



Risk Arbitrage Profitability in ASEAN Market Evidence from Thailand, Malaysia, and Singapore

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ABSTRACT

This study examines the profitability of risk arbitrage strategy in ASEAN market involving two types of payments; cash offer and stock swap. Additionally, it also examines the impacts of payment type on profitability of risk arbitrage. Using a sample of 105 M&A in Thailand, 156 M&A in Malaysia and 166 M&A in Singapore during the period from January 2002 to December 2011, I construct a time series of returns on equal and value weighted risk arbitrage portfolio. Benchmarking the return on risk arbitrage portfolio against CAMP, I find that risk arbitrage generates statistically significant abnormal return ranking 1.84% – 7.12% per month in ASEAN market; however, the return of risk arbitrage strategy in ASEAN market do not correlate with market return and the payment method have no impact on return of risk arbitrage strategy. A cumulative return of equal weighted risk arbitrage portfolio during the period from 2002 to 2011 outperform value weighted portfolio in ASEAN market, but the risk-adjusted return of value weighted portfolio is greater than equal weighted portfolio in Thailand and Singapore because equal weighted portfolio can generate higher return but also has greater risk. However, the risk-adjusted return of equal and value weighted risk arbitrage portfolio in ASEAN market exceed the return of market portfolio.