

Foreign Direct Investments of Swiss Companies and their stock market valuations

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Executive Summary

The main aim of the paper is twofold: first, assessing the patterns of Foreign Direct Investment (FDI) by Swiss companies that are listed at the Swiss Stock Exchange and second, analysing how these investments are appraised by the stock market.

The first goal is reached by assessing FDI announcements from 2000 to 2009 which covers 990 observations. These observations are grouped by industries and geographical zones. In order to detect considerable trends, expected values of FDI announcements of a specific industry concerning a specific geographical zone are computed on the basis of marginal probabilities. The expected values are based on the assumption that the industry and the geographical zone are independent, thus if a major divergence is detected in comparison to the observed value, it is referred to as an investment trend. Prior to the trends, the distribution among geographical zones is provided.

Most of the announcements concern Europe (61%), followed by North America (25%) and Asia (9%). Central and South America and Oceania account for two percent of the announcements each and Africa for only one percent. On a country level the USA account for the highest number of announcements (21%), followed by Germany (16%), England (9%) and France (7%).

The Manufacturing industry expanded considerably to Germany. The Chemicals industry expanded more to America rather than to Europe. The Business Equipments industry shows investment trends for entering the market of North America and Germany. Peculiarly, very few FDI announcements concern investments in Asia. The Utilities industry hardly expanded to other geographical zones besides Europe. It is remarkable that the Healthcare industry expands disproportionately strong to North America and disproportionately weak to Europe. The Finance industry seems to enter the Asian market by means of FDIs. A further finding of considerable interest is that at least 36.6% of the FDI announcements arise from diversification intentions.

For reaching the second aim, a standard event study methodology as presented by Brown/Warner (1985) is employed. Further a cross-sectional analysis is conducted using a fixed effects model. The sample contains total acquisitions, partial acquisitions and tender offers. The results are presented below.

The Swiss stock market, generally speaking, values FDI announcements on average positively. Considering the two day accumulation window of the announcement day and the following day it is found that shareholders gain on average 0.5176 percent, which is significant at the 0.1 level. When the day prior to the FDI announcement is taken into

account, shareholders gain on average 0.4374 percent. The results of the cross-sectional analysis suggest that cumulative abnormal returns are positively related to the return on equity of the target company and to the return on equity of the investing company. Further it is found that FDI announcements are systematically valued higher by the stock market, if the company has already invested in the host country by means of FDI before. The results further show a negative relationship between stock price reactions upon FDI announcements and size of the company, measured for example by logarithm of sales. The last finding from the cross-sectional analysis is, that new FDI announcements are significantly higher valued than accumulations over time.