Resale of treasury shares: Malaysia evidence

ROHAIDA ABDUL LATIF[a], KAMARUN NISHAM TAUFIL MOHD[b], HASNAH KAMARDIN[c]

[a,c]School of Accountancy, [b]School of Economics, Finance & Banking,
College of Business, Universiti Utara Malaysia, Kedah 06010,
MALAYSIA
rohaida@uum.edu.my

Abstract

The first objective of the study examines the announcement effects on resale of treasury shares among public listed firms in Malaysia. All firms that resale their treasury shares between 2001 and 2012 are examined using standard event methodologies namely market adjusted return (MAR) and market model (MM). The finding reveals that resale firms experience significant positive 4% abnormal returns in 5 days prior to the actual resale of treasury shares. There is no abnormal gains realize following the actual resale of treasury shares date suggesting that market is semi-strongly efficient where prices can fully reflect all publicly available information. The second objective is to assess the relationships between three companies' financial characteristics and the magnitude of shares resale, which is the percentage of shares resale in the open market (PRESALE). Based on signaling theory, it is found that both prior returns and current EPS are positively and significantly affecting the percentage of treasury shares resold in the market while LAGEPS has a negative and significant relationship with PRESALE.

Keywords: Share buybacks, abnormal returns, treasury shares resale, Malaysia

1.0 INTRODUCTION

Share repurchases or share buybacks has been allowed in Malaysia after the Asian financial crisis in 1997. Since then many Malaysian firms have embarked on buying back their own shares (Abdul Latif, 2010, Mansor, Zaidi & Siew Peng ,2011; Abdul Latif & Taufil Mohd., 2013, Abdul Latif, Taufil Mohd., Wan Hussin & Ku Ismail, 2013).

A number of studies have been carried on the announcement effects of share repurchases, yet very limited studies have been conducted on other share repurchases activities such as treasury shares resale[1]or cancel. To the authors' knowledge, this is the one of limited study to assess the price effect on resale of treasury shares using Malaysian companies.

There are four reasons on why this study is important. Firstly, empirical evidence on the effects of resale of treasury shares in developed and emerging market is limited. This is due to data availability and stringent regulation imposed on repurchasing firms to resale their shares in many market such as in the US (Cesari, Espenlaub & Kurshed, 2011). In contrast to US rules, Malaysia companies enjoy more liberal rules to resale their treasury shares in the open market. Furthermore, Malaysian companies are required to furnish appropriate disclosures to the public thus making it is possible to

[1] Resale or reissue of treasury shares will be used interchangeably throughout this paper.

available, there are also lack of discussion on the theoretical reasons of why companies resale their treasury shares. Thirdly, it is found that there is an increasing and significant trend of companies that reissue or resale their treasury shares in Malaysia. The current study documents that in 2001, there were only 10 resale of treasury share events by Malaysia companies and the events has accumulated to be 629 by 2012, an increase of 63 percent. Previous evidence indicates that corporate policy related events such as investment, operation, and payout have information content and value implication. For example, decision to invest in research and development (Lakanishok & Sougiannis, 2001) and decision to repurchase shares (Ikenberry, Lakanishok & Vermaelen, 1995) bring about significant changes to companies prices. Given that there is an increasing trend in resale events among Malaysian firms from 2001 to 2012, it is argued that there must be information content in the event. For example, are companies reselling their treasury shares to correct mispricing? Fourthly, Malaysian corporate environment is different from many of the developed market. For instance Malaysian firms are known for its concentrated ownership structures and family ownership (see for example, Abdul Latif, Taufil Mohd., &, Saleh, 2013; Kamardin, Abdul Latif, Taufil Mohd, & Che Adam, 2014). Therefore the determinants and effects of corporate policy and events could be very different from those of the developed market. Hence this study would provide empirical evidence needed on the resale of treasury shares in a concentrated ownership environment.

This paper is organized as follows: Section 2 discusses important rules regarding share repurchases in Malaysia followed by discussion on literature reviews and hypothesis development. Section 3 presents methods employed for the study. The empirical findings are discussed in section 4. Finally a summary of the findings, conclusion, limitation and future avenues for research are discussed in section 5.

