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Factors Impact on Stocks Repurchase of Enterprises Listed on the Stock Market of Vietnam Period of 2015-2019

Ngo Mai Phuong[1], Le Thi Mai Cham[2]

[1]Thai Nguyen University of Information and Communication Technology, Quyet Thang Street, Thai Nguyen City, Thai Nguyen Province, Viet Nam

[2]Thai Nguyen Medical College, Thinh Dan Ward, Thai Nguyen City, Thai Nguyen Province, Viet Nam

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Abstract

The report assessed the stock repurchase activities of companies listed on the Vietnamese stock market in 2015 - 2019. The article uses Tobit's regression model and FEM - Fixed Effect Model regression model. To determine the motivation of the business to buy back, build a model based on the existing models to evaluate the impact of the share buyback on the enterprise's business performance. The research results show that the sharing repurchase by enterprises lowers valuation or reduces the cost of free cash flow and capital structure of the enterprise. It will determine the repurchase of shares of that enterprise; Along with that, the company's stock repurchase will pay fewer dividends. With the impact of stock repurchases on the enterprise's business performance, the results show that stock repurchases have potential implications for future earnings and the profitability ratios on the business books.

Keywords: Stocks; Buyback of shares; Stock buyback motives; Business performance; Vietnam stock market

1. Introduction

The share buyback is acquiring the shares issued themselves and are owned by shareholders. The share buyback is an essential financial strategy for businesses in developed countries like the US and European countries. Share buybacks provide businesses with price benefits. When an enterprise announces a share repurchase, the share price usually increases. Besides, it will help the company's financial indicators to be more beautiful; namely, EPS, ROE, ROA will increase, revenue, and profit will not change. According to Professor Wang at the Faculty of Economics and Finance at National Taiwan University, before and after the company announces the repurchase of shares, the average abnormal profit of the enterprise will increase by 1,9142%. In Hong Kong, according to the research of Professor Zhang at the Chinese University of Hong Kong, two days before the Announcement of abnormal profit will increase to 0.43%, and after two days of Announcement, the average abnormal profit of the company. As a result, enterprises increased by 0.69%. It means that the firm's average abnormal return is affected by its share repurchase announcement.

In Vietnam, investors often do not pay attention to the signal to buy back shares of enterprises; Along with that is the lax management of the company, so businesses often only give announcements to purchase shares, and the execution rate is meager. In terms of share repurchase

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rate, the company performed the share repurchase as announced, accounting for a small proportion of the total stock repurchase announcement. Typically, in 2011, when there were 203 stock buyback announcements, only 53.34% of them made share buybacks; rates have been steadily increasing in recent years, such as in 2017, the number of stock repurchase announcements is 70; in which 86.59% of enterprises buyback to share. In 2018, the share repurchase rate was 88.25% of the total number of enterprises that announced share repurchases. Therefore, the author has researched: *Why do businesses announce share buybacks? How does the repurchase of shares affect the business performance of the enterprise?*

2. Method

Research article on the acquisition announcement by companies listed on the Vietnam stock market in the period 2015 - 2019 provided by the website of the State Securities Commission. From 311 stock repurchase notices, the author collects 101 stock repurchase notices; after the variable and agglomeration, the program notices; The model with 42 observations.

With the research method, the author explains the motivation of enterprises to buy back shares in Vietnam according to the explanation of Dittmar (2000). To evaluate the causes for the stock repurchase of companies listed on the Vietnamese stock exchange, the author chooses the Tobit regression method. The dependent variable is the ratio between the value of shares purchased by the company. Announcement and the market value of the company in the previous year.

REPit = α1CASHFLOW $_{i(t-1)}$ + α2MKBK $_{i(t-1)}$ + α3PAYOUT $_{i(t-1)}$ + α4ASSET $_{i(t-1)}$ + α5LEVER $_{i(t-1)}$ + ui

The study uses a fixed-effects regression model to evaluate the impact of stock repurchases on business performance in companies listed on the Vietnam stock market in 2015 -2019. Fixed Effect Model (FEM) with the dependent variable is the indicators to measure companies' business performance, including ROA, ROE, and Tobin's Q, according to research by Chandren et al (2017). The model is built as follows:

$$ROA_{it} = \alpha_1 BUY_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 PROFIT_{it} + u_{it}$$

$$ROE_{it} = \alpha_1 BUY_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 PROFIT_{it} + u_{it}$$

$$TOBINQ_{it} = \alpha_1 BUY_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 PROFIT_{it} + u_{it}$$

3. Results

Table 1 is the model result explaining the motivation of companies listed on the Vietnamese stock market to buy back shares in 2015 - 2019.

