



Likely possibilities for TRG post allocation of liquid assets: Dividend or Buy Back?

- TRG Pakistan (TRG) on Dec 10, 2021 had notified the exchange that TRG International (TRGIL)'s board has approved allocation of its liquid assets to its shareholders. TRG portion of the liquid assets would amount to US\$120mn (inclusive of ~US\$10mn in deferred cash) along with 5.4mn shares of IBEX Limited (IBEX) which is worth US\$72mn. The company had stated the process and structure for utilization of the above allocation is expected to be finalized by Dec 31, 2021.
- TRG has convened a Board meeting other than financial result today and investors are wondering what could be the likely announcement.
- We in our report dated Dec 10, 2021 had mentioned two possibilities: (1) announcement of cash dividend of Rs33-35/share or 2) shares buy back (treasury stock). In this report we try to go through the key points of SECP's amended buy back regulations for Listed Companies and try to study operational/practical issues a company may face doing a buy back (treasury stock).
- The purchasing company can announce buy back through tender offer or purchase through the exchange. The board first recommends buy back, mode of purchase (through tender offer or through exchange), number of shares to be offered and a price if buy back is through a tender offer. Through tender offer, purchase price is recommended by board and it shall not be less than the preceding five trading days weighted average price of the shares.
- This is to be followed by general meeting in which the special resolution is to be passed not later than 30-days than the board meeting where the buy back/treasury stock is recommended. It has to be passed by 3/4th of such members of the company entitled to vote as are present in person or by proxy at the general meeting which itself is cumbersome. The price can be modified from the initially proposed price as was the case with Nishat Chunian (NCL), where members approved buy back price of Rs34 in special resolution, higher than the initially proposed price of Rs32. Even then there is an inherit risk whether the purchasing company successfully acquires the number of shares it intends to buy back or not – which did not happen in NCL (we discuss NCL in following slide).
- The purchase period from tender offer shall be for a period of 30 days commencing from dispatch of letter (for tender). The purchasing company at all times during the purchase period has to maintain a deposit equivalent to 25% of the consideration payable in the escrow account and the remaining amount shall be deposited at least three working days before the close of purchase period. The entire process of buy back (treasury stock) takes at least 2 months, the cash is stuck for the company during the period.



- We have seen few companies announcing buy backs (treasury stock) through tender offer including Nishat Chunian (NCL), JS Investment (JSIL), Arif Habib Corporation (AHCL), Arif Habib Limited (AHL) recently.
- Lets take an example of NCL where the board recommended shares buy back (treasury stock) of up to 32mn shares at a price of Rs32 on Aug 9, 2021, 17% higher than market price of Rs27.41. It was followed by a general meeting on Aug 31, 2021 when the final price of Rs34 (Rs2 higher than Rs32) was approved in special resolution where purchase was to be made from Sep 9, 2019 to Oct 8, 2019. Since the announcement of buy back to the end of purchase period, market price of NCL surged by 34% to Rs36.71/share. Out of the proposed 32mn shares to be bought back, only 102,527 shares were tendered by the shareholders. This generally gives an idea about the operational and practical issues company has to face as the cash available may not be deployed when going for a buy back, which TRG may have to consider.

Nishat Chunian (NCL) - Share buy back timeline

Events	Date
Date of the board of directors meeting in which the purchase was decided	09-Aug-2019
General meeting date where special resolution regarding the purchase was passed	31-Aug-2019
Date of Publication of the Public Announcement	02-Sep-2019
Purchase Period	09-Sep-2021 to 08-Oct-2019
Purchase Price	Rs34 per share
Date of Publication of the Public Announcement	02-Sep-2019
Date of dispatch of the offer letters	07-Sep-2019
Total number of shares offer for sale	32mn shares
Total number of shares tendered for sale	102,527 shares
Number and date of return of unaccepted shares	Not applicable
Number of purchase shares cancelled	102,527 shares

Source: Company Announcement, Topline Research

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