2.0 LITERATURE REVIEW

2.1 Rulings on buyback, resale of treasury shares.

As compared to the US companies, Malaysian companies enjoy considerable autonomy on conducting resale of treasury shares as long as they have been tabled and approved in the company's annual general meeting and fulfilled all procedures and disclosures requirements as stipulated in Chapter 9 and Chapter 12 of Bursa Listing Requirement (2012). Companies in the US can only sell their treasury shares in the open market after preparation of prospectus offering, that is as if they were offering shares to the general public (OICV-IOSCO, 2004).

Chapter 12 of Bursa Listing Requirements (2012) dictates the governing rules for embarking on share repurchase activities in Malaysia. One of the most crucial disclosure requirements are the immediate announcement requirements for transactions purporting to have significant impact on firm valuation as laid down in Section F of the rule 12.18 to 12.23. Among other things, these rules are concerned with the effect on public shareholding spread, the resale of treasury shares and disclosure requirements that need to be furnished in company's annual report as well as notification on purchases of own shares, resale and cancel of the repurchased shares (treasury shares). Resale of treasury shares can only be executed after 30 days of repurchases. Among information that need to be disclosed in the immediate announcement of resale of treasury shares are the minimum price, maximum price, and the unit resale. Part C of Chapter 9 of Bursa Listing Requirements (2012) emphasizes the importance of disclosing material information in a timely manner (Part J: immediate disclosure requirements) as to promote fair distribution of material information to all users.

The requirements also mandate that all activities related to repurchasing, reselling and cancelling of treasury shares should be included in the director's report of annual reports and in the notes to financial statement section. Furthermore, detail on these activities (repurchase, resale and cancel) of treasury shares should also include the effects on financial position.

2.2 Literature review and hypothesis development.

Majority of the previous studies on share repurchases have focused on determinants and price effects of announcement and actual repurchase of shares. For many countries, data on resale of treasury is difficult to obtain and companies always shy away from it because of its stringent rules (Cesari et al., 2011). This study is made possible as Malaysia has the advantage of providing complete and timely information on resale of treasury shares on Bursa Malaysia's website.

2.2.1 Reasons for share repurchase

Previous evidence examined various reasons on why companies repurchase their own shares. One of the main reasons is signaling of undervaluation (Ikenberry et al., 1995; Abdul Latif, 2010, Abdul Latif et al., 2013). Other reasons include to i) disgorge excess cash flow (Dittmar, 2000, Oswald and Young, 2008), ii) substitute for dividend payment (Grullon, 2002, Abdul Latif & Taufil Mohd, 2013), ii) manage optimal capital structure (Dittmar, 2000, Abdul Latif, 2010), iii) provide shares for ESOS (Kahle, 2002, Abdul Latif, 2010), iv) reduce tax liability (Rau & Vermaelen, 2002 and Oswald & Young, 2008), and v) stabilize share price (Cesari et al., 2011). Locally, Nasruddin and Angappan (2004) find that the main reason for repurchasing in Malaysia is to stabilize their share price.

It is often argued that the main reason for companies to repurchase own shares is signaling of undervaluation. Companies believe that their shares are undervalued thus share repurchases may correct the mispricing. Many studies using developed market are supportive of signaling theory (Vermaelen, 1986; Ikenberry, 1995; Zhang, 2005). Similarly, studies in Malaysia provide evidence of signaling theory (Abdul Latif et al., 2013; Mansor, Zaidi & Swee Peng, 2011; Mohd Jais & Chin, 2001). These studies confirmed that companies gain significant and positive abnormal returns during the repurchasing period.

Based on substitution hypothesis, it is argued that companies repurchase shares to substitute for dividend payment (Grullon & Michaely, 2002). One of the main reasons companies in the US prefer share repurchases over dividend payment is the inherent flexibility of share repurchases: i) flexibility in terms of how much to repurchase, ii) when to actually implement them, and iii) companies will not be penalized in case of nonperformance. However, Malaysian evidence by Abdul Latif and Taufil Mohd (2013) indicates that companies do not substitute dividend payments with share repurchases.