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Table 1. Tobit's model regression results

Variable	**Expectation sign**	**Hypothesis**	**Dependent variable REP**		**Research results**
			Regression coefficient	Test t	
CASHFLOW	+	H1	-2,498	-0.093 *** (0.0026)	Rejected
MKBK	+	H2	36.879	0.006 ** (0.0000)	+
PAYOUT	-	H3	-1.903	-0.061*** (0.0076)	-
ASSET	-	H4	0.177	0.073*** (0.0020)	Rejected
LEVER	-	H5	-0.699	-0.0392 ** (0.0043)	-
WOMEN	**42**				
R-square	**0.503**				

** and *** are at 5% and 10% statistical significance, respectively. The number in brackets is the Z statistic

(Source: Author calculated using Eviews 9.0 software)

According to research by Dittmar (2000), variables CASHFLOW and MKBK have a positive relationship with the rate of stock repurchase because he explains that the business has a lot of cash, and the difference between book value and market value is significant. Therefore, the companies will conduct a share buyback to reduce the agency cost of free cash flow and signal to the market that the company's shares that undervalued. Meanwhile, the variable PAYOUT is inversely proportional to the share repurchase rate to show that the share repurchase rate affects the level of dividend payout. At the same time, the ASSET and the LEVER variables are expected to be negatively correlated. With the share repurchase rate because the smaller the firm, the more significant the information asymmetry. Firms will repurchase more shares than the larger firms, and the firm also uses stock repurchases. Therefore, use stock repurchases as a tool to adjust debt leverage.

The MKBK regression coefficient has a statistical significance (α = 5%) representing the underpricing theory, showing a positive sign, indicating that stocks undervalued businesses. Companies often tend to repurchase shares to increase earnings per share for shareholders or reissue when needed. According to Dittmar's research, the undervalued hypothesis of stocks depends on asymmetric information between stockholders and shareholders. For example, if the stockholder believes that the stock price is on a downward trend, the business will buy back the stock as a signal to revalue the stock in the market and investors. So with the author's research, from 2015 to 2019, Vietnamese businesses tend to buy back stocks to signal to revalue their companies' stock prices.

The coefficient PAYOUT has statistical significance (α = 1%), representing the hypothesis of the dividend payout ratio. Therefore, it is reasonable to expect that cash dividend payments and stock buybacks are substitutes. According to the author's research, Vietnamese enterprises in

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2015 - 2019 that buy back shares will pay fewer dividends than those that do not buy back shares. This result shows that the repurchase of shares that produce more periodic dividends is subject to certain tax benefits.

According to Dittmar (2000), corporate tax benefits are because capital gains are generally taxed less than dividend income. Share repurchases are treated as taxable capital gains from which investors tax can be deferred until they receive a profit from the sale of the stock. In addition, businesses can use share buybacks to optimize leverage. As a result, some companies buy back stock if their leverage ratio is below the target liquidity ratio. Therefore, the capital structure of the company will determine the share buyback. In the author's study, the LEV coefficient has a negative sign (-0.0392) at the 5% significance level, indicating that when the company's debt ratio increases, the share repurchase rate of the enterprise decreases. As a result, businesses cannot issue debt and use this money to buy back shares.

In the study, two variables CASHFLOW and variable ASSET have opposite results with the hypothesis. According to Dittmar (2000), the cash holding ratio is positively related to the share repurchase rate; however, in the study, the variable CASHFLOW has the opposite sign with expected oil, showing that the cash holding ratio is opposite. Furthermore, it has a negative relationship with share repurchases, confirming that in 2015 - 2019, Vietnamese enterprises do not tend to redistribute cash holdings of shareholders in the form of stock repurchases. The ASSET variable indicates a negative relationship between firm size and stock repurchases. However, from 2015 to 2019, according to the author's research, the assessment between the size of the business and the share repurchase is proportional to each other. The larger the enterprise, the more likely the share buyback will increase. Table 2 describes the analysis results of the effect of stock repurchases on the business performance of companies listed on the stock market in the period 2015 - 2019.

