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Factors Affecting the Resale of Treasury Shares in Malaysia

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Abstract

A share repurchase is the buying back of a company's shares from the market, and the portion of shares stored by the company is known as the treasury shares. This study aims to examine the motivating factors affecting the resale of treasury shares among publicly listed companies in Malaysia from 2010 to 2016, subsequent to the Global Financial Crisis of 2008. The variables considered include cash holdings, liquidity, leverage, firm size, profitability, and growth opportunity. A Tobit regression model is employed, and the results show that cash flow is negatively related to the magnitude of resale of treasury shares, while the current and market-to-book ratios show a positive association. Thus, Malaysian firms tend to resell their treasury shares when they have fewer cash holdings but greater growth opportunities and better liquidity. These findings suggest that the proceeds obtained from the resale of treasury shares are used to finance the firm's prospective investments.

Keywords: Malaysia, Share Repurchase, Treasury Shares

Introduction

A share repurchase is the buying back of a company's shares from the market (Graham, Adam & Gunasingham, 2021). A firm usually engages in share repurchases when it perceives that the valuation of its shares is too low compared with their underlying value (Dittmar, 2000; Vermaelen, 1981). The buying back of shares reduces the number of outstanding shares in the market, which will boost earnings per share and eventually raise a corporation's stock price (Erickson, 2018; Brigham & Houston, 2014; Clayman, Frisdon, & Troughton, 2012).

However, only open market repurchases are permitted in Malaysia. As stated under Section 127 (4) of the Companies Act 2016, the shares bought back will be retained as treasury shares intended for retirement or resale to the public later. A treasury share, also known as treasury stock, is defined as the portion of shares stored by a company after buying back them from the shareholders (Burris, 2014). Under Section 127(7) of the Companies Act 2016, treasury shares can be resold to the public, usually at a higher price, to earn a profit and raise capital. On the other hand, the treasury shares considered dead or idle can also be cancelled to reduce the cumulative net outstanding treasury shares.

According to Rule 12.18 under Chapter 12 Share Buybacks of the Bursa Malaysia Listing Requirements and pursuant to Section 127(7) of the Companies Act 2016, a listed corporation may only resell treasury shares on the Exchange at a price that is not less than the weighted average market price for the shares or at a discounted price that is not more than 5% of the weighted average market price for the shares for the five market days preceding the resale. The resale should take place not earlier than thirty days from the date of purchase, and the resale should not be less than the cost of the purchase of the shares being resold. Meanwhile, Rule 12.20 states that a listed corporation must immediately announce to the Exchange any

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resale of its treasury shares not later than 6.30 p.m. on the day of the resale. In its announcement, the listed company must include the date of the resale, the number of shares that were resold, the resale price of each share, or the highest and lowest resale prices sold, and the total amount of money that was made from the resale.

During bad economic situations, companies tend to buy back their shares to boost share prices, as reflected during the Asian Financial Crisis in 1997, when the Malaysian government legalized share repurchase as one of the alternatives to saving the stock market from collapse. These shares would then be held in the form of treasury shares. Traditionally, treasury shares are either sold for a profit or distributed as dividends to shareholders. Another option is the cancellation of the treasury shares, which will reduce the number of shares outstanding. Share repurchase and cancellation of treasury shares tend to increase the company's stock price through the reduction of shares outstanding, whereas reselling treasury shares would act as an extra income to finance the operations of the firm. While proceeds from the resale of treasury shares can be channelled towards working capital, such a sale may reflect that the company was already seeing a fair value for its shares, hence putting a cap on the share price gain (The Edge, 2021). Accordingly, the driving intention behind the resale of treasury shares is still ambiguous and much more likely to rely on the respective company's discretion.