Two unique features of repurchase activities by Malaysian companies are that they are frequent repurchasers and they bought back only small portion of companies shares (Abdul Latif, 2010). On average, Malaysian companies bought back only 1 percent of their own shares. In comparison, companies in the US bought on average 6 percent of their shares outstanding (Jagannathan & Stephens, 2003; Ikenberry et al., 1995). Abdul Latif (2010) reports that Malaysian companies are frequent buyers of their own shares where 90 percent of the companies will repeatedly buy back their shares every year.

2.2.2 Price reaction on share repurchases events

Since there is lack of evidence on the price effects on resale of treasury shares, this study will evaluate on the price effect on share repurchases. A number of studies have been done on the price effects of share repurchases (Abdul Latif et al. 2013; Peyer & Vermaelen, 2009; Zhang, 2005; Chan, Ikenberry & Lee, 2007; Ikenberry et al. 2000; Ikenberry et al., 1995). Many of these studies are supportive of the idea that companies gain significant abnormal returns on the announcement and actual repurchasing of companies shares both during the announcement period and in the long run thus are supportive of signaling hypothesis.

Locally, Abdul Latif et al. (2013) examine the announcement effects and long run performance of repurchases for firms embarking on actual share repurchase between 1999 and 2006. Using both market model and market adjusted return model for immediate price effects, the study found that companies gain significant abnormal returns during the actual repurchasing periods but not during the

announcements of intention to repurchase. This means market considers actual repurchasing as positive news but market is indifferent to the mere intention of share repurchase. In other words, actual repurchasing of shares has significant information content while mere announcement of repurchases do not. It is argued that companies perceived their shares are undervalued and compelled to signal this belief by actually repurchasing their shares. The fact that market reacts positively to the repurchasing event dates confirmed that the prices were undervalued. For the long-run performance, Abdul Latif et al. (2013) use both cumulative abnormal return and buy and hold return methods to gauge for long run price effects. The study reveals that there is no different in price performance between repurchasing and non-repurchasing firms regardless of the benchmarks used. There are mixed evidence on the market reactions to the announcement of share repurchases in Malaysia. This is due to sample selection, time period covered and methods used in determining price effects. Table 1 summarizes studies on the share repurchases in Malaysia.

Table 1: Studies on share repurchases in Malaysia.

	Year-Data	Measurement used for sample selection	No. of companies**	Focus
Mohd Jais and Chin (2001)	1997-1998	All	34 announced SR	Price effects
Lim and Bacha (2002)	1997-2001	All	131 announced firms and 43 actual buy back	Price effects
Nasruddin and Angappan (2004)	1997-2002	All	40	Stated reasons for repurchases
Kadir & Abdullah (2006)	1999-2002	All events	30 events	Price effects
Mohd Jais 2009	2000-2005	All events	227 events	Substitution
Abdul Latif (2010)	1999-2006	All SR# of > 1%*	82	Determinants and price effects
Edward Wong et al. (2011)	2006-2009	Top 100 cos**	35	Price effects
Mansor et al. (2011)	2001-2005	All companies	149	Price effects
Abdul Latif & Taufil Mohd. (2013)	1999-2006	All SR# of > 1%*	82	Signaling & Substitution
Abdul Latif et al. (2013)	1999-2006	All SR# of > 1%*	82 announced SR# and 77 long-run actual SR#	Announcement, actual and long-run price performance

*All SR of > 1% means all share repurchasing companies that bought back at least 1% of its outstanding ordinary shares. SR# is share repurchases.

