

A STUDY USING MULTIVARIATE REGRESSION COMPANIES IN MALAYSIA AND REPURCHASE ACTIVITY IN MALAYSIAN MARKET

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Abstract. This research thesis will study the relationship between share repurchases and stock price of listed companies on Bursa Malaysia in specific, economic stability conditions both in Malaysia and around the world from 2017 to 2021. Although this technique has been around as early as the 1980s in the USA as it was prevalent in Western markets, it did not catch on in Malaysia in the 1990s. Yet, the research on share repurchase is still relatively early within Malaysia. Relative to other countries where firms repurchase in order to do so for a multitude of reasons such as signaling undervaluation, rewarding shareholders, acting as a defence against takeovers or as a means of financial resource use if at all needed and other interests of scholars. Unlike earlier works that only consider announcement dates, acknowledging that the announcement does not automatically mean transaction execution, this study seeks to inform the market with a focus on real-world effective repurchase days performed by established companies. This strategy is crucial for determining outcomes as the results demonstrate positive abnormal mean returns for most companies investigated. This can be addressed more fully using the event study methodology, which is a more solid empirical research approach compared to prior literature for abnormal returns. The analysis covers 120 days before and after announcements, and examining return behaviors under estimation windows, event windows (repurchase day), and post-event intervals helps to interpret price movements at Bursa Malaysia Kuala Lumpur (BSKL).

Keywords: *share repurchase, signaling theory, dividend, market capitalization*

Introduction

In view of the limited literature on share repurchases on Bursa Malaysia, this research aims to enhance the academic understanding of the phenomenon. The focus of this study would be to determine the real financial and economic consequences of buybacks. The aims of the current study are to analyze stock price effects of share buybacks and the risks involved in the short term of such purchases (i.e., before, during and after implementation). Some financial theorists have postulated various hypotheses and theories to explain the motivations that compel companies to perform share buyback programs. Determinants and linkages between volumes of buyouts and financial variables from corporate reports can be tested to gain insights into motivations for participating in such programs. This will identify which of the testable hypotheses that have been identified in the literature show significant impact on shares which are repurchased in the context of Malaysian market. The goals of the scheme are based on a sum of gathered data and therefore, do not consider firm-specific effects or do not take effect on firms. Therefore, event studies in combination with Multivariate Regression Analysis outputs derived from regression analysis, as the main aim, aims to accurately forecast future stock prices. Thus, to summarize the overarching goals of this research, they could be summarized as follows: (i) To evaluate and empirically test explanations pertaining to share repurchases within Bursa Malaysia; (ii) To analyze how share buybacks affect stock prices (utilizing t-tests); (iii) To ascertain changes in risk over a

brief period preceding, during, and following instances of shared repurchase activity;
(iv) To forecast stock price movements for firms engaged in buying back their own shares.

Literature review

Market reactions analysis is performed with reference to companies listed in the primary Bursa Malaysia marketplace. The two BSKL boards have been merged since 2009 which is a significant boost for companies in Malaysia on the fundraising front. The new format and an improved structural organization will promote Bursa Malaysia as the preferred listing venue through easy access to capital and investment. Equity fundraising rules and procedures have been amicably redefined under this new regime in order to offer better certainty, time-to-market, and regulatory certainty. For that reason some flexibilities have been added, that is only certain types of substantive corporate proposals have to be accepted by SC after approval under Section 212 of the Capital Markets and Services Act. Organizations usually use their funds for a number of reasons. Within the context of this study two options arise for them: either continue to reinvest in their business as the result of a merger or acquisition or capital expenditures while holding on to their working capital or to return the capital to shareholders in the form of dividends or stock buybacks. As Asquith and Mullins (1986) point out, different cash payout practices when distributing cash to shareholders represent a curious dimension of corporate finance because of the fact that repurchases are more likely to be preferred than regular dividends, as a means of delivering cash to shareholders (Grullon and Michaely, 2002).

