

Market Reaction to Merger and Acquisition Announcements in China

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Abstract. Developed-market evidence generally predicts lower acquirer returns when targets are publicly listed, because bidding competition, liquidity, and overpayment transfer more gains to target shareholders. In China, however, a listed target may bundle operating assets with a scarce financing and restructuring platform, disclosure credibility, and regulatory safety. Using China Stock Market & Accounting Research (CSMAR) M&A records and daily returns, this paper studies Chinese A-share listed acquirers. The event-level dataset contains 18,859 announcements and the clean event-study sample contains 12,596 observations. Average market-adjusted cumulative abnormal return (CAR) is 0.76% over [-3,+3] and 1.29% over [-10,+10]. Acquisitions involving listed targets are associated with significantly higher announcement returns across baseline specifications, narrower windows, and market-model returns. In the full model, the target-listed coefficient is 1.27 percentage points for CAR over [-3,+3] and 1.72 percentage points for CAR over [-10,+10]. State-owned acquirers also earn higher conditional returns after firm characteristics, transaction variables, momentum, and fixed effects are controlled for. The evidence supports a platform-acquisition interpretation in which investors price the financing, restructuring, transparency, and regulatory attributes attached to listed targets. The estimates remain conditional announcement-return evidence rather than causal evidence on long-run integration.

Keywords: mergers and acquisitions, announcement returns, state ownership, listed targets, China

1. Introduction

Mergers and acquisitions (M&A) reallocate assets, alter control rights, and reveal managers' expectations about future growth. For acquirer shareholders, an acquisition can create synergies, improve access to resources, or accelerate strategic transformation, but it can also reflect overconfidence, agency costs, political objectives, or overpayment. The announcement-window stock return therefore provides a compact assessment of the transaction's expected net value.

The interpretation of acquisition characteristics depends on the institutional environment. Most international evidence comes from mature markets in which public targets are visible, liquid, and exposed to bidder competition. Acquirers commonly earn lower announcement returns when purchasing public rather than private targets [1, 2]. China presents a different setting. The A-share

market combines public trading with state ownership, administrative oversight, disclosure regulation, trading suspensions, daily price limits, and policy-sensitive restructuring channels. A characteristic that signals overpayment in a developed market may therefore carry a different meaning in China.

This paper focuses on state ownership and target listing status. State-owned acquirers may benefit from financing access, regulatory coordination, political support, and implementation capacity, while also facing concerns about noncommercial objectives and weaker managerial discipline. Target listing status creates a second ambiguity. A Chinese listed company is not only a bundle of operating assets; it is also a regulated financing and disclosure platform that may facilitate asset injections, business-group reorganization, or strategic restructuring. Listed status may thus carry platform value that offsets conventional public-target overpayment risk.

The analysis combines China Stock Market & Accounting Research (CSMAR) transaction records with daily stock returns, CSI 300 returns, acquirer financial characteristics, ownership information, and involved-party records identifying the target party. This identification matters because Chinese transaction records often contain multiple participants. The initial dataset contains 18,859 announcements; after return-coverage and trading-quality filters, the clean event-study sample contains 12,596 observations. Average market-adjusted cumulative abnormal return (CAR) is 0.76% over $[-3,+3]$ and 1.29% over $[-10,+10]$. The sample also exhibits a substantial pre-announcement run-up and positive post-announcement drift, consistent with information anticipation and gradual price adjustment.

Two findings stand out. First, the target-listed coefficient is positive and statistically significant across baseline event windows, progressive specifications, narrower windows, and market-model abnormal returns. In the full specification it equals approximately 1.27 percentage points for CAR $[-3,+3]$ and 1.72 percentage points for CAR $[-10,+10]$. This reverses the usual developed-market public-target discount and supports a platform-acquisition interpretation. Second, the state-owned enterprise (SOE) effect is conditional: simple portfolio comparisons show no significant short-window SOE advantage, but the SOE coefficient becomes positive and significant after firm characteristics, transaction variables, momentum, industry effects, and year effects are included. The pattern is consistent with suppression, because unconditional comparisons mix the institutional benefits of state ownership with systematic differences in size, valuation, leverage, profitability, and transaction characteristics.

The paper contributes recent large-sample evidence on Chinese M&A announcement returns, improves target identification using CSMAR involved-party classifications, and links conventional corporate-control theory with China's institutional structure. Its scope is deliberately bounded. Announcement CARs measure investor expectations rather than realized long-run performance, and the full-control sample is concentrated after 2023. The evidence is therefore best interpreted as conditional pricing evidence from the contemporary A-share environment.

2. Institutional setting and predictions

2.1. Listed targets as acquisition platforms

Developed-market studies attribute the public-target penalty to bidding competition, liquidity, target visibility, and the transfer of expected synergies through higher premia. In China, listing status can also provide scarce access to public financing, a regulated disclosure platform, restructuring flexibility, and a vehicle for changes in control or asset injections. These attributes can increase the strategic value and perceived feasibility of a transaction even when a listed target is more expensive.

