International Journal of Research in Business, Economics and Management
Vol.6 Issue 2 March-April 2022
www.ijrbem.com

Analysis of Price Change After Enterprises Notice to Repurchase Stock in Vietnam

Ngo Mai Phuong
Thai Nguyen University of Information and Communication Technology, **Vietnam**

ABSTRACT

The article applies the event study method and the model to analyze the influence of stock repurchases on the stock price of the enterprise. The author conducts the research with the data of stock buyback programs of all companies listed on the Vietnamese stock market from 2008 to 2017 to analyze short-term price movements around the timing of corporate stock repurchase announcements by event and model research. In the two days surrounding the repurchase of shares by Vietnamese enterprises, the stock price hardly reacted to both events. Finally, the enterprise finished the stock repurchase, and the company announced the result of the repurchased stock.

Keywords: Stocks; Stock price; Buyback of shares; Event research; Vietnam stock market.

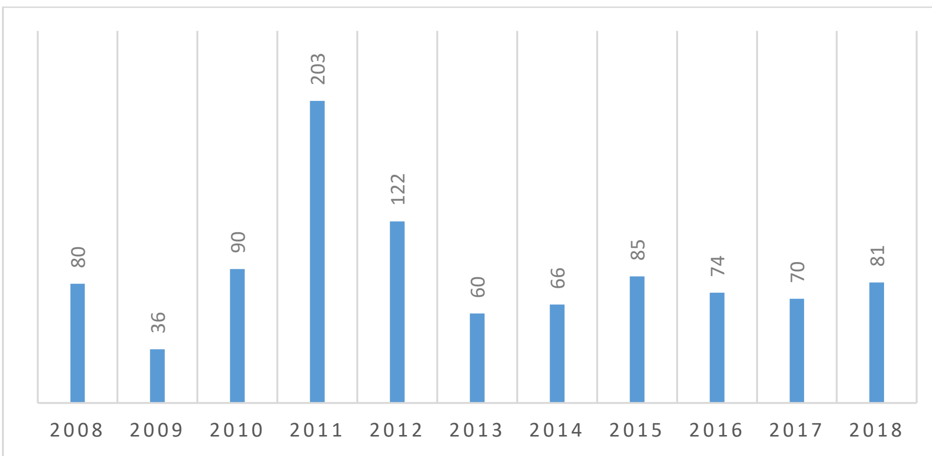
INTRODUCTION

The stock buyback is becoming more and more popular in Vietnam, so to make this activity happen transparently and efficiently, the Government of Vietnam has issued legal and sub-law documents to manage this activity. One of the first legal documents regulating share buyback activities is Decree 58/2012/ND-CP, published on July 20, 2012, which took effect on September 15, 2012. Decree 58/2012/ND-CP stipulated the contents of share repurchase of public companies in Section 2 - Chapter III such as conditions for repurchase of shares, cases in which claims cannot be repurchased as shares Treasury bill. After Decree 58/2012/ND-CP, Decree 60/2015/ND-CP was issued on June 26, 2015, taking effect on September 1, 2015, to amend and supplement several articles of the Decree. Decree No. 58/2012/ND-CP.

Along with the development of share repurchase activities, the Government has issued many new decrees and circulars to supplement regulations on share buybacks. Circular 162/2015/TT-BTC published on October 26, 2015, effective on December 15, 2015, has added conditions for share repurchase and cases in which shares cannot be repurchased as well as regulations specifying more steps in the process of buying back shares of Vietnamese public companies in Chapter V – Buying back shares, selling treasury shares, including the share repurchase report document; reporting and disclosing stock repurchase information; carry out stock repurchases; change the repurchase of shares; managing and accounting for treasury shares; responsibility of the securities company and the Stock Exchange. Circular 203/2015/TT-BTC issued on December 21, 2015, effective on July 1, 2016, continues to supplement regulations for share buyback activities.

However, the legal provisions still reveal limitations when applied in practice. For example, the new legal documents only stipulate the maximum volume of shares, but not the minimum volume of claims that the company is allowed to buy back during the day or concern the trading volume of these shares in the coming days. Previous day or month. In addition, the law does not stipulate specific conditions to change the repurchase plan and only requires proof of funds to finance without requiring idle cash. In addition, due to the low transparency of information, it isn't effortless to penalize companies that do not comply with regulations.

The announcement of share buyback in Vietnam tends to increase. 2011 was the year with the highest number of shares repurchase announcements in 2008-2018 with 203 repurchase announcements, which is two times higher than the annual average of the whole period. The number of share buyback announcements has been downward since 2012 with 122 reports but only 60 and 64 statements in 2013.



(Source: Compiled by the author)

Figure 1. Announcement of share buybacks of companies listed on Vietnam's stock market in the period 2008 - 2019

METHOD

The website provides the initial sample of 311 stock repurchase announcements on the open market made by companies listed on the Vietnamese stock exchange from 2008 to June 2019. Website of the State Securities Commission. However, the study was conducted to remove several research samples that were not eligible to fit the model and research method to determine why businesses buy back shares and the effect of a stock buyback on the company's performance. Business performance of the enterprise. Variable type conditions include:

First, study the removal of stock sale announcements.

Second, the study removes the information on stock repurchases on the market that have not yet completed the share buyback.

Thirdly, the study removes stock repurchase announcements that do not have enough information for calculation, such as the number of outstanding shares registered to buyback and the number of shares purchased.

After filtering the data, the remaining observational sample is 76 stock repurchase announcements, in which some companies make many stock buybacks in a year. Therefore, with the observation sample repeated many times in a year, the study aggregates the share buyback volume in all announcements into one instance. The final selection includes 42 stock buyback notices of 37 companies listed on the State Securities Commission.