2.2.3 Information asymmetry, mispricing, and efficient market hypothesis

Fama (1965) introduced Efficient Market Hypothesis in finance literature and has made great contribution in many finance study regarding the association between company's events and stock price movement. Market is said to be efficient if prices can fully reflect available information (Fama, 1970). There are three forms of market efficiency which are: i) weak, ii) semi-strong, and iii) strong. Market is considered weakly efficient when prices reflect historical data. Market is semi-strong

efficient if prices reflect all publicly available information. Market is considered strongly efficient when prices reflect all data: historical, public and private information. In other words, strongly efficient market would reflect companies' intrinsic value. Finance literature indicates that there are several ways to measure market efficiency. One of the prominent ones is event study methods. The strong form of efficient market hypothesis posits that market is efficient whenever prices can fully reflect companies' true intrinsic value using all information available. Using variance ratio test, Kim and Shamsuddin (2008) find that Malaysian market is not efficient despite the financial liberation implementation since the eighties. Zaluki, Abdullah, Abdullah and Alassan (2012) find market reacted differently to the earning announcement released on Friday suggesting market is not truly efficient. Using 120 earnings announcements, Zaluki et al. found that market reacted negatively to earnings announcement but responded positively to losses announcements made on Friday.

Myers and Majluf (1984) argue that companies use financial policy change to signal to the market of their true intrinsic values. This argument was based on the premise that companies knew better about its own true value and were compelled to correct perceived market mispricing. Perceived market mispricing happened because of the presence of information asymmetry between insiders, i.e. the managers, and the outsiders. In the context of resale of treasury shares, it is argued that companies have privy information on its true value. Managers find that prices are stable or overvalued and are taking the opportunity to take advantage of the temporary price mispricing.

Wang, Lin, Fung and Cheng (2013) examine two types of repurchasing firms: i) repurchase to retire and ii) repurchase to reissues shares. They find that firms that retire or cancel their treasury shares show a superior long-term performance than those that reissue their treasury shares. The result indicate that companies use repurchases to signal of their undervaluation that market and the fact that companies earn significant abnormal returns in the long run suggests that market underreacted when the repurchase news were first made public. Further evidence shows that the long-term price performance is positively related to firms' operating performance and dividend payouts in the post-repurchase period.

2.2.4 Earnings performance and signaling theory

Myers and Majluf (1984) argue that signaling theory is based on two general assumptions which are: i) managers are better informed than the shareholders and public concerning the future prospects of their firms and ii) given the better information available, managers can take certain action in an attempt to signal their better expectation of their firms' prospects. Managers are greatly concern on meeting company's financial targets such earnings per share (EPS) and dividend per share (DPS), to name a few. For example, Bartov, 2002 argues that managers strive to meet or beat EPS expectation. Kross, Ro and Suk (2011) also provide evidence that management that have exhibit a smooth and consistent EPS pattern would more likely to make bad news to strategically maintain their earnings pattern.

3.0 OBJECTIVE AND HYPOTHESIS DEVELOPMENT

The first objective of the study is to examine whether resale of treasury shares events have information content. In other words, do the resale events trigger market movement? This can be achieved by examining the price effects surrounding the actual resale of treasury shares. Thus the hypothesis is as follow:

H_1 : There is significant abnormal returns gained on actual resale of treasury shares.

To the authors' knowledge, this is the first study to assess the price effect on resale of treasury shares using Malaysian companies.

The second objective is to assess if the percentage of shares resale is affected by company's previous price performance and financial indicator. It is argued that previous price performance especially in short window period would influence company's decision on the number of shares to be resold in the open market. It is also argued that EPS and lagged EPS being the most influential financial indicator of a company would have a significant influence on company decision on resale of treasury shares. The next hypotheses regarding the number of treasury shares resale would be:

H_2 : CAR negatively affects the proportion of share resale.
H_3 : LAGEPS (prior earnings per share) positively affects the proportion of share resale.
H_4 : EPS (current earnings per share) negatively affects the proportion of share resale.

It is argued that managers have better information regarding its company's value and Malaysian managers typically own large portion of companies stock. Based on signaling theory, it is expected that managers would take certain actions to signal privy information (Abdul Latif, 2010; Myers and Majluf, 1984). Signaling theory posits that managers are motivated to inform the market if they perceived that there exists market mispricing as a result of information asymmetry between the insiders, i.e. the managers, and the outsiders. Therefore, managers would not likely to resale its shares if the price is perceived to be undervalued. That is the higher is the CAR prior to resale date, the lower is the proportion of share resale.

