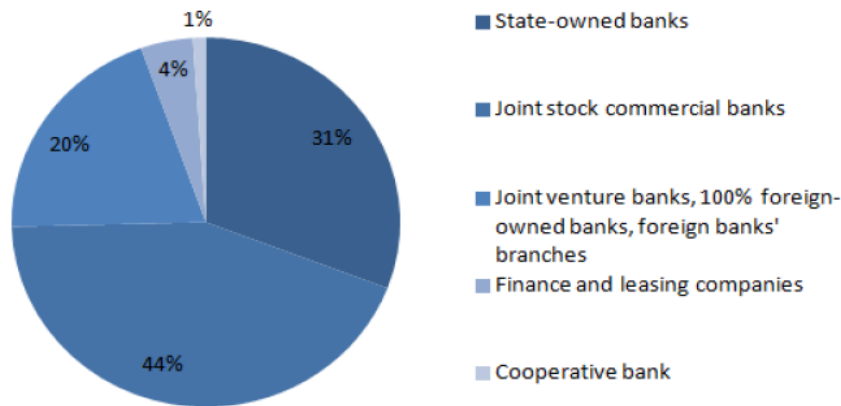


Figure 1: Banking Sector Chartered Capital by Type (The State Bank of Vietnam, 2014)

### Banking Sector Assets by Type

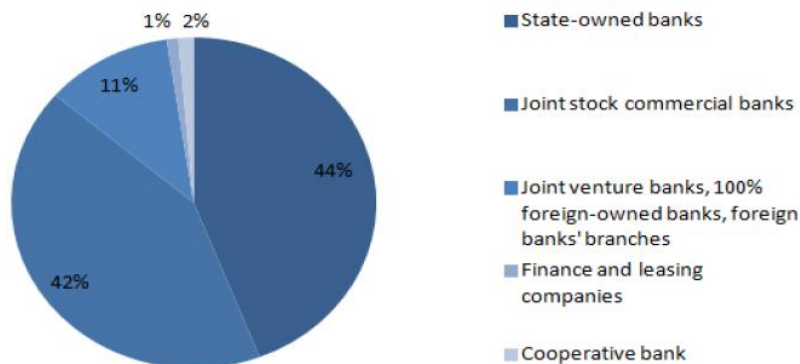


Figure 2: Banking Sector Assets by Type (The State Bank of Vietnam, 2014)

There are commitments to open financial markets when Vietnam joined WTO and M&As occur as a prevailing trend in banking and finance industry. In general, M&A activities in Vietnam banking and finance industry have several important characteristics. The majority of big transactions has the participation of at least one foreign investor. For example, ANZ invested to Sacombank and HSBC purchased shares of Techcombank. Moreover, the main motivation for almost all the M&A deals in Vietnam banking and finance industry is the cooperative motivation. Sale and purchase shares of Vietnamese banking and finance firms mostly occurred collaboratively in order to support the

development of each other. For example, technical support was contracted between Techcombank and HSBC; Deutsche Bank and Habubank. Level of management in Vietnamese company cannot meet the cooperation requirement so M&A activities only take the role as a financial investment or a business cooperation. In banking and finance industry, foreign investors are restricted to purchase shares that are not exceeding 30% total share outstanding so acquisition of the entire company hardly happens. Moreover, the policy framework for M&A activity is weak. Thus, the participants in M&A deals faces difficulty when implementing the agreements and it is also difficult for the state agency to monitor the deals. Bank valuation is a complex problem for investors and businesses to negotiate. In term of publicly traded targets, M&A activities in Vietnam banking and finance industry can be summary in table 1.

**Table 1: List of target firms in the partial M&A deals in Vietnam from 2005 to 2013**

Year	Acquirer	Target	Transaction value (mil VND)
2005	Standard Chartered and ANZ Banking Group Ltd.	ACB	94,800
2008	Standard Chartered PCL	ACB	
2013	Lao Viet Joint Venture Bank (LVB)	BID	
2007	AXA SA	BMI	1,203,200
2009	HSBC	BVH	1,785,000
2012	Sumitomo Life	BVH	7,072,000
2010	Goldman Sachs	CII	740,000
2011	Tama Global Investment Pte. Ltd	CLG	
2012	The Bank of Tokyo-Mitsubishi UFJ and IFC	CTG	19,286,000
2008	Kinh Do Corp. (KDC) and Sumitomo Mitsui FG	EIB	5,152,500
2011	Deutsche Bank	HAR	
2011	LOTTE Asset Development Co LTD	HAR	3,110,600
2009	Bridge Securities	HPC	255,000
2010	DWS Fund Vietnam Ltd	NBB	
2009	Petrovietnam Insurance Corporation (PVI)	PSI	191,250
2011	Nikko Cordial	PSI	142,140
2010	Thang Long Securities Co Ltd and Saigon-Hanoi Securities JSC	PVC	
2012	Gerling Industrie Versicherung AG	PVI	3,284,100
2009	Vinacomin & VRG	SHB	