The event research method is used in this study to measure the Abnormal Return (AR) according to the market model, the Cumulative Abnormal Return (CAR) of the Enterprises have stock repurchase activities around two events: the date the business ends the share repurchase and the day the company announces the results of the share repurchase. Therefore, the event date is determined as t = 0, determined in two cases: (1) is the date the company ends to repurchase shares, and (2) is the date the company announces the results of the repurchase program stock.

RESULTS

There are twenty (20) days between the forecast and the event frames in the event research method to avoid the risk of information disclosure. If the company is exposed, the stock's beta will change before the event frame because the expected return of the stock already includes the leaked information of the event.

By the method of event research and t-test, the study gives the results of the effect of the end date of the stock repurchase and the date of announcement of the stock repurchase result of the enterprise through the evaluation CAR (accumulated abnormal returns). Unlike the developed financial markets in the world where the information of the share repurchase plan and the end date of the stock repurchase are made public on the market, in Vietnam, the business day the share repurchase announcement in step 5 of the share repurchase process is not made public. Still, the market and investors can only access the time when the enterprise finishes the stock repurchase (step 6 in the stock repurchase process). Share repurchase) and the date of announcement of the results of the share repurchase transaction (step 7 in the share buyback process). Therefore, this study evaluates the impact of the company's stock repurchase event on the company's stock price and estimates the market reaction around the time the company announces the transaction results make a repurchase.

Table 1. Cumulative abnormal profits of enterprises with stock repurchase activities on the Vietnamese stock market in the period 2008 - 2019

Event frame	CAR
END (-10,10) Test t	-0.023 (-0.819)
END (-5,5) Test t	0.012 (0.884)
END (-3,3) Test t	0.005 (0.408)
END(-1,1) Test t	-0.007 (-1.312*)
END (-3,-1) Test t	0.003 (0.023)
END(1,3) Test t	0.002 (0.382)

* and ** correspond to the 10% and 5% statistical significance levels.

(Source: Author calculated using Eviews 9.0 software)

Table 1 describes the cumulative abnormal returns of share buyback programs in the industry in Vietnam during the period 2015 – 2019. The cumulative abnormal returns are calculated in event frames (-10, 10), (-5, 5), (-3, 3), (-1, 1), (-3, -1) and (1, 3) around 2 days: stock buyback end date and the date of announcement of the stock buyback results using the market model. For the corporate end of the share buyback date (END), day 0 is the last day of the repurchase program's execution period.

Table 1 shows that in the pre-event bracket (-10.10) around the event date, abnormal returns tended to decrease by 2.3%. On the day of the event, extraordinary returns also fell 0.7%. Only after the event happened 3 days (1.3) did the notable profit show signs of increasing by 0.2%. The above results table shows that investors hardly care or lose confidence from financial announcements from businesses to the market, and companies are just sending fake signals. When an enterprise has a call to buy back its stock, it is only a means to help the business send a phony password to increase the share price.

Previous studies around the world have shown positive stock price reactions to stock repurchase announcements as well as stock repurchase dates such as Masulis (1980), Dan (1981), Vermaelen (1981)), Hatakeda and Isagawa (2004), Chan et al. (2004), Cesari et al (2012), Ben-Rephael et al (2013) and Andriosopoulos and Lasfer (2015). However, in Vietnam, the study analyzes the effects of share buybacks around the date the company ends the stock repurchase and the date the results of the share buyback are announced. The results from table 4.7 for the entire sample of observations show a difference compared to previous studies, showing that businesses seldom appear to have accumulated abnormal profits that are statistically significant around both days: the date the enterprise ends the stock repurchase and the date the enterprise announces the result of the share repurchase, except for an increase in share price before the time the enterprise ends the share repurchase. The stock prices are primarily unresponsive to both events: the firm completes the repurchase or announces the repurchase results. The cause of this phenomenon can be: Although the announcement of the share repurchase is not made public, there may be leaks from the time the company plans to repurchase until the time the company makes the share repurchase. Therefore, information should slightly react to stock prices right before industrial companies finish buying back shares. The legal documents of Vietnam still have many loopholes leading to the weak management and application of legal provisions and many shortcomings. As a result, businesses often send false or misleading signals to the market through various activities, especially with share buyback programs aimed at manipulating stock prices and the occurrence of information leakage. Therefore, investors seem to have no confidence in the financial announcements of listed companies, and the signals in these programs are not very convincing to investors.

DISCUSSION

The test results from the event research method and the t-test show that most of the event frames surrounding stock repurchase activities in listed industrial companies in Vietnam in the period 2008-2019 are no accumulated abnormal profits - an indicator of stock price volatility, except for the result that the share price of a company that announces a share buyback will increase in the frame (-3, -1) before the date the business ends the share repurchase. This result is entirely different from previous studies in the world such as Ikenberry et al. (1995), Liu and Ziebart (1997), Hatakeda and Isagawa (2004), Liao et al. (2005), McNally et al. (2006) when it shown that share buyback announcements increase stock prices and are not like the study of Vo Xuan Vinh and Trinh Tan Luc (2015) on Vietnamese non-financial companies. From 2008 to 2014, the authors concluded that the market reacted to stock buybacks but reacted slowly.

ACKNOWLEDGMENTS

From the above study results, it is possible to suggest the limitations of explanation for these results. Firstly, information about the date of the share repurchase plan announcement is not disclosed under regulations, so it may lead to information leakage before the enterprise carries out the share repurchase. Second, the notices to buy back shares of companies listed on the Vietnam Stock Exchange for the period 2008-2018 are made in stock repurchases on the open market, so there is no obligation to complete them. Exactly as planned initially. Besides, although there are legal documents on this issue, it is still loose, so businesses do not seem to have the intention to complete the 100% acquisition as previously announced.

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