The platform-acquisition argument has two related channels. The first is shell or platform value: the acquirer obtains access to a public-market platform and a restructuring vehicle. The second is asset-quality or regulatory-safety value: listed targets may offer more transparent information, clearer regulatory standing, and a higher perceived probability of completion. The data cannot fully separate these channels, but both predict that listed-target acquisitions can receive a more favorable market response than the conventional developed-market benchmark. The main prediction is therefore a positive conditional association between target listing status and acquirer CARs.

2.2. State ownership and conditional market response

State ownership produces competing predictions. SOEs may have better financing access, administrative coordination, complementary assets, and implementation capacity. Conversely, political objectives and weaker governance can encourage inefficient investment. Prior research documents both the importance of political connections and governance risks in Chinese listed firms [3, 4] and the effect of government participation on Chinese asset transactions [5].

Because SOEs differ systematically from private acquirers, unconditional and conditional comparisons need not coincide. A raw comparison may combine resource advantages with larger scale, different leverage, industry position, valuation, and profitability. If controls remove these offsetting differences, a positive SOE coefficient would be consistent with investors valuing financing and coordination capacity rather than with an unconditional ownership premium.

3. Data and empirical design

3.1. Data, matching, and sample

The analysis combines event-level CSMAR M&A records with acquirer characteristics, ownership information, target-party information, and daily stock and market returns. Event identifiers are preserved throughout the matching process, and unmatched supplementary variables remain missing rather than being manually imputed. Target characteristics use the CSMAR involved-party classification: TradingPositionID S3103 identifies the target party. Target listing status is constructed from the target party's listing indicator and supplemented by a matched underlying security code when available.

Table 1 reports 18,859 initial announcements, including 13,575 with complete coverage for the four baseline return windows. The clean sample excludes firms classified as special-treatment (ST or *ST) at announcement, firms with ST status or a zero-trading-amount suspension flag during [-3,+3], and firms listed on the National Equities Exchange and Quotations without comparable A-share daily-return coverage. The resulting clean event-study sample contains 12,596 observations. For returns, $t=0$ is the first available trading date on or after the announcement date, so the event window begins when the market can first incorporate the disclosed information.

Table 1. Sample construction and event-return summary

Panel / item	N	Mean	Median	Std. dev.
Panel A. Initial announcements	18,859			
Complete baseline return windows	13,575			
Clean event-study sample	12,596			

Table 1. (continued)

Panel B. CAR[-3,+3]	12,596	0.76%	-0.04%	8.20%
CAR[-10,+10]	12,596	1.29%	-0.09%	13.31%
Runup[-60,-1]	12,596	4.68%	1.74%	20.76%
Drift[+1,+60]	12,596	2.91%	0.04%	21.27%

Notes: Panel A reports the main sample counts. Panel B reports market-adjusted returns around the first available trading date on or after announcement.

3.2. Event returns and regression specification

Baseline abnormal returns are market adjusted: $AR(i,t) = R(i,t) - R(m,t)$, where $R(i,t)$ is the CSMAR daily stock return with cash-dividend reinvestment and $R(m,t)$ is the CSI 300 return. CARs sum abnormal returns over $[-3,+3]$ and $[-10,+10]$. Runup $[-60,-1]$ and Drift $[+1,+60]$ describe information anticipation and subsequent adjustment. Regression CARs are winsorized at the 1st and 99th percentiles. A robustness model estimates firm-event alpha and beta over $[-210,-30]$, requiring at least 120 matched observations, and uses the resulting market-model abnormal returns.

The main regressions relate CARs to SOE status, target listing status, log market capitalization, book-to-market, leverage, return on assets, relative transaction size, and the acquirer's past 12-month return. The full specification includes acquirer-industry and announcement-year fixed effects. Heteroskedasticity-consistent standard errors are used. The target-listed variable is available for 2,609 clean-sample observations; requiring all controls reduces the full-model sample to 2,072 observations. Coefficients are interpreted as conditional associations, not causal effects.

4. Empirical results

4.1. Descriptive comparisons

Listed-target transactions have substantially higher univariate returns. Mean CAR $[-3,+3]$ is 1.95% for listed-target events and 0.50% for nonlisted-target events, a difference of 1.45 percentage points ($p=0.020$). For CAR $[-10,+10]$, the difference is 2.40 percentage points ($p=0.002$). By contrast, the raw short-window differences between SOE and non-SOE acquirers are not statistically significant. This contrast anticipates the multivariate suppression pattern for SOE status and the more direct listed-target effect.

4.2. Baseline regressions

Table 2 reports the full specification for both baseline windows. The SOE coefficient is positive and statistically significant: 1.05 percentage points for CAR $[-3,+3]$ and 1.28 percentage points for CAR $[-10,+10]$. The target-listed coefficient is also positive and significant, at 1.27 and 1.72 percentage points, respectively. These magnitudes are economically meaningful relative to unconditional mean CARs of 0.76% and 1.29%.

