Philequity Corner (March 10, 2008)
By: Joseph Liao Ong

Of Buybacks and Tender Offers

The strong stock market in the past years prompted a number of companies to raise funds through IPO or via secondary offering. While these capital raising exercises had temporarily siphoned off liquidity in the market, the overall sentiment among investors towards the local bourse remained favorable until the US sub-prime mess surfaced. With the slew of negative news about the US possibly entering a recession, local share prices along with the rest of the region plummeted – erasing most of their early gains. The PSEi, from its peak of 3,896.74 in October 2007, closed at 3,028.73 last Friday. The prevailing weakness prompted several companies to buy back their own shares. Below is a list of companies who bought back their shares from 2007 to date.

LIST OF COMPANIES THAT BOUGHT BACK SHARES IN THE MARKET		
Company	**Shares bought back**	**Period covered**
Ayala Corporation	810,000	Dec 07 - Jan 08
Anglo Phil Holdings Corp.	11,250,000	Jul 07 - Jan 08
CADP Group Corp.	1,506,000	Dec 07 - Feb 08
Chemrez Technologies	21,647,000	Nov 07 - Mar 08
Empire East Land	8,900,000	Aug 07 - Oct 07
First Gen Corp.	400,000	Oct 07 - Nov 07
Filinvest Land	98,543,000	Jan 08 - Mar 08
GMA Network	3,395,000	Nov 07 - Dec 07
Phoenix Petroleum	1,304,000	Oct 07 - Jan 08
Roxas Holdings	46,461,000	Feb 07 - Feb 08
Universal Robina Corp.	40,546,600	Nov 07 - Feb 08
Vista Land & Landscapes	42,279,000	Nov 07 - Mar 08

Sources: Technistock, Phil. Stock Exchange

Treasury shares

Share buybacks, as the name implies, reduce the number of shares outstanding through the purchase of shares. After the company purchases its shares, it keeps them as treasury shares. These re-purchased shares have no voting rights and are not entitled to receive dividends. In the end, they are omitted from the calculation of the shares outstanding. The company, however, may re-issue these shares in the future.

In general, there are two modes for doing a buyback: (1) through outright purchase of shares in the open market, and (2) via a tender offer. A tender offer is an offer by the acquirer to all shareholders specifying the price and the period at which it is willing to pay for the shares. Under the Securities Regulation Code, a tender offer announcement shall be made through a newspaper of general circulation.

Enhancing shareholder value

More often than not, a share buyback elicits a positive signal from the investing public. The reasons are simple:

1. Management is telling the public that there is no better investment alternative currently available that will yield higher returns than the upside potential of its own shares. In some cases, a company even borrows from a bank to fund its share buyback program. After all, management knows more about their company than any other investor.

2. Share buybacks create / enhance shareholder value by improving earnings per share (EPS). Higher EPS leads to lower valuation, which in turn translates into greater appreciation of the stock. In the end, share prices follow earnings. Furthermore, a cash-rich company (i.e., a company with higher cash levels than borrowings) may opt to re-purchase its shares rather than declare excess cash as dividends. By doing so, not only does a company save on tax payments, it also improves return on equity.

Buybacks of parents and subsidiaries

Share buybacks could also be tricky at times since two companies with common principal shareholders can consummate the re-purchase. For instance, a parent company could initiate a buyback by purchasing the shares of its publicly listed subsidiary. House of Investments, for some time, has been buying the shares of EEI Corp. Conversely, a subsidiary could buy back the shares of its listed parent company. Examples are Anscor Consolidated Corp. buying A. Soriano Corp. shares and ICTSI Warehousing, Inc. purchasing ICTSI shares. In both these instances, the shares are not retired but are simply held for investment purposes.

Return to investors

As part of our investor education series, we had explained the concept of dividend yield in previous articles. In this column, we show that return to investors can be achieved not only through dividends but also through share buybacks. In fact, many companies believe that buying back their undervalued shares achieve better returns to shareholders. A combination of both cash dividends and share buybacks has become more prevalent in developed markets. In this market environment, we expect many of the cash-rich companies to execute shareholder buybacks.

For inquiries and comments, you can email us at research@philequity.net.