

Pakistan Equity | Market

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REP-057

Rising buy back of shares at PSX Positive development for Equity Markets



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Umair Naseer

umair.naseer@topline.com.pk

Tel: +9221-35303330 Ext:133

Topline Securities, Pakistan

Companies can buy back shares now through exchange only

- Recently two companies have announced to buy back their own shares from their company funds. Netsol Technologies (NETSOL) in its notice sent to the exchange on April 11, 2022 announced board decision to buy back 2mn shares (2% of the paid up capital) worth Rs201mn. Similarly, Maple Leaf Cement (MLCF) on April 19, 2022 announced its board's recommendation to buy back up to 25mn shares (2% of the paid up capital) worth Rs855mn.
- Companies have option to hold buy back shares as treasury shares or cancel them altogether. Purpose of buy back for NETSOL is Treasury Shares and for MLCF it is Cancellation.
- This treasury stock or buy back transactions are common in developed markets but in Pakistan this is a new trend. Recently, some changes were made in buy back regulations through amendment in Companies Act 2017 (amendment dated Dec 4, 2021).
- As per the amendment, the purchase of shares can only be made through the securities exchange and not through tender offer. Previously, purchase of shares could be made through a tender offer or through the exchange.
- These changes along with attractive valuations may have compelled these 2 firms to buy their own shares. In last few years, similar buy backs were announced as per the "Listed Companies (Buyback of shares) regulations, 2019".
- After the buy back regulations in 2019 companies like Arif Habib Corporation (AHCL), Arif Habib Limited (AHL), JS Investments (JSIL), JS Global (JSCL) and Nishat Chunian Limited (NCL) announced treasury stocks. However, few companies were not able to execute the buy back as share price rallied as they had opted to buy back through a tender offer. Out of the five companies that had announced buy back, JSIL and NCL were not able to completely buy back the originally intended shares. Now based on spot price purchase formula that will not happen.
- Treasury stocks results in improvement in EPS due to lower number of shares and improvement in breakup value of the share. Theoretically, treasury stocks are often used by companies to improve their valuations and to give positive signal to the shareholders.
- As per our back of the envelop calculations, NETSOL and MLCF EPS will increase marginally by around 1%-2% after buy back announcement.
- We believe recent changes in buy back regulations will help companies unlock their valuations. We also believe that more companies can enhance their shares valuation by following this trend.

Buy Back of Shares - Eligibility Criteria

Listing Period	Listed at PSX for a minimum of 03 years
Criteria	The company must not be in defaulters counter. The board must not recommend buy back if winding up proceedings of company has commenced or merger/demerger of the company is approved or public offer for acquisition of shares has been made
Minimum Capital / Free float	Company considering buy back, must be meeting the minimum capital and free float criterion
Special Resolution	A Special Resolution of members must be passed prior to proceeding ahead
Funds availability	The Board is required to provide an undertaking confirming the available of funds for buy back
Periodicity	Minimum of 6 months from the date of an earlier general meeting where resolution was disapproved, if disapproved earlier

Source: Listed Companies (Buyback of shares) regulations, 2019

Selected transactions under Buy Backs Regulations, 2019



Year	Number of Shares	% of Capital	Buy Back Price	Treatment	Regulation
2019	45,375,000	10%	PKR 27	Cancellation	Listed Companies (Buy Back of Shares) Regulations, 2019



Year	Number of Shares	% of Capital	Buy Back Price	Treatment	Regulation
2019	6,600,000	10%	PKR 35	Cancellation	Listed Companies (Buy Back of Shares) Regulations, 2019



Year	Number of Shares	% of Capital	Buy Back Price	Treatment	Regulation
2019	27,934,840	34.8%	PKR 18	Cancellation	Listed Companies (Buy Back of Shares) Regulations, 2019



Year	Number of Shares	% of Capital	Buy Back Price	Treatment	Regulation
2019	7,450,000	19.60%	PKR 55	Cancellation	Listed Companies (Buy Back of Shares) Regulations, 2019



Year	Number of Shares	% of Capital	Buy Back Price	Treatment	Regulation
2019	32,000,000	13.32%	PKR 32	Cancellation	Listed Companies (Buy Back of Shares) Regulations, 2019

Source: PSX

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