Sovereign Wealth Funds’ Affiliation and Acquisition Premium: Evidence from Asia-Pacific

Ali Awais Khalid*, Ghulame Rubbaniy**, Muhammad Faisal Rizwan*** and Hassan Rauf Chaudhry****

Abstract

This study aims to extend the signaling theory, by offering the buy-side sovereign wealth fund’s (SWF) affiliation as a signal of the acquisition premium. Using the mergers and acquisitions (M&As) deals’ data from Asia-Pacific, over the period from 2000-2017, the results reveal that the effect of buy-side SWF’s affiliation, on the acquisition premium of target firms is negative, and statistically significant in the North Asia region. Our cross-country analysis shows a negatively significant effect of the buy-side SWF’s affiliation on the acquisition premium in China. The findings of our sectoral analysis report a significantly adverse effect of SWF’s affiliation on the acquisition premium in the energy and cyclical goods sector. This suggests that the SWFs are likely to be more influential in M&As deals that are conducted in the strategic sectors. Our findings demonstrate that the buy-side SWF’s affiliation can be used as a signal of quality. That is to say that this affiliation increases the bargaining power of buyers to reduce the acquisition premium for targets. The findings are particularly important for the managers of firms managing SWFs’ investments, as they can negotiate better deals with the targets due to the managers’ affiliation with the SWFs.

Keywords: Islamic Banking, religiosity, customers’ preferences

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