The firms reviewed reported annual revenues above RM100 million for the study. Stock prices before the issuance of share repurchases have been significantly lower than those after respective buybacks have been announced. This suggests that after the shareholders repurchase, stock prices perhaps have been overvalued and demonstrates a signalling effect which implies that the firms have excess cash available for distribution. This situation therefore motivates external investors to buy stock in these firms, which may result in their stock price soaring. Hence, the findings support the signaling hypothesis. Nonetheless, this hypothesis is controversial; an open market repurchase isn't necessarily perceived as costly signaling because such offers don't require firms to carry out their buyback. Also, there's a difference between communicating management's expectations of future growth in cash flow and earnings vs. disagreeing with how current market valuations capture firm performance. This distinction is the basis for why we study current effective repurchase days instead. Grullon and Ikenberry (2000) argue that both views are consistent with undervaluation, such that they imply either that the firm cannot appropriately communicate its potential prospects, or that the market reflects insufficiently widely available information by not accurately reflecting the company's capabilities in the market levels prevailing at the moment. Evidence of underreaction in the market can be found in evidence-based literature, as for example Ikenberry et al. (1995) surveyed large sample members of the US market following US open market repurchase programmes disclosed in the 1980s and found sizable positive abnormal returns that averaged 12% for four years after the buybacks. The discovery adds weight to claims that markets are slow to incorporate information into stock pricing. The cornerstone of these signaling theories is that management of a company has superior understanding of the company's real value compared with outside investors.

Section 365 of the Companies Act 1965 requires dividends to only be distributed to a company's shareholders from profits. The Act, however, fails to define the term "profits." The Malaysian Accounting Standards Board (MASB) has formulated a structure for financial statement preparation and presentation which defines profit as the amount remaining after all expenses, along with any necessary capital maintenance adjustments, have been deducted from total income. Accordingly, any surplus beyond what is required to sustain the initial capital at the start of the period qualifies as profit. Keep in mind that in accounting, "profit" encompasses both realized and unrealized gains. As Jagannathan et al. (2000) have observed, corporate financial theories contend that managers must be interested in obtaining value, i.e. shareholders are the leading force on this relationship. As a company produces above-average amounts of cash flow, managers encounter differing means to ensure the effective allocation of such funds to enhance firm value. When firms do not have profitable investment options or options for repayment of debts, managers must decide the best way to share such excess cash flow with shareholders before there is a clear risk of agency conflicts. For shareholder payouts, firms often purchase shares or pay dividends.

In 2015 alone, there were 36 companies in Malaysia performing share repurchase programs, rising to 149 by 2018. The scale of shares repurchased also increased; this volume jumped from around 119.913 million shares in 2015 to about 6.258 billion shares in 2018. Similar transaction regulations in Malaysia are outlined in the On-Market Repurchases (OMRs) (Chapter 12, Share Buy-backs Listing Requirements, Bursa Malaysia). The Act prescribes that all repurchase should take place at the exchange's market, and more specifically at the Exchange's Automated Trading System, removing any direct business transactions. Income from dividends in Malaysia is liable to be taxed under the Income Tax Act as a result of the Imputation System and the Single Tier System. At the Imputation System, business payments to shareholders do not have a final tax payable form, but are a credit (being passed on to shareholders), so the dividends have already been subjected to source tax purposes (for example, at the rate of 25%), so that the dividends are net (e.g., 75%). This means that taxpayers have to report gross dividend income (100%) on their income tax returns. Those in lower brackets (e.g., 19%) are entitled to refunds up to 6%, while persons in higher brackets (e.g., 27%) are incurring an additional liability of 2% on their gross received dividends. The buyback actions of publicly traded companies on a portion of their stock is generally seen as an indication that investors are feeling good about a company's health and prospects. By virtue of signaling hypothesis theories, which suggest that such buybacks communicate optimism about future profit, evidence has shown significant post-announcement trends: Firms tend to have an immediate average abnormal return of about 3.5%, with longer-term changes showing an average abnormal return approaching 12% following 4 years of announcements. A more detailed review is based on empirical research that indicate remarkable differential in short-and long-term returns, which is the realization which indicates that public companies operating under Malaysian law must be able to adhere to both basic EPS reporting standards and diluted EPS measures required by federally mandated guidelines and GAAP in order to achieve satisfactory performance in the long term. Data from market studies show stronger relationships for diluted EPS figures against basic EPS returns on shareholder returns, indicating that investors prefer diluted measures because they would be more reliable indicators of financial performance. In contrast to corporate discretion as to when or when not to repurchase, as well as the recognition of expected results to improve diluted EPS, a

study concentrated on the time frame 1996 to 1999 for S&P 500 Industrial Firms to assess whether or not management decisions related to initiatives to regulate reported diluted EPS from the perspective of Employee Stock Option plans' dilutive impacts were consistently associated with reported earnings that fell below expected earnings sustaining historical growth rates associated with the measurement of these measures.

