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Time needed to effect share buyback rules

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THE share buy-back measure effective yesterday will take some time to be implemented as it requires companies to amend its memorandum and article of associations as well as obtain shareholders' approval.

Company officials remained hesitant yesterday on the first day of trading under the new share buy-back rules, saying it is a positive move but they need more details.

"I don't know what to tell you, it's still too new and we don't have the details," was a typical reply given by one company secretary to Business Times.

Commerce Asset Fund Managers executive director Robert Coombe said in other countries such as Australia and the US where such a measure has been adopted, it had taken some time for implementation as "such things are not as easy as they sound."

He said provisions allowing share buy back can be quite complicated as in the case of Australia which requires companies to keep the market properly informed, obtain shareholders' consent and so forth.

Coombe opined that it could take at least two months for companies to amend their articles of association, give notice of meeting to shareholders and obtain shareholders' approval before being able to buy back their shares.

Public companies effective yesterday, are allowed to buy back their own shares under the amended Section 67A of the Companies Act which basically aims to stabilise supply and demand of securities and consequently their prices.

On the fear that such a measure could lead to abuse such as insider trading, Coombe said most countries which have adopted share buy-back have imposed limits or caps as well as a time frame for such activities.

Moreover, he said a company undertaking share buy-back is usually required to announce the fact to the market which allows the market to form its own opinion on whether the company is doing the right thing or not.

He said he did not see the measure as being too hasty as the Malaysian authorities would have probably studied the experiences of other countries and adopted as well as modified them to suit the local environment.

"It is not like we are inventing something for the first time," he said, adding that now is actually an appropriate time to allow such things as companies are trading below their asset value given the weak market sentiments and this may help boost their potential returns.

The new regulations, sudden though they may be, will have a positive effect on the present weak performance of the Kuala Lumpur Stock Exchange, said analysts contacted.

The plus point is that it will allow companies to purchase their own shares if the prices drop, preventing them from coming down too fast.

With the KLSE performing as it has been, many blue chip shares are now attractively priced, said analysts, and the buyback mechanism gives companies a good opportunity to buy them back at a good price.

"When they do so, it will be a statement of their confidence in their own company and shareholders should see this as a positive move," a senior analyst said.

Past studies, he added, have shown that the price usually goes up after a buyback.

However, until more details are released, most companies contacted by Business Times said they will wait for further details before making a decision.

Most are reacting like like power company Tenaga Nasional Bhd, which said yesterday it has no immediate plans to buy back their own shares.

"No, we have no plan yet," said its executive chairman Datuk Dr Ahmad Tajuddin Ali.

Tenaga's articles, like many other companies, do not allow for share buybacks and Tajuddin said Tenaga has not considered changing them yet.

Meanwhile, Mirzan Mahathir who controls a number companies listed on the Kuala Lumpur Stock Exchange said companies under his stable have not decided on the buy back of their shares after the authorities relaxed the regulations.

"It is a question of putting where the funds are more useful as most of the companies' funds are tied. (And) whether the buy back of shares will increase the value of the shares of the stockholders or investing it in business that generates profits for the companies," he told reporters after the opening of the conference on "Borderless and Electronic Commerce in a New and Borderless World," in Petaling Jaya yesterday.

Companies are allowed to buy back the shares from Monday following the gazetting of the Section 67A of the Companies Act 1965, together with the related regulations.

The aim of the provisions among others is to help stabilise the supply and demand of securities and consequently their prices.

Among others, the KLSE-listed companies controlled by Mirzan include Konsortium Perkapalan, Diperdana and Transmile.

To a question that buy back move will help reduce the market volatility by reducing the number of shares, Mirzan said one issue that needs to be looked at is that the shares could be manipulated if the numbers are greatly reduced.

To another question that the share prices of his group of companies have fallen badly, he said: "I think it is a question of market sentiments rather than fundamentals."

"I think when sanity returns to the market eventually, it (shares) will reflect the fundamentals. What we are doing right now is concentrating on the fundamentals," he said.

"We see the values of the shares because off the PEs (price earning ratios) have come off dramatically."

Mirzan said what the people are saying is that at least the sentiment seems to be that these companies are going to make profits for a number of years.

"There is value but the question is whether buying shares will increase the value of the stocks for the shareholders or putting the funds in business which generates profits," he said.

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