LAGEPS and EPS are used as proxies for profitability. Using signaling theory, it is argued that company with high prior earnings (LAGEPS) would be more likely to resale their shares to the public. Companies believe that previous EPS would likely to endure in the future. Therefore, high LAGEPS would motivate companies to reissue treasury shares. The other way around is true for current EPS. Companies that perceive that their current EPS would not last and expect to have better EPS in the future. Therefore, companies with low current EPS would more likely to reissue or resale their treasury shares in the open market.

3.0 METHODOLOGY

Data on all resale of treasury shares events from 2001 to March 2012 are collected from Bursa Malaysia website. Daily prices for each companies and Kuala Lumpur Composite Index (KLCI) are collected from Thompson DataStream database. Researchers have used many event periods to capture on announcement price effects. MacKinlay (1997) suggests that the event period can be longer to adequately capture the price effects of the announcements. This study uses 11-day event period (-5, +5 days) to adequately capture any significant price changes due to possible information leakage. The estimation period of the market model is from day -90 to day -31 before the announcement date. Following McKinlay 1997, this study uses standard event study methodology namely market model (MM) and market adjusted return model (MAR) to gauge the abnormal gain during the announcement period of 11 days (-5,+5) surrounding the actual resale of treasury shares.

Kuala Lumpur Composite Index (KLCI) is used as market or benchmark index. Daily prices for each company's resale events dates and the corresponding KLCI are gathered beginning from -90 days prior to the announcement date to the 5 days after the announcement date.
Daily return for firm i on day t is computed as follow:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

where,

$R_{i,t}$: return on firm i during day t

$P_{i,t}$: price of firm i shares at the end of day t
$P_{i,t-1}$: price of firm i shares at the end of day t-1

Similarly, the daily market return

$$R_{m,t} = \frac{CI_t - CI_{t-1}}{CI_{t-1}}$$

where,

$R_{m,t}$: Return on Composite Index during day t
CI_t : Composite Index level at the end of day t
CI_{t-1} : Composite Index level at the end of day *t-1*

Abnormal returns for each day t are computed by comparing daily firms' and market's returns as follows:

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t})$$

where,

$AR_{i,t}$ is the abnormal return of i firm on day t,
$R_{i,t}$ is return on firm *i* during the period t,
$R_{m,t}$ is return on Composite Index during the period t
$\hat{\alpha}_i$ *and* $\hat{\beta}_i$ are parameters estimated using the estimation period if market model is used and $\hat{\alpha}_i = 0$ and $\hat{\beta}_i = 1$ if market adjusted return model is used.

Daily abnormal returns on each event day for all sample firms are cumulated and then divided by the number of observations to give the average abnormal returns (AAR) for the event day *t* as summarised below:

$$AAR_t = \frac{\sum_{i=1}^{n} AR_{i,t}}{n_t}$$

where n is the number of firms on day t. The variance of AAR_t using market model is $\frac{1}{n^2}\sum_{i=1}^{n} \sigma_{ei}^2$ where σ_{ei}^2 is the variance of the residuals of firm i from market model estimation while for market adjusted return, the variance is $\frac{1}{n^2}\sum_{i=1}^{n}(AR_{it} - AAR_t)^2$. AAR_t is normally distributed and Z-statistics is equal to AAR_t divided by square root of the variance.

Next, the cumulative average abnormal returns (CAAR) are calculated from an earlier date, t1 to a later date, t2

$$CAAR_{t1,t2} = \sum_{t=t1}^{t2} AAR_t$$

The variance of $CAAR_{t1,t2}$ for market model is $\frac{1}{n^2}\sum_{i=1}^{n} \sigma_{ei}^2(t1,t2)$, where $\sigma_{ei}^2(t1,t2) = \sum_{t=t1}^{t2} \sigma_{ei}^2(t)$.