2007	ANZ Banking Group Ltd.	SSI	1,408,000
2005	ANZ Banking Group Ltd.	STB	426,600
2011	Mr. Chang Hen Jui (TAIWAN)	STB	1,195,380
2011	Mizuho Corporate Bank Ltd	VCB	11,875,900
2011	Vietnam Investments Fund	VND	94,760
2008	Swiss Re	VNR	1,303,500

### **3. Hypotheses, Data, and Methodology**

#### **3.1. Hypotheses development**

The objective of this study is to conduct a descriptive research in order to examine the different between pre-merger and post-merger performance of target firms in the banking and finance industry in Vietnam. As can be seen from previous literature regarding the effects of mergers and acquisitions, ROE, ROA, and EPS are often chosen as the proxies for firm's performance. These financial ratios are the useful metrics and can provide a clear representation of a company's performance.

ROE indicates how profitable a company is by comparing its net income to its average shareholders' equity in order to measure how much the shareholders earned for their investment in the company and to show whether management is growing the company's value at an acceptable rate. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors. Meanwhile, ROA offers a different take on management's effectiveness by revealing how much profit a company earns for every dollar of its assets, which indicates how profitable a company is relative to its total assets. The ROA ratio illustrates how well management is employing the company's total assets to make profit. The higher the return, the more efficient management is. Moreover, EPS is the portion of a company's profit that is allocated to each outstanding share of common stock, serving as an indicator of the company's profitability.

Using these accounting measures, the following hypotheses are investigated:

H<sub>1</sub>: the partial M&A activities significantly impact the ROE of target firms

H<sub>2</sub>: the partial M&A activities significantly impact the ROA of target firms

H<sub>3</sub>: the partial M&A activities significantly impact the EPS of target firms

### **3.2. Data**

This study examines the publicly listed firms on both HOSE and HNX. We construct a sample of 25 M&A transactions in banking and finance industry during the period 2005-2013. The sample includes 21 target firms. Due to the fact that information about such transactions is often incomplete. It can only be collected from reports by data company, such as StoxPlus, from articles on economic newspapers and magazines, or from websites, such as cafef.vn.

The data in the financial statements of target firms is used to compute necessary financial indicators in the analysis of firm performance to determine M&A effects. The time period for data collection is within 3 years before and after the event year when the M&A transactions take place.

### **3.3. Methodology**

We use two sample mean – comparison test to examine the statistical relationship between pre-acquisition ROE (ROA and EPS) and post-acquisition ROE (ROA and EPS) of target firms that involved to partial M&A transactions in banking and finance industry in Vietnam during the period 2005-2013. The study used secondary data which was collected 2 years pre-transaction and 2 years post-transaction from the financial statements of the company. Two tailed t-tests were performed on the calculated means to determine whether there is a significant difference between the pre and post-transaction performance.

## **4. Results**

### **4.1. Descriptive statistics**

Table 2 shows the descriptive statistics of ROE for the whole sample. ROE of target firms in M&A transactions in banking and finance industry in Vietnam are positive during pre-transaction and post-transaction periods. There is a considerable decrease in the ROE of target firms from the pre-acquisition

period to the post-acquisition period . Specifically, the average ROE of the target firms decreases from 21.38 percent and 16.31 percent in year -2 and -1, respectively, to 10.49 percent and 12.53 percent in year 1 and 2, respectively.

	ROE (t=-2)	ROE (t=-1)	ROE (t=0)	ROE (t=+1)	ROE (t=+2)
Mean	21.38%	16.31%	14.55%	10.49%	12.53%
Median	18.10%	15.24%	13.28%	9.39%	11.13%
Std. Dev	14.89%	16.74%	11.71%	9.12%	13.79%
# Obs	23	23	23	23	22

Table 3 and 4 provide information about ROA and EPS for the whole sample.

Firms which are partial acquired perform well in general. ROA and EPS of those firms are positive during both pre-transaction and post-transaction periods. Similar to the trend of ROE, we also can observe a declining trend in ROA and EPS of target firms after the partial acquisitions.