Table 2 Fixed-effects regression model results

Variable	**Expectation sign**	**ROA**	**ROE**	**Model TOBINQ**
BUY	+	0.0034 (0.0043)**	0.0059 (0.0018) **	0.187 (0.0361) **
SIZE	+	0.0097 (0.0000) **	0.0135 (0.0000) **	0.667 (0.000) **
LEV	-	-0.0433 (0.0065) **	-0.0311 (0.1894) ***	-3.0576 (0.0108) **
PROFIT	+	0.00379 (0.0382) **	0.0095 (0.0258) **	0.0507 (0.8652) ***
WOMEN	42			
R-square		0.266	0.223	0.232

** and *** are at the 5% and 1% significance level, respectively. The number in brackets is the t-test

(Source: Author calculated using Eviews 9.0 software)

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The paper shows that all the independent variables correlate with the dependent variable for the ROA model. The variables BUY, SIZE and PROFIT have a positive relationship with the ROA variable at the 5% significance level, which shows that the repurchase of shares of Vietnamese enterprises in the period 2015 - 2019 has a positive relationship between the rate of return and investment. Return on total assets with short-term business results. Besides, the SIZE and PROFIT variables also help us to comment that the larger the size of total assets and the larger the profit before tax, the more positively it will positively affect the enterprise's business performance for the enterprises. Enterprises buy back shares listed on the Vietnamese stock market from 2015 to 2019. In contrast to the variable LEV, the author finds a negative relationship with the dependent variable ROA at the 5% statistical significance level. It is consistent with the model's initial expected sign that firms with large leverage ratios and high capital costs will reduce business performance.

For the ROE model, the author only found evidence of the correlation between BUY, SIZE, and PROFIT variables to the dependent variable ROE. In Table 4.6, we see the similar impact of BUY, SIZE, PROFIT on ROE as with the dependent variable ROA. With the hypothesis that there is a positive relationship between the stock repurchases and the short-term business results based on the return on equity of the enterprises. They are listed on the Vietnamese stock market. Based on Table 4.6, the author finds that firms with high profit before tax and interest affect the ROA index and the ROE index, while the variable PROFIT has a similar effect. Positively related to the dependent variable ROE at the 5% significance level. Besides, the value of shares repurchased is also proportional to the return on equity of the enterprise.

If ROA and ROE are indicators calculated at book value that represent the short-term profit of the business, the TOBINQ index represents the future profit potential of the business. In the TOBINQ model, the author finds the effect of stock repurchases on the business performance of companies listed on the Vietnamese stock market in 2015 - 2019 when the variable BUY has a relationship. Dimension with the variable TOBINQ. The more shares a company repurchases, the better its business performance during the year it buys back shares. The SIZE variable also has a positive relationship with the TOBINQ variable, proving that the larger the size of the total assets, the higher the profit potential index. Finally, the LEV variable is confirmed inversely with the TOBINQ variable, showing that the considerable financial leverage reduces the ROA and reduces the TOBINQ index of the firm's profit potential.

4. Discussion

The reasons why businesses buy back shares in the Vietnamese stock market include three main reasons: First, companies buy back shares to signal low valuation or reduce the cost of free cash flow; Second, stock repurchases in Vietnam are impacted by dividend payments – that is, when a share buyback done, it pays less; Thirdly, in enterprises listed on Vietnam's stock market in the period 2015 - 2019, the capital structure of the enterprise will determine the repurchase of shares of that enterprise. Along with that, research also shows that; Share buybacks offer potential impacts on future earnings and the profitability ratios on the business books.

5. Acknowledgments

The article still has some limitations: the research scope is limited, leading to the fact that the data does not fully reflect the impact of the independent variable on the dependent variables. In

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addition, the article only stops at evaluating the stock repurchase motives and the effect of stock repurchases on business operations, so the impact of stock repurchases has not been deeply reflected on the entire stock market.

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