Despite abundant research having examined the motives for share repurchase, the discussion on the resale of treasury shares is still scarce. Even though an increasing trend is observed in Malaysia for the resale of treasury shares, it does not seem to gain as much attention as share repurchases do in the context of the Malaysian market. The above commentary, together with the lack of discussion pertaining to the resale of treasury shares in Malaysia provides the motivation to conduct this study. Therefore, the objective of the current study is to examine the factors affecting the resale of treasury shares in the context of an emerging market in Malaysia, particularly covering the period from 2010 to 2016, which is subsequent to the Global Financial Crisis of 2008. This study aims to determine whether the findings are consistent with the general reported motives for reselling treasury shares, particularly for fundraising purposes. At the same time, the current study also intends to discover other factors that might affect the resale of treasury shares in Malaysia in the post-crisis period. Accordingly, the findings of the current study will assist investors in figuring out the actual reasons that advocate the resale of treasury shares in Malaysia.

The rest of the paper is organized as follows: Section 2 reviews the existing literature and develops hypotheses. Section 3 outlines the data, methodology and empirical model for the study. Section 4 presents the empirical findings, while Section 5 concludes the paper.

Literature Review

Abdul Latif, Taufil Mohd, and Kamardin (2015) examined the announcement effects on the resale of treasury shares among publicly listed companies in Malaysia from 2001 to 2012. The results from the event study analysis showed that resale firms experienced significant positive 4% abnormal returns in the five days prior to the actual resale of treasury shares. However, no abnormal gains are realized following the actual resale of treasury shares, suggesting that the market is semi-strongly efficient where prices can fully reflect all publicly available information.

The treasury shares sold on a price rally helped to boost the cash pile of a public listed company in Malaysia (The Edge, 2014). Meanwhile, it was reported that the proceeds from the resale of treasury shares were channelled towards the firm's working capital (The Edge, 2021).

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This shows that reselling treasury shares is beneficial to the corporation since it allows the company to accumulate funds for future investments (Corporate Finance Institute, 2017).

The excess capital hypothesis claims that firms with excess cash flow over profitable investment opportunities are likely to distribute the surplus cash to shareholders to reduce the agency cost (Dittmar, 2000; Jensen, 1986). Hence, cash holdings influence the decision on share repurchase. This may apply to the resale of treasury shares based on the report from The Edge (2014), where treasury shares are resold to accumulate extra cash for future investment. Therefore, it is expected that the firm's cash holdings will influence the resale of treasury shares, and the first hypothesis is set as follows.

H1**:** Cash holdings are significantly related to the resale of treasury shares.

Cesari, Espenlaub, and Khurshed (2011) investigated the effects of both open market repurchases and treasury share sales on the liquidity and volatility of Italian firms from 1997 to 2004. The independent variable is represented by trading, which is computed as the ratio of the total number of shares purchased or sold in a fiscal year to the number of outstanding shares at the end of the year. As for the dependent variables, the bid-ask spread is used to measure the liquidity, while return variance acts as a proxy for the volatility of firms. The result of the multivariate analysis showed that open market repurchases and sales of treasury shares have caused the company to be more liquid and less volatile.

The issue of the relationship between liquidity and share repurchase was raised by Barclay and Smith (1988). They were the first to propound the liquidity hypothesis, which asserts that share repurchase can reduce liquidity in firms. Besides, they also found that repurchasing firms tend to be more liquid, and the size of repurchase increases with liquidity. Therefore, liquidity affects firms' share repurchase and may apply to the resale of treasury shares. While Cesari et al. (2011) found an interrelation between treasury share sales and a firm's liquidity, it was also reported that the gain from the resale of treasury shares was allocated to the firm's working capital (The Edge, 2021). Working capital is a metric used to measure a company's liquidity. Hence, it is expected that a firm's liquidity will affect the resale of treasury shares, and the second hypothesis is set as follows.

H2**:** Liquidity is significantly related to the resale of treasury shares.

The optimum leverage hypothesis posits that companies are more likely to repurchase shares if their actual debt-to-equity ratio is less than the target ratio. So, share repurchase is undertaken to increase the proportion of leverage in the firms' capital structure and eventually reduce the cost of capital (Dittmar, 2000; Ofer & Thakor, 1987). Therefore, leverage is an influential factor in motivating firms to repurchase shares. This may apply to the resale of treasury shares since The Edge (2021) reported that the proceeds from the resale of treasury shares were channelled towards the firm's working capital, and working capital is interrelated to any adjustment in the debt-to-equity ratio. Hence, it is expected that a firm's leverage will have a certain effect on the resale of treasury shares, and the third hypothesis is set as follows.