	ROA (t=-2)	ROA (t=-1)	ROA (t=0)	ROA (t=+1)	ROA (t=+2)
Mean	5.53%	3.28%	3.65%	2.07%	2.11%
Median	2.48%	1.97%	2.54%	1.99%	2.72%
Std. Dev	6.16%	6.94%	4.98%	3.67%	7.65%
# Obs	23	23	23	23	22

	EPS (t=-2)	EPS (t=-1)	EPS (t=0)	EPS (t=+1)	EPS (t=+2)
Mean	3,073	2,549	2,931	1,736	2,378
Median	2,479	2,132	2,133	1,823	1,866
Std. Dev	2,619	3,082	3,402	1,298	2,446
# Obs	23	23	23	23	22

## 4.2. Intra-firm comparison



In order to identify the impact of the M&A events on the performance of target firms, we use Student t-test to examine the differences in ROE, ROA, and EPS of target firms before and after the events. Specifically, we compare ROE, ROA, and EPS in the following pairs: (-2; +1), (-2; +2), (-2; +0), (-1; +1), and (-1; +2).

*\* Return On Equity (ROE)*

According to table 5, there is a significant difference between ROE of target firms in the pre-acquisition and post-acquisition periods. The average differences between year -2 and 0, -2 and +1, -2 and +2 are 6.8 percent, 8.78 percent, and 10.87 percent, respectively. Moreover, the difference in ROE between year -1 and +1 is 7.8 percent. There is a tendency that ROE of target firms decrease after being partial acquired and the differences are highly significant.

Table 5: Two-sample mean comparison test for ROE				
Year (-2;+1)	Year (-2; +2)	Year (-2; 0)	Year (-1; +1)	Year (-1; +2)
<b>10.87%***</b> (p= 0.0023)	<b>8.78%**</b> (p = 0.0225)	<b>6.8%**</b> (p = 0.0454)	<b>7.8%*</b> (p = 0.0751)	3.97% (p = 0.2073)

*\* Return On Assets (ROA)*

Similar to the results for ROE, there is also a declining trend in term of ROA of target firms in partial acquisition transactions. The ROA of target firms two years before the transaction are significantly higher compared to that of target firms after the transactions. The average differences between year -2 and 0, -2 and +1, -2 and +2 are 0.97 percent, 3.42 percent, and 3.46 percent, respectively.

Table 6: Two-sample mean comparison test for ROA				
Year (-2;+1)	Year (-2; +2)	Year (-2; 0)	Year (-1; +1)	Year (-1; +2)

<b>3.46%**</b> (p = <b>0.0126</b> )	<b>3.42%**</b> (p = <b>0.0172</b> )	<b>0.97%*</b> (p = <b>0.0591</b> )	1.21% (p = 0.2314)	<b>1.17%**</b> (p = <b>0.0454</b> )
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\* *Earning Per Share (EPS)*

At the 95 percent confidence level, the Student t-tests show that the EPS of target firms two year before the transaction are significantly higher than that of target firms one year after the transactions and the difference is 1,366 Vietnamese dong. Moreover, the EPS of the target firms two year before the transaction also significant higher than that of the target firms two years after the transactions. The difference is 680 Vietnamese dong and significant at 10 percent level.

Table 7				
Two-sample mean comparison test for EPS				
Year (-2;+1)	Year (-2; +2)	Year (-2; 0)	Year (-1; +1)	Year (-1; +2)
<b>1,336**</b> (p = <b>0.0168</b> )	<b>680*</b> (p = <b>0.0823</b> )	190 (p = 0.4374)	813 (p = 0.1250)	<b>173**</b> (p = <b>0.0454</b> )

## 5. Conclusions

The literature about the impact of M&A events on firms' performance shows mixed results. Numerous studies conclude that firms improve performance after M&A transactions. However, several papers indicate that performance of firms reduces after M&A transactions. The main objective of this paper is to examine the impact of M&A events on the performance of the target firms in banking and finance industry in Vietnam over the period 2005-2013. In particular, we examine whether there is a significant change in performance of target firms when comparing the pre-transaction and post-transaction periods

Using accounting measures, namely ROE, ROA and EPS, we show evidence that targets in partial M&A transactions exhibit a significantly lower performance after the events. There is a tendency that ROE, ROA, and EPS of target firms decrease after being partial acquired and the differences are highly significant. The results are in line with that in Ravenscraft and Scherer (1989) who examined financial performance of target firms during 1957-1977 in US. They investigate 2732 lines of business by US manufacturing companies and find that mergers have substantial negative impact on the post-merger profitability.

Since the buyers mostly are foreign investors, the results imply that firms in banking and finance industry in Vietnam react negatively to the participation of foreign stockholders. On the other hand, another plausible explanation is that firms in banking and finance industry in Vietnam realize a declining trend in their performance and they are interested in the participation of foreign investors. They expect that the expertise of foreign investors will help the firms to overcome the declining trend. More statistical tests should be done to test the second explanation when data are available.

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