Spin-off and Value Creation: The Case of Malaysia

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This paper investigates the short- and long-run share return performance of Malaysian spin-off firms. Using daily and monthly data, it examines the performance of spin-off firms against the benchmarks of Malaysian indices and matched-firm portfolios. 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, we do not find abnormal performance for parents, spun-offs and combined entities. We also find some evidence that the notable positive share returns for parent firms over the short-run period are related to political linkage rather than corporate focus or the size effect. Overall, this research allows us to plausibly argue that the market anticipates both increased value for parent shareholders and exploitable stock market inefficiency in the short-run period but not in the long-run period.

**Keyword:** Spin-Offs, Share Return Performance, Market Efficiency, Size Effect, Political Linkage

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