The variance $CAAR_{t1,t2}$ for market adjusted return is $\frac{1}{n^2}\sum_{i=1}^{n}(CAR_{i,t1,t2} - CAAR_{t1,t2})^2$, where $CAR_{i,t1,t2}$ is the cumulative abnormal return of firm *i* from period t1 to t2. $CAAR_{t1,t2}$ is normally distributed and Z-statistics is equal to $CAAR_{t1,t2}$ divided by square root of the variance. It is hypothesized that immediate price effects on treasury shares resale is equal to zero.

The second objective is to examine the factors that may influence the percentage of treasury shares resale. This is done using a simple OLS regression on the association between the numbers of share resale with the cumulative abnormal returns (CAR) prior to the event dates, EPS and lagged EPS using the following equation:

$$PRESALE = \alpha + \alpha_1 CAR_{it} + \alpha_2 LAGEPS_{it} + \alpha_3 EPS_{it} + \varepsilon_{it}$$

Where,

PRESALE	:	Percentage of shares resold by companies and is calculated as the number of shares resold scaled by total number of shares outstanding.
CAR	:	Cumulative abnormal return 30 days prior to the actual resale date.
LAGEPS	:	EPS in prior year, DataStream data
EPS	:	Current EPS, DataStream data

4.0 EMPIRICAL ANALYSIS

Table 2 presents the classification of sample firms based on Bursa Malaysia industry classification. For the period between 2001 and 2012, there were 95 companies embarked on resale of treasury shares exercises. The table shows that sample companies came from all different industry classification, many of these companies were categorized as industrial (31 companies or 32.6%) followed by companies in trading and services industry.

Table 2: Sample firms and Bursa Malaysia industry classification

Industry classification	No. of cos	%
Consumer	8	8.4%
Construction	8	8.4%
Finance	4	4.2%
Industrial	31	32.6%
IPC	1	1.1%
Plantation	2	2.1%
Property	13	13.7%
Technology	9	9.5%
Trading & services	19	20.0%
Total	95	100.0%

Table 3 tabulates the events on resale of treasury shares for all companies for the period between 2001 and 2012. For the period, there were a total of 626 events undertaken by 95 unique companies. Abdul Latif (2010) reports that some of the unique criteria of Malaysia share repurchases is that many of the repurchasing firms are repeat buyers, they repurchases shares throughout the year , and they buy in small portion. Likewise, this study also finds that Malaysian firms exercise repeat resale of their treasury shares. From the total 626 resale events, 493 or 78 % are recurring resale events and from the total of 95 unique companies, 41 companies or 43% repeatedly resale their treasury shares. Hume Industries was the first to successfully embark on 10 resale exercises in 2001 but Hume Industries was finally delisted in 2010. Chart 1 map the resale of treasury shares events from 2001 to 2012. There is only one company that embarked on 10 resale events in 2001. The trend is increasing and reaches its peak in 2007 where there are 32 companies involved in making 159 resale events. The highest number for resale of treasury shares events coincides with 2007 Global financial crisis. Possible explanation is that companies do not want to risks on further depressing prices and reselling their shares would help increase stock liquidity to some extend and also bring in cash for the companies' internal need.

The numbers of resale events and resale companies continue to fall significantly in 2008. In 2009, there seems to be a drastic increased in resale events and resale companies. Detail analysis indicate that many of these companies repurchase their shares in small proportion of their outstanding shares but resale their treasury shares in significant proportion or almost all of their available treasury shares. This could possibly explain why these companies taking many years after repurchasing shares prior to resale of their shares in the open market.