Table 2. Full-model ordinary least squares regressions for announcement returns

Variable	CAR[-3,+3]	CAR[-10,+10]
SOE dummy	0.0105*** (2.62)	0.0128** (1.99)
Target listed dummy	0.0127** (2.36)	0.0172** (2.05)
Firm and transaction controls	Yes	Yes
Industry / year fixed effects	Yes / Yes	Yes / Yes
Observations	2,072	2,072

The regressions use winsorized CARs, the full set of firm and transaction controls, and heteroskedasticity-consistent inference; adjusted R-squared values are 0.025 and 0.028. The target-listed result is consistent with the platform-acquisition thesis. Investors appear to treat listed targets not simply as expensive public targets but as transaction platforms that combine financing or shell value with transparency and regulatory safety. The larger coefficient for CAR[-10,+10] suggests that part of the response begins before the narrow window or unfolds gradually, which is plausible in a market with staged disclosure and trading frictions.

The SOE result emerges only after observable differences are controlled. This is consistent with a suppression effect rather than a simple unconditional SOE premium. Once scale, valuation, financial condition, transaction size, momentum, and fixed effects are held constant, investors appear to value the financing access, administrative coordination, and implementation capacity associated with state ownership. Among the controls, acquirer size and past 12-month return are consistently negative, echoing the size effect in international M&A research [6] and indicating that stronger pre-event momentum predicts a smaller incremental announcement response.

5. Robustness, diagnostics, and limitations

5.1. Alternative returns and timing

The main coefficients remain positive across narrower market-adjusted windows and market-model CARs. Target listing status is significant at the 1% level in CAR[-1,+1] and CAR[-2,+2], and remains significant in all four market-model windows. SOE status is positive throughout and significant at conventional levels. Excluding 2020-2022 also preserves positive SOE and target-listed coefficients. The pre-2023 full-control subsample has only 367 observations, so its estimates are diagnostic; the central results are most directly informative about the post-2023 A-share environment. Table 3 summarizes the key coefficients across these robustness specifications.

Table 3. Robustness summary: key full-model coefficients

Specification / window	SOE	t-stat	Target listed	t-stat	N
MA CAR[-1,+1]	0.0048*	1.68	0.0155***	3.79	2,072
MA CAR[-2,+2]	0.0076**	2.10	0.0138***	2.81	2,072
MM CAR[-1,+1]	0.0051*	1.78	0.0156***	3.82	2,072
MM CAR[-2,+2]	0.0079**	2.16	0.0140***	2.82	2,072
MM CAR[-3,+3]	0.0109***	2.64	0.0127**	2.30	2,072

Table 3. (continued)

MM CAR[-10,+10]	0.0135**	2.03	0.0170*	1.94	2,072
MA [-3,+3], exclude 2020-22	0.0093**	2.03	0.0143**	2.32	1,705
MA [-10,+10], exclude 2020-22	0.0134*	1.83	0.0222**	2.34	1,705

Notes: MA denotes market-adjusted CAR; MM denotes market-model CAR. All rows use the full controls and industry and year fixed effects. Heteroskedasticity-consistent inference. *** p<0.01, ** p<0.05, * p<0.10.

5.2. Trading and regression diagnostics

Price limits affect a minority of events. On Day 0, 403 of 12,596 acquirers reach the upper limit and 94 reach the lower limit. Upper-limit events have positive average returns over Days +1 to +3, while lower-limit events remain negative, suggesting delayed incorporation rather than immediate reversal. Pairwise correlations among controls are moderate: the largest is -0.320 between leverage and return on assets. Full-model residuals retain the fat tails typical of event-study regressions but do not indicate that a few unmodeled observations drive the findings. Same-industry results are not used as main evidence because target-industry codes are available for only a small matched subsample; the corresponding coefficient is statistically insignificant.

Three limitations constrain interpretation. First, the full-control sample of 2,072 observations is smaller than the clean event-study sample because target and momentum variables require additional matching. Second, that sample is concentrated after 2023, so the estimates should not be generalized mechanically to all historical Chinese M&A. Third, announcement-window CARs reveal investor expectations, not realized operating gains or causal effects. Richer target information, regulatory-review outcomes, restructuring sequences, and post-transaction performance would be needed to distinguish shell value from asset-quality and regulatory-safety value more directly.

6. Conclusion

This paper examines how Chinese A-share investors price M&A announcements and focuses on state ownership and target listing status. The clean event-study sample displays positive average announcement returns, substantial pre-announcement run-up, and positive post-announcement drift. The central result is that listed-target acquisitions receive significantly higher acquirer CARs across baseline, alternative-window, and market-model specifications. This result contrasts with the developed-market public-target discount and supports an institution-specific platform-acquisition interpretation.

A listed Chinese target may combine operating assets with a public financing platform, restructuring flexibility, disclosure credibility, and regulatory safety. Investors appear to value that institutional bundle. State ownership also carries a positive conditional association after observable acquirer and transaction differences are held constant, consistent with financing access, coordination, and implementation capacity. Neither result should be interpreted as causal evidence of long-run integration gains. Rather, the paper shows that conventional transaction characteristics can acquire different meanings in a market where listing platforms and state-linked resources remain economically important.

These findings underscore that Chinese M&A pricing reflects institutional pathways alongside operating synergies, while listed-platform premiums also warrant transparent disclosure and careful regulatory review.

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