Malaysia provides an interesting terrain for investigating the relationship of dividends to repurchases by the concentration shareholders of the firms. Dividends are used to manage agency conflicts, the result of keeping firms in the sight of the control of capital markets (Easterbrook, 1984). Large dividend payments might restrain managers at access to too much cash as per Jensen (1986) free cash flow theory, which in turn may reduce their inclination to undertake unproductive activities and extravagant benefit giving. There are many empirical studies on the association between managerial ownership and dividend policies. Results revealed that firms with a high level of managerial shareholding tend to pay out lower dividends. Dividends and buybacks are both important tools in Malaysia in order to counteract any agency problems that exist in companies. It is worth highlighting an upward trend in Malaysia's average dividend payout ratio from 2010 to 2017 (21.71% in 2010, 27% by 2017). There was a small decline during 2015-16 period, but there were marked increases as of 2018. Yet, post-repurchase actions, according to this study, led to a great shrinkage in dividend distributions. This may have led directors and management to divert available capital to purchase again shares rather than returning them to a higher level of dividend, a tactic that was presumably designed to inflating share prices in sixty days after these repurchases were undertaken for shareholders who were looking to post capital gains after divesting their holdings.

Materials and Methods

For this particular research, this research will utilize event study method alongside Multiple Linear Regression. The eight (8) variables that have a significant impact on share buybacks will be included in the regression model: earnings, cash flow, book value, net income, price-to-book ratio, dividends, effective tax rate, and cash flow to equity. Event Studies were preferred for their benefits and impressive contributions, meaning they measure the relationship between an event of an economic nature and the value of a firm. This method measures how a particular event's impact on a firm's value is measured by analyzing financial market data. Such an analysis is important, of course, as it rests on rational behavior in markets, suggesting that events are swiftly priced into security prices. As a result, one can calculate economic repercussions of such events via observable security prices over short time horizons. The event study approach, traditionally concentrated on the effect of certain events on the pricing of a particular class of securities, mostly common stocks, became increasingly popular since it eliminates accounting-based profit measures, which have often been criticized as not providing proper information about the true quality of performance. Unlike accounting profits, which managers can manipulate with specific accounting methods, stock prices are not typically subject to insider manipulation and generally are thought to better reflect a firm's real value.

For this research, this study will look at eight main financial variables: Earnings, Book Value, Price to Book Ratio, Dividend, Effective Tax Rate, Cash Flow, Net Income, Cash Flow to Equity. Such factors are essential because they are one of the

most telling indicators of how management decide on share repurchases. Changes to these variables have a significant impact on the stock prices of a company and management decision-making process. This examination also captures agency costs within the Malaysian context. The study consists of two main analyses. The first is a set of Event Studies with results consistent with the signaling hypothesis and supporting earlier research by Koerniadi et al. (2007); Chan et al. (2004); Hatakeda and Isagawa (2004). Market participants may well interpret a firm's decision to buy back shares as being of an affirmative sign of its fiscal condition; furthermore the management seems to often time its purchases after price decreases strategically. The study found that if employed appropriately, share repurchase programs can be an effective way to maintain stock price stable for firms implementing these strategy. But shareholders should take stock price fluctuations into account, and shareholders should closely follow the directors' instincts about optimal time for buybacks. The second aspect of this inquiry analyzes the influence of the respective eight parameters on share buying and buying of, in which these variables were specifically selected after a thorough investigation of the effects of other factors. This study also stands to benefit from some of the original research as it relates to market reaction of actual firms in Bursa Malaysia during 2017-2021 on share repurchases. The sample comprises 109 randomly chosen firms in multiple economic sectors listed at Bursa Malaysia Kuala Lumpur (formerly KLSE) -- providing diversified outcomes in key industries while at the same time monitoring stable mature firms with annual market capitalizations over RM300 million. Moreover, this research have also compared the market reaction assessments over different listing boards' characteristics for this period of time, differentiating this research work from Lim and Bacha's previous study that finished prior in time; which means that the study use updated data here to enable comparisons. Additionally, even more so than, this research focuses not just on the number of approved buybacks, but also the effective date that companies carried out buybacks, this would give the study a closer look at how they were perceived and compared against their impacts since plans did not necessarily lead directly to implementation since there's no mandatory enforcing of directors in Malaysia to be carried out after a proposal acceptance. As such, the conclusions of this study reflect the actual events instead of speculative projections.