H3: Leverage is significantly related to the resale of treasury shares.

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Methodology

The sample data for the current study comprises all publicly listed companies in Malaysia which have been involved in the event of resale of treasury shares within the sample period of 2010 to 2016. The Tobit model, also called a censored regression model, is designed to estimate linear relationships between variables when there is either left or right censoring in the dependent variable (Tobin, 1958; Wooldridge, 2019). Censoring from above, also known as right-censoring, takes place when cases with a value at or above some threshold all take on the value of that threshold, so that the true value might be equal to the threshold, but it might also be higher. In the case of censoring from below, also known as left-censoring, values that fall at or below some thresholds are censored (Wooldridge, 2019; Long, 1997; McDonald & Moffitt, 1980).

The Tobit regression model is employed for the current study as the dependent variable is censored at zero for firms that do not resell treasury shares. A censored dependent variable eliminates the bias associated with ordinary least square regressions (Greene, 2003; Wooldridge, 2019). Hence, the Tobit regression model for the current study is as follows:

$$RESALE_{it}=\alpha_0+\alpha_1 CASH_{it}+\alpha_2 CUR_{it}+\alpha_3 DEBT_{it}+\alpha_4 TA_{it}+\alpha_5 ROA_{it}+\alpha_6 MTB_{it}+\varepsilon_{it} \quad \text{(Equation 1)}$$

Where,

RESALE	= Resale of treasury shares
CASH	= Cash flow
CUR	= Current ratio
DEBT	= Debt-to-equity ratio
TA	= Total assets
ROA	= Return on assets
MTB	= Market-to-book ratio

The dependent variable is computed as the ratio of the total consideration received for the treasury shares sold to total assets. The explanatory variables include cash flow, current ratio and debt-to-equity ratio. Cash flow, which represents the firm's cash holdings, is measured as the ratio of cash and equivalents to total assets. The current ratio is computed as current assets divided by current liabilities, while the debt-to-equity ratio is calculated as total liabilities divided by total shareholders' equity. The current ratio, also known as the working capital ratio, indicates firm liquidity, while the debt-to-equity ratio is a proxy for a firm's leverage.

The control variables consist of the firm size, profitability and growth opportunity, which are indicated by the natural log of total assets, return on assets and market-to-book ratio, respectively. Companies with higher levels of profitability usually do not need to resell treasury shares to raise money as much as companies with lower levels of profitability. Similarly, firms with greater growth opportunities usually require a large amount of cash to support future investments.

As for the sensitivity analysis, Equation 1 is repeated by replacing the dependent variable with an alternative proxy to test the robustness of the results in the main analysis. The alternative proxy is measured as the ratio of total units of treasury shares sold to the number of outstanding shares at the end of the year.

According to Dewasiri et al. (2019), the determinants of corporate payout policy cannot be studied using a single dimension. The same argument can be applied to the resale of treasury shares. Hence, it is important for the study to look at both the size and the likelihood of resale

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to see if they contain the same set of determinants. Following that, Logit regression analysis is employed to investigate the factors affecting the propensity of resale by employing a binary variable for the decision of resale of treasury shares, which is equal to 1 if a company resells treasury shares and 0 otherwise. Thus, the logistic regression model for the sensitivity test is as follows:

$$RESALED_{it}=\alpha_0+\alpha_1 CASH_{it}+\alpha_2 CUR_{it}+\alpha_3 DEBT_{it}+\alpha_4 TA_{it}+\alpha_5 ROA_{it}+\alpha_6 MTB_{it}+\varepsilon_{it} \quad \text{(Equation 2)}$$

Where,

RESALED	= Decision of resale of treasury shares
CASH	= Cash flow
CUR	= Current ratio
DEBT	= Debt-to-equity ratio
TA	= Total assets
ROA	= Return on assets
MTB	= Market-to-book ratio

