

ACTUAL SHARE BUYBACKS: DETERMINANTS AND PRICE EFFECTS

By

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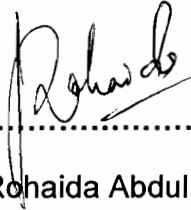
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ABSTRAK

Krisis kewangan yang melanda negara-negara Asia di akhir tahun 1997 telah menyebabkan banyak syarikat di Malaysia membuat pembelian semula saham (PSS). Senario ini adalah pencetus kepada timbulnya minat saya untuk mengkaji secara lebih mendalam dan sistematik berkaitan PSS di Malaysia. Kajian tentang PSS di Malaysia adalah terbatas dan hanya memfokuskan kepada kajian kesan harga semasa pengumuman PSS. Tesis ini mengisi jurang ilmu dengan mengemukakan kajian berkaitan dengan kerelevanan faktor penentu dalam keputusan PSS syarikat dan menentukan faedahnya kepada pemegang-pemegang saham dengan mengkaji kesan PSS ke atas harga saham syarikat.

Bahagian pertama tesis ini mengkaji kerelevanan faktor-faktor yang mempengaruhi keputusan syarikat untuk membeli semula saham. Manakala di bahagian kedua tesis ini mengkaji kesan aktiviti PSS (pengumuman dan implementasi sebenar pembelian semula) ke atas harga saham syarikat iaitu kajian kesan harga saham bagi tempoh jangka pendek dan jangka panjang. Tesis ini mengkaji semua kes sebenar PSS oleh syarikat Malaysia yang telah membeli semula saham melebihi satu peratus saham biasa sediaada secara kumulatif dari tahun 1999 sehingga 2006. Enam hipotesis telah dikemukakan sebagai faktor penentu keputusan PSS di Malaysia iaitu: i) pengisyaratan ii) lebihan aliran tunai, iii) struktur modal optimum (optimal capital structure hypothesis), iv) penggantian dividen, v) kecairan saham, dan vi) insentif pengurusan. Tesis ini meneliti tiga isu kesan harga saham akibat PSS iaitu: i) semasa tempoh pengumuman, ii) semasa pembelian sebenar, dan iii) tempoh jangka panjang berikutan aktiviti sebenar PSS.

Kajian ini menunjukkan bahawa PSS dirangsang oleh prestasi pasaran yang lemah, jangkaan prestasi operasi masa depan yang kukuh, tahap kecairan saham yang tidak memuaskan, dan keinginan untuk meningkatkan pengaruh kawalan pengarah. Dapatan kajian menunjukkan pasaran tidak berubah terhadap pengumuman PSS tetapi menunjukkan respon yang positif apabila syarikat benar-benar melaksanakan PSS. Dalam tempoh jangka panjang, syarikat-syarikat yang melaksanakan PSS tidak mengalami sebarang perubahan harga bagi tempoh 3 tahun selepas PSS apabila dibandingkan dengan kedua-dua penunjuk aras: i) Index Komposit Kuala Lumpur (KLCI) dan ii) Firma sepadan (matching-firms).

Kajian ini menyumbang kepada peningkatan kefahaman mengenai aktiviti PSS dari perspektif negara membangun yang kebanyakan syarikatnya mempunyai struktur pemilikan yang tertumpu (concentrated ownership structure) di mana aktiviti PSSnya di kawal oleh peraturan yang ketat. Faktor struktur pemilikan yang tertumpu ini dapat menjelaskan hubungan keputusan PSS dengan faktor-faktor penentu iaitu pembolehubah yang mewakili implikasi yang berkaitan

dengan hipotesis-hipotesis lebih aliran tunai, penggantian dividen, pengurusan perolehan, dan gelagat pengaruh kawalan pengarah.

ABSTRACT

This thesis is prompted by the increasing number of Malaysian firms buying back their own shares on the open-market subsequent to the Asian financial crisis in late 1997. Studies on buybacks in Malaysia are very limited and have focused only on immediate price effects of buybacks. This study fills in the gap by i) examining the relevance of posited determinants of buyback decisions and ii) determining the shareholders' benefits by examining the price effects of buybacks in the announcement effects and in the long-run effects.