This study covers data between January 2017 and December 2021. Although repurchases of shares have been allowed since September 1997, this period was chosen in order to evaluate the impacts of the buying and selling of shares during a period when Malaysia had experienced an economic growth of over 5% year-on-year with respect to GDP. There were also no crises in this period, which allowed the study of marketplace conditions on ordinary days. In periods of crisis, share repurchase strategies can struggle because of market declines caused by diminished investor confidence, and the local regulation's threshold for annual repurchases that is 10 percent as determined by the Securities Commissions would not suffice to fend off selling pressure. The dataset comprises an impressive 10,519,573,574 events and 28,277 days where all sectors are participating in share repurchases in the five years. This research specifically examines announcements from 378 firms, actively participating in share repurchases and publicly listed on Bursa Malaysia verified by the audit for 109 entities engaged in repurchase actions throughout this period. The vastness and variety of these events provide a good representation of the entire population being analysed. Larger portfolio sizes could offer more accurate reflections on abnormal return characteristics according to previous

literature, yet his findings suggest that differences in portfolio size do not significantly impact information content measurements.

The research employs the event study methodology in order to examine how share prices vary following a buyback announcement. Setting a suitable time period for analysis is also necessary in order to collect proper data, which has been proven to be problematic by the researchers. For an event study, usually there are three separate amounts of time: the estimation window, that is, a control period; the event window; and the post-event window. The estimation window works to gauge average return behavior of share price against a market index. This phase collects information that, when applied to the subsequent intervals, gives a reference for normal price behavior. The event window is a set that covers market reactions after the announcement, and serves as the main target to analyze impacts attributable to that event. At the same time, the post-event interval facilitates consideration of effects in the long run resulting from that announcement. Usually focused around the $t=0$ point—the effective date of repurchase for every company's stock—the duration of these windows usually is three, five, or ten days, though this may vary greatly from study to study. Interestingly, the average effective repurchase duration of one day was included in their long post-event analysis scheme. This allows us to evaluate returns systematically over different timeframes, whilst modifying methodologies based, in part, on MacKinlay original research design.

Results and Discussion

Output results from SPSS version 20

Table 1 provides an overview of the repurchase activities during the sample period. During the sample period, 378 firms had a total of 28,277 repurchase days which is by far large than any studies being done in Malaysia with a total purchase of 10,519,537,574 shares. In the process of collecting the data, the output observed that firms exhibit varied forms of repurchase behavior. Some firms pursue repurchases in an aggressive manner, making purchases very frequently within a short period of time while others made their purchases less frequent but consistent than spread over a longer period. It is not uncommon for a firm to make just a single repurchase and then go through the process of renewing the approval the following year. Table 1 shows that 47(124%) firms make a single day repurchase, between 2 and 10 days are 21% and more than half of the firms spread their repurchase activities above 40 days are 42.6%. On average as compared firms have shorten their repurchase days indicating higher activities on repurchasing with total number of shares repurchased at staggering above RM 10 Billion total shares.

Table 1. Summary statistics of share repurchase activities in the Malaysia Market, 2017 – 2021.