Results and Discussions

Descriptive statistics

Table 1 describes the statistics for the resale of treasury shares in Malaysia from 2010 to 2016 based on the number of firms involved in the resale of treasury shares, the frequency of resale event announcements, the total number of treasury shares sold and the total amount received for treasury shares sold. The highest number of treasury shares sold was recorded in 2014, which was about 220 million units of shares sold, while the highest amount of consideration received for treasury shares sold was recorded in 2016 at around RM825 million. As shown in Table 1, 26 firms were reselling their treasury shares, for a total of 131 resale events announced in 2014. Meanwhile, a total of 150 resale announcements were made by 18 firms in 2016. In short, an increasing trend is observed when looking at the resale of treasury shares in Malaysia between 2010 and 2016.

Table 1 Statistics of Resale of Treasury Shares in Malaysia

Year	Number of firms	Frequency of resale events	Total number of treasury shares sold (units)	Total amount received for treasury shares sold (RM)
2010	12	72	29,879,100	129,173,169.17
2011	12	24	20,352,376	44,471,174.02
2012	14	53	55,701,888	70,503,386.33
2013	21	56	92,861,700	119,053,049.61
2014	26	131	219,854,697	634,491,962.01
2015	19	83	63,341,246	152,627,362.54
2016	18	150	136,364,558	824,662,285.46

Source: Author

Table 2 shows the descriptive statistics for the resale of treasury shares in Malaysia by comparing the mean, median, minimum and maximum. During the sample period of 2010 to 2016, the average number of treasury shares sold was about 1 million units, with the minimum number of treasury shares sold recorded at only 46 units, while the maximum number of treasury shares sold was recorded at 40 million units. Meanwhile, the average amount received

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for treasury shares sold was about RM3.5 million, with the minimum consideration received at only RM34.97. In contrast, the maximum consideration received for selling treasury shares was around RM47 million. The lowest price paid for each share sold was recorded at only RM0.14, while the highest price paid for each share sold was recorded at RM14.

Table 2 Descriptive Statistics

	Minimum price paid for each share sold (RM)	Maximum price paid for each share sold (RM)	Total number of treasury shares sold (units)	Total amount received for treasury shares sold (RM)
Mean	3.64	3.67	1,086,741	3,483,214.09
Median	3.07	3.11	333,800	693,503.20
Minimum	0.14	0.14	46	34.97
Maximum	13.96	14.00	40,000,000	47,420,077.68

Source: Author

Tobit regression analysis

Table 3 presents the Tobit regression analysis results that examine the factors affecting the resale of treasury shares. The dependent variable is measured as the value of the consideration received for treasury shares sold, scaled by total assets. There are a total of 476 left-censored observations and a total of 119 uncensored observations in the Tobit regression model. The overall significance of all three models is proven, as shown by the F-statistics, which are statistically significant at a 1% significance level. Model 1 is the original model without any rectification. For correction, Model 2 uses a robust standard error, while Model 3 employs a cluster standard error.

The results from Model 3 show that the independent variable of cash flow is negatively related to the ratio of resale of treasury shares at a 1% significance level. For a one unit decrease in cash flow, there is a 0.0414 unit increase in the predicted value of the resale of treasury shares. Hypothesis 1 is thus supported as cash flow is significantly related to the resale of treasury shares. In this case, it is found that lower cash holdings encourage firms to resell more of their treasury shares. This finding is in line with the claimed motives for reselling treasury shares, as described in The Edge (2014), which states that treasury shares are resold to raise funds for future investments.

Meanwhile, the independent variable of the current ratio is positively related to the ratio of resale of treasury shares at a 1% significance level. For a one unit increase in the current ratio of the firm, there is a 0.0003 unit increase in the predicted value of the resale of treasury shares. The current ratio, also known as the working capital ratio, represents the firm's liquidity. Hypothesis 2 is thus supported as the current ratio is significantly related to the resale of treasury shares. In this case, the result shows that higher liquidity causes more treasury shares to be sold by the firm. This finding is consistent with the reasons reported in The Edge (2021), which mentions that the proceeds from reselling treasury shares are invested in the company's working capital.