Table 3: Number of resale of treasury shares events from 2001 to 2012.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
Resale events	10	5	9	18	35	89	159	12	121	88	26	57	626
Repeat events	9	4	6	14	32	77	132	8	108	79	17	48	493
Companies	1	2	5	5	4	15	32	9	18	14	14	17	136
New cos	1	1	3	4	3	12	27	4	13	9	9	9	95

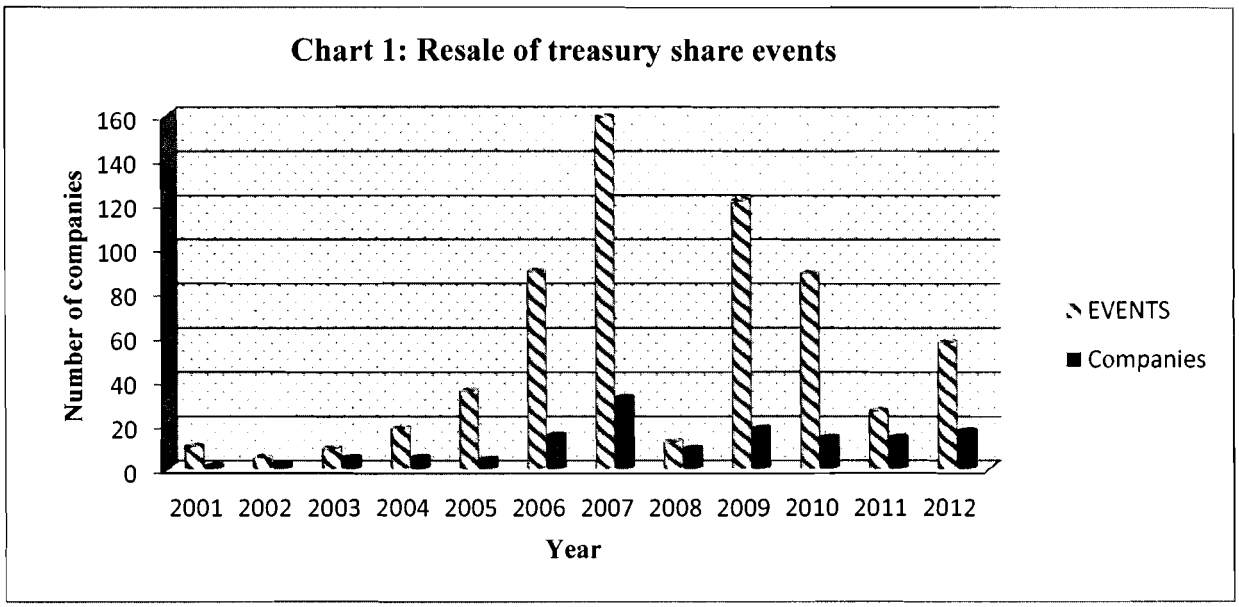

Table 4 presents descriptive statistics for the sample firms. The mean (median) number of units of treasury shares reissue on the open market is 5,515,921 (2,116,994) units at prices higher than acquisition costs. Out of 74 firms that resale their treasury shares, 4 firms experience losses, two firms earn zero return while the rest of resale companies enjoy significant gain that can be used for operational activities. Resale companies typically resale 2.0 percent of its outstanding shares measured in units, PRESALE. Premium or return is calculated as price sold divided by unit cost and minus 1. On average companies gain 70 percent premium for resale of treasury shares. Typically, companies gain on average RM2.6 million from resale of treasury shares transactions and in 2009, Top Glove earned the maximum value of RM44.5 million by selling its treasury shares in the open market.

Table 5 presents group statistics for different of two means for the sample when the companies are divided equally on the amount of median gain received on resale of treasury shares transactions. The median for gain received is RM486,065 as presented in Table 4. Table 5 indicates that both of these groups (those that gain more than median value and those that gain less than median value) are statistically different in all categories of unit sold, percentage of treasury shares resale and premium received.