The first part of the thesis examines the determinants of actual buyback decisions while the second part analyses the price effects of buyback activities (intentions and implementations) in immediate effects and in the long-run. The study examines all actual buyback firms that have purchased more than one percent of their ordinary shares cumulatively from 1999 to 2006. Implications stated in six hypotheses which are: i) signalling hypothesis, ii) free cash flow hypothesis, iii) optimal capital structure hypothesis, iv) dividend substitution hypothesis (DSH), v) stock liquidity hypothesis, and vi) management incentives hypothesis, are examined to see whether these could be supported in the context of actual buyback decisions in Malaysia. Three issues regarding the price impacts of buyback activities are analysed: i) price performance surrounding the announcement of buyback intentions, ii) price performance surrounding the announcement of buyback implementations and, iii) long-run price performance following buyback implementations. The findings suggest that signalling, liquidity, and management intention hypotheses are significant in explaining actual buyback decisions.

This study indicates that actual buybacks were significantly induced by poor market performance, expectation of better future operating performance, poor prior stock liquidity level, management of earnings, and desires to increase directors' control. The results for the immediate price effects indicate that the market is indifferent to announcement of buyback intentions but responds positively to buyback implementations. In the long-run, it is found that buyback firms do not experience significant price gains in the 3-year period following the implementation of buyback programs regardless of the benchmarks used (KLCI and matching-firms). This study contributes to the understanding of buybacks from the perspective of a developing country where most of the firms have concentrated ownership pattern and activities on buybacks are strictly regulated. Concentrated ownership could explain free cash flow hypothesis, dividend substitution hypothesis, earnings management and directors' control behaviour in buyback decisions.

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LIST OF ABBREVIATIONS

Abbreviation	Meaning
AGM	Annual general meeting.
ASIFCEPS	As if change in earnings per share.
BHAR	Buy and hold abnormal returns.
BM	Bursa Malaysia.
BTMV	Book to market value.
CAAR	Cumulative average abnormal returns.
CAR	Cumulative abnormal returns.
CAR12M	Prior 12-month cumulative abnormal returns.
CAR60D	Prior 60-day cumulative abnormal returns.
CCASH	Change in Cash level.
CCLEV	Change in leverage level.
CDPS	Change in dividend per share.
CDYLD	Change in dividend yield.
CEBITDA	Change in earnings before interests, taxes, depreciations and amortizations.
CWBETA	Change in weekly beta.
DA	Dutch auction tender offers.
DSH	Dividend substitution hypothesis.
EGM	Extraordinary general meeting.
EPS	Earnings per share.
EW-CAAR	Equal weighted CAAR.
EW-BHAR	Equal weighted BHAR.

Abbreviation	Meaning
EXOSNOS	Percentage of ESOS exercised in the buyback year.
FP	Fixed price tender offers.
IOSCO	International Organization of Securities Commissions.
KLCI	Kuala Lumpur Composite Index.
KLSE	Kuala Lumpur Stock Exchange. Currently known as Bursa Malaysia.
LNLYMV	Natural log of last year market value.
LIQ6M	Liquidity level 6-month prior to the year of buyback.
LYCASH	Last year cash level as a percentage of total assets.
LYEPS	Last year reported earnings per share.
LYDYLD	Last year dividend yield.
LYEBITDA	Last year EBITDA as a percentage of total assets.
LYLEV	Last year leverage as a percentage of total assets.
LYMTBV	Last year market to book value.
LYWBETA	Last year weekly beta.
MASB	Malaysian Accounting Standard Board.
MAR	Market Adjusted Return Model.
MM	Market Model.
MTBV	Market to book value.
MV	Market value.
PBTNOS	Percentage of shares bought back.
SIMM	Single Index Market Model.
SC	Securities Commission of Malaysia.
SEC	Securities Exchange Commissions.

Abbreviation	Meaning
SEHK	Stock Exchange of Hong Kong.
TR1	MSAB-Technical Release 1.
UK	United Kingdom.
US	United States of America.
VW-CAAR	Value weighted CAAR.
VW-BHAR	Value weighted BHAR.
WEXNOS	Percentage of warrants exercised in the year of buybacks.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter begins with the introduction of share buyback decisions in the context of corporate strategies and trends of buyback activities. This chapter proceeds with the purpose of this study by explaining the problem statements, research questions, research objectives, scope, and significance and contribution of the study.

1.1 Background

Payout policy is critical because it may involve a large amount of money and is much related to and interact with other corporate financial policies such as investment and capital structure. Corporations view distribution policy as vital because it determines the amount of fund paid to shareholders and the amount of funds retained for reinvestment. Managers must decide whether to have a payout policy or not, which type of payout policy to adopt, and how much should be distributed. Extant empirical studies demonstrate that financial policies related events, such as investment policy and payout policy, have information content and may greatly affect firms' value. For example, the announcement of merger and acquisition (Jensen & Ruback, 1983), the decision to carry out bonus issues,

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