However, Hypothesis 3 is not supported as no significant association was found between the debt-to-equity ratio and the resale of treasury shares. Hence, leverage does not seem to affect the resale of treasury shares. As for the control variables, only the market-to-book ratio shows a positive association with the ratio of resale of treasury shares at a 1% significance level. When the market-to-book ratio increases by one unit, the predicted value of

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reselling treasury shares goes up by 0.0067 units. It shows that firms with greater growth opportunities tend to resell more of their treasury shares.

As a result, Malaysian firms with insufficient cash tend to resell treasury shares for fund accumulation to meet expanding growth opportunities. Meanwhile, companies with a better liquidity position are more likely to resell their treasury shares and contribute part of the proceeds to the firm's working capital.

Table 3 Results of Tobit Regression Analysis for Equation 1 (Y: Ratio of resale of treasury shares (RM) to total assets)

	Model 1	Model 2	Model 3
Constant	-0.0489***	-0.0489***	-0.0489***
	(0.009)	(0.001)	(0.002)
Cash flow	-0.0414***	-0.0414***	-0.0414***
	(0.008)	(0.006)	(0.002)
Current ratio	0.0003*	0.0003***	0.0003***
	(0.066)	(0.007)	(0.004)
Debt-to-equity ratio	-0.0006	-0.0006	-0.0006
	(0.770)	(0.672)	(0.612)
Total assets	0.0009	0.0009	0.0009
	(0.323)	(0.141)	(0.160)
Return on assets	0.0169	0.0169	0.0169
	(0.431)	(0.334)	(0.294)
Market-to-book ratio	0.0067***	0.0067***	0.0067***
	(0.000)	(0.000)	(0.000)
Total Observations	595	595	595
Left-censored observations	476	476	476
Uncensored observations	119	119	119
Log-likelihood	101.11	101.11	101.11
Likelihood ratio chi-square/	44.13***	3.38***	4.38***
F-statistic	(0.000)	(0.003)	(0.000)

Note: Figures in the parentheses represent p-values while *, ** and *** indicate the respective 10%, 5% and 1% significance levels.
Source: Author

Alternative dependent variable

Table 4 shows the results of Tobit regression analysis with an alternative dependent variable measured as the unit of treasury shares sold scaled by the total number of outstanding shares. The overall significance of all three models is proven as shown by the F-statistic, which is significant at 1% and 5% significance levels.

The results from Model 3, which incorporates a cluster standard error, reveal a negative relationship between the independent variable of cash flow and the ratio of resale of treasury shares. For a one unit decrease in the cash flow, there is a 17.2008 unit increase in the predicted unit of treasury shares sold. Meanwhile, the explanatory variable of the current ratio shows a positive association with the ratio of resale of treasury shares. For a one unit increase in the current ratio of the firm, there is a 0.1110 unit increase in the predicted unit of treasury shares sold. On the other hand, the control variable of the market-to-book ratio is positively related to the ratio of resale of treasury shares. A one unit increase in the firm's market-to-book ratio is related to a 1.9797 unit increase in the predicted unit of the treasury shares sold.

As a result, a company with fewer cash holdings and a better liquidity position is more likely to resell more units of treasury shares to collect investment funds for the firm's growth. The results from the sensitivity analysis show similarity with the findings in Table 3, which proves the robustness of the results of the main analysis.

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Table 4 Results of Tobit Regression Analysis with Alternative Dependent Variable (Y: Ratio of resale of treasury shares (unit) to outstanding shares)

	Model 1	Model 2	Model 3
Constant	-39.6258***	-39.6258***	-39.6258**
	(0.005)	(0.005)	(0.011)
Cash flow	-17.2008*	-17.2008*	-17.2008**
	(0.084)	(0.064)	(0.048)
Current ratio	0.1110	0.1110***	0.1110***
	(0.224)	(0.004)	(0.002)
Debt-to-equity ratio	0.2318	0.2318	0.2318
	(0.833)	(0.804)	(0.774)
Total assets	1.1141	1.1141*	1.1141
	(0.113)	(0.086)	(0.104)
Return on assets	4.7296	4.7296	4.7296
	(0.726)	(0.669)	(0.587)
Market-to-book ratio	1.9797**	1.9797***	1.9797***
	(0.011)	(0.001)	(0.006)
Total Observations	595	595	595
Left-censored observations	476	476	476
Uncensored observations	119	119	119
Log-likelihood	-676.31	-676.31	-676.31
Likelihood ratio chi-square/	14.40**	3.28***	2.56**
F-statistic	(0.026)	(0.004)	(0.019)