Category	Frequency	Percentage
Number of repurchase days	28,277	
Total number of shares repurchased	10,519,537,574	
Number of firms with 1 repurchase day	47	124%
Number of firms with 2-10 repurchase days	79	20.9%
Number of firms with 11-20 repurchase days	42	11.1%
Number of firms with 21-40 repurchase days	49	13.0%
Number of firms with over 40 repurchase days	161	42.6%
Average number of repurchase days per firm	74.81	

The research outcomes from analysis of this study are in line with the signaling hypothesis and in agreement with most existing research, including Koerniadi et al. (2007); Chan et al. (2004); Hatakeda and Isagawa (2004). A firm's decision to repurchase is positively interpreted by the market as a signal. It is also based on results that management purposely timed their repurchase after falling prices. The results, suggest that, properly applied, share repurchase can be an efficient instrument for stabilizing stock values under the specific conditions of companies performing the repurchases. However, for this to work, management needs to watch out continuously for how the stock prices have moved, and be attuned with directors' decision making on a timely basis during repurchases to make sure that what is the correct decision. The findings also support other studies on that topic. Price increase persists even after 60 days after repurchase day 0. This is in line with the efficient market hypothesis: and this is rapidly reflected in adjusting the share price to the share price in the market. A consistency of price movement is there as seen in Table 1. In this sense, my findings are consistent with previous findings of Koerniadi et al (2007); Hatakeda and Isagawa (2004); Asquith and Mullins (1986); Vermaelen (1981). From 2017 to 2021 is bullish for Malaysia as an Asian region as a whole. Malaysia experienced an annual growth rate of 5.5%. The market responses have been overwhelmingly positive and meaningful. In these bullish years companies don't plan the buybacks. Repurchases and CAR is always working out positively. Here the output reveals that firms are even under bull state of the market always keep on in purchases if it is for gaining more share price on market or because they need to meet certain company's objectives that don't necessarily translate into them getting satisfied with the internal performance. Average Return (AR) and Cumulative Abnormal Return (CAR) around PE ratio of firms for total sample n=329 are presented in the table. Following the repurchasing days zero (0), the P/E ratio shows a huge spike. By day 31, it was up aggressively at 3.8821 up at day 60. The resulting reduction in shares on the market led to an increase in the P/E ratio. With the P/E ratio showing how the company is doing and how its growth is happening, this was advantageous to the company. There is confidence in investors regarding the opportunity of the firm being repurchased. The market considers a company's decision to buy back their shares as a positive signal. These results are in accordance with the signaling hypothesis and also with most of the valuable studies including Koerniadi et al. (2007); Chan et al. (2004); Hatakeda and Isagawa (2004). Even though this particular study did not take into account the size effect, the firms chosen were stable, matured and from different industries, and since BSKL combined the main board and the second board it does not reflect the information asymmetry theory. On a more general level we would say that the firms in this study suffer from relatively lower information asymmetry as they are being purchased by larger institutional traders, so they receive high media coverage and analyst attention. Other studies that provide evidence for the signaling size effect include Koerniadi et al. (2007); Firth and Yeung (2005); Jung et al. (2005); Otchere and Ross (2002). In the Malaysian instance, Lim and Bacha (2002) examine the two samples of main board (large firms) and Second board (small firm) and show that the announcement returns between the two boards does not differ significantly. Cumulative Abnormal return and equity dividend yield indicates strongly that share repurchase is a payment substitute for dividends. After repurchase day from day zero (0) till day +60, it was observed that the dividend decreased drastically. From their point of view, share buyback can be demonstrated as cash dividends replacement in this field here. Note that these results are relatively new findings from these firms in

the period 2017 to 2021. However, in conditions when capital gains tax can be lower than dividend tax rates, share-repurchase will provide a more attractive option for shareholders than the cash distribution. When companies repurchase shares, they create price appreciation which results in capital gain for the stockholders that if materialized will be paid at the capital gains tax rate, a lower rate than the personal income tax rate that will be charged to dividends. As such, when a share buyback is substituted for cash dividend, share value, in fact must increase. Additionally, to adjust the capital structure of the firm which can increase value of the firm through a change in capital structure where increasing capital structure by increasing the debt component and reducing the equity component can raise the value of the firm. Repurchases are used to restructure the company's capital structure without increasing the company's debt burden.