Note: Figures in the parentheses represent p-values while *, ** and *** indicate the respective 10%, 5% and 1% significance levels.
Source: Author

Logit regression analysis

Table 5 displays the results of Logit regression analysis as part of the sensitivity test to check the robustness of the result. In this case, a total of 595 observations are included in the Logit regression model with no censored observations. The overall significance of all three models is proven by the Wald-Chi square test, which is statistically significant at a 1% significance level.

The results from Model 3, which considers the cluster standard error, show that the explanatory variable of cash flow is negatively related to the decision of resale of treasury shares at a 1% significance level. Meanwhile, the independent variable current ratio is positively associated with the decision to resell treasury shares at a 1% significance level. Hence, lower cash holdings but higher liquidity of the firm increase the propensity to resell treasury shares. On the other hand, the control variables of total assets and market-to-book ratio both positively affect the decision to resell treasury shares at a 10% and 1% significance level, respectively. Therefore, a company with a larger firm size and greater growth opportunity has a higher probability of reselling treasury shares.

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Table 5: Results of Logit Regression Analysis for Equation 2 (Y: Decision to resell treasury shares (1/0))

	Model 1	Model 2	Model 3
Constant	-3.0144**	-3.0144***	-3.0144***
	(0.014)	(0.000)	(0.000)
Cash flow	-2.9155***	-2.9155***	-2.9155***
	(0.005)	(0.003)	(0.003)
Current ratio	0.0266	0.0266***	0.0266***
	(0.147)	(0.001)	(0.000)
Debt-to-equity ratio	-0.0023	-0.0023	-0.0023
	(0.983)	(0.979)	(0.975)
Total assets	0.0727	0.0727*	0.0727*
	(0.237)	(0.082)	(0.067)
Return on assets	0.8598	0.8598	0.8598
	(0.544)	(0.539)	(0.441)
Market-to-book ratio	0.3203***	0.3203***	0.3203***
	(0.000)	(0.000)	(0.000)
Total Observations	595	595	595
Log-likelihood	-284.09	-284.09	-284.09
Likelihood ratio chi-square/	27.30***	33.06***	38.08***
Wald chi-square	(0.000)	(0.000)	(0.000)

Note: Figures in the parentheses represent p-values while *, ** and *** indicate the respective 10%, 5% and 1% significance levels.
Source: Author

Conclusion

The empirical findings show that cash flow is negatively and significantly related to both the magnitude and propensity of resale of treasury shares. Besides, the control variable of the market-to-book ratio reveals a positive and significant association with both the magnitude and propensity of resale of treasury shares. Thus, Malaysian public listed companies tend to sell more of their treasury shares when they have fewer cash holdings but greater growth opportunities, which is consistent with the stated reasons reported in The Edge (2014), which mentions that firms accumulate cash through reselling treasury shares to finance prospective investment opportunities.

Meanwhile, the liquidity of a firm, as represented by the current ratio, is found to be positively and significantly related to both the magnitude and propensity of resale of treasury shares. Therefore, firms with a greater capability of meeting their short-term obligations tend to sell more of their treasury shares. The current ratio, also known as the working capital ratio, which shows a statistically significant result, is consistent with the reported motives that the proceeds of the resale of treasury shares were channelled towards the firm's working capital. However, firm profitability and leverage are not found to be significantly related to the resale of treasury shares, while only firm size shows a significant association with the decision of resale. In conclusion, results from the current study show that the resale of treasury shares in Malaysia is significantly related to the cash holdings, liquidity and growth opportunity of a firm.

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