Conclusion

The study presents a systematic and detailed analysis of repurchase days, with 39,807 occurrences. Note: Data is extracted from Bloomberg for daily data update of Bursa Saham Kuala Lumpur. Cleaning of the raw data limited analyses to 109 firms eligible for calculation. Out of these, 329 repurchase events were found in total and some firms reported as few as one event, while others reported as many as four. The average return at -60 days is 1.2109, meaning that this figure represents the average return across all 109 companies over that time from day zero (the actual repurchase date). Average Return (AR) is the average daily return of each of these businesses. Cumulative Abnormal Return (CAR) is computed as $\% \text{ CAR} = \frac{\text{Total Daily CAR}}{\text{Sum of Total AR}} \times 100$. This model is developed to reflect Malaysian and also look at those factors which affect it. Findings show that sales-top-line growth is trending upward as expectations for company sales and earnings grow, and firms are buying back shares again to drive better returns to shareholders. Results show that if cash flow continues to rise, shareholders will benefit from more funds for ownership buybacks. Moreover, book value is also an important determinant of corporate repurchase levels. Interestingly, more net income is associated with increased purchase of shares among firms. Moreover, Price-to-Book ratio indicators also play an important role in the number of repurchases conducted. Surprisingly, this investigation shows that dividend payouts do not decrease on the back of greater shares purchased in Malaysia and there is no significant difference in either whether tax policy does or does not affect the decision on the buying shares of Malaysian firms. Last, low ratios for cash flow to equity have not had a much impact on corporate decisions taken on the share buyback schemes they undertake.

The findings of the paper suggest that a company with substantial, good earnings potential should be forthrightly able to describe the reasons why to buy back shares. The point being, presumably, that all the money used for such repurchases could work better in other areas. Investors can miss the difference between what makes a company's decision to conduct a repurchase program desirable and unfavorable without any proper explanation for it. On the other hand, it is not uncommon for stock buyback programs introduced by struggling firms to be viewed favorably by investors. They see these as a preferred return of capital, and they're a sign that management is moving to boost the bottom line. This is important for CFOs and has huge consequences, initiating a share repurchase program will have far reaching effects to multiple other factors associated with shareholder value creation, resulting in ripple effects throughout an organization.

As a result, strategic actions need to be taken first by financial leaders according to the demand for fund investment based on a set of available investment opportunities and second by the factor of investable funds supplied predominantly through corporate profitability. Although this study is informative in terms of signaling mechanisms relating to repurchases and governance, it does have some limitations to its extent. The conclusions obtained are limited to a certain variety of contexts and in particular to specific time periods and variables examined in relation to stock buybacks. Other considerations, in terms of the nature of ownership, structures and offer(s), the presence of venture capital (VC) as well as the growth prospects and incentive contracts could help in examining the potential of asymmetric knowledge issues on the extent of underpricing, an area deserving further research into the Malaysian case of buying/not buying situation. What's more, corporate governance systems and organizational characteristics are thought to be in transition as the firms operate on the move where their changes may then affect the post purchase market performance. Therefore, longitudinally examining the changes of boards after repurchases might uncover the extent to which firms re-adjust their governance procedures during regulation transition and strategic pressure. On the policy side, this study emphasizes an interesting paradox for advocates of good corporate governance standards-that the latest regulatory measures targeted at improving good practice considerations can be as prescriptive as a new "box-ticking." Although sound corporate management structures are critical-both a necessary and not sufficient-prerequisite to the deployment of share buybacks, traditional factors such as board composition and transparency are under-discussed by Malaysia investors when compared to those closely related to competitive positioning or potential strategies that impact share prices. But most study, from this one at least, tends to consider links between observable companies being structured versus tangible outcomes of purchase of shares, but often that analysis fails to have a full understanding of the nature of those relationships. The qualitative picture of how underlying elements of Corporate Governance interactively affect investor behavior in Buy Back transactions can be enhanced by further research with behavior mechanics-directed processes. Such perspectives might also shed light on complexities over investing activities linked to the acquisition of shares in emerging markets as well as the means used by investors or stakeholders in such transactions.

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Conflict of interest

The authors confirm that there is no conflict of interest involve with any parties in this research study.

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