Table 4: Descriptive statistics

	Mean	Median	Min	Max	Std
unit resale	5,515,921	2,116,994	9000	75733000	12254195.05
unit cost	1.817	1.067	0.124	8.180	1.788
Total unit cost	14,318,175	2,521,300	4,950	424,588,550	54,136,381
Price sold	2.529	1.344	0.148	14.140	2.827
RM Sold	16,971,217	3,552,636	4,950	439,415,060	57,430,149
Premium	0.708062796	0.23265	-0.725	6.733	1.407963824
Gain on resale	2,653,124	486,065	(4,862,508)	44,550,241	6,894,345
PRESALE	2.04%	0.99%	0.0008%	15.42%	2.93%

Table 5: Group Statistics

	Median gain	N	Mean	Std. Deviation	Std. Error Mean	t-test	sig 2-tailed
unit sold-AR	0	37	1,696,996	2,874,594	472,580	-2.804	.006***
	1	37	9,334,846	16,317,474	2,682,576		
Premium	0	37	.222	1.012	.166	-3.148	.002***
	1	37	1.195	1.584	.260		
PORESALE	0	37	1.27%	2.68%	0.44%	-2.345	.022**
	1	37	2.82%	3.00%	0.49%		

, * indicate significant at 5% and 1% respectively. N is 74 and is based on the final number of firms established in Table 6.

Malaysian firms do not resale their shares in a single day. If this study considers all resale events, some companies will give undue weight to some companies. For example Pacific & Orient made 49 resale transactions in 2009, while other companies make only 1 or two resale events. Furthermore, efficient market hypothesis argues that the effect on an event should be most pronounced on the first released of information. Repeated resale events would lessen the price signal to the market; therefore resale events are carefully selected according to: (a) first week event, (b) first year event (c) first event to capture the best price signal as follow:

Table 6: Weekly, yearly and first events

Total resale events		626	
Recurring less than 1 week		414	
Weekly events	.....	212	(a)
Less: more than once a year		104	
Yearly events	.....	108	(b)
Less more: than once		13	
First events/unique companies	.....	95	
Delisted/data unavailable		21	
Final companies or first event	.....	74	(c)

There are a total of 626 resale events from 2001 to March 2012. To choose first week events, we take all resale events of 626, and then exclude all other resale events that recur in less than a week. For example, if a firm repetitively resale its shares for many days in a week, only the first event is included so that the event is 7 days apart from the next event. This procedure produces 212 weekly events. For monthly event, only the first month event for the year is included in the analysis. The same procedure as in weekly events is used to select monthly events. This procedure produces 108 yearly events. Likewise, for yearly event; only the first event of the year is considered. This procedure produces 95 unique first time resale companies for years between 2001 and 2011. There are 17 companies with missing price data and therefore are not included in the sample. These screening procedures produced a sample of 78 companies .The announcements of treasury shares resale are then compared to the companies' disclosure in the annual reports to confirm its validity. There are 4 announcement of treasury share resale that could not be traced to the company's annual report thus are excluded from the final sample of 74 companies.

Table 7 compares the CAAR of 74 yearly events between day -5 to 5 using MAR and MM. Companies experience a positive and significant 4% (3.59%) CAAR during day -5 to day 0 using MAR (MM) respectively. Companies continue to experience positive and significant CAAR during the window period especially in the window period prior to the resale date. After the resale date, none of the CAR is significant using either MAR or MM.

Table 7: First time events (74 observations)

	MAR				MM			
Window	CAAR	STDEV	Z-score	P-value	CAAR	STDEV	Z-score	P-value
day-5 to 0	3.94%	0.0821	4.1257	0.0000***	3.59%	0.0821	3.7628	0.0002***
day-5 to 5	3.40%	0.1074	2.7218	0.0065***	2.47%	0.1081	1.9682	0.0490**
day-3to 0	2.87%	0.0581	4.2487	0.0000***	2.72%	0.0601	3.9028	0.0001***
day-3 to 3	2.12%	0.1035	1.7588	0.0786*	1.55%	0.1024	1.2989	0.1940
day-1 to1	1.94%	0.0594	2.8149	0.0049***	1.75%	0.0606	2.4755	0.0133**
day-1 to 0	1.81%	0.0501	3.1027	0.0019***	1.71%	0.0492	2.9977	0.0027***
day 0 to 5	0.10%	0.0821	0.1028	0.9181	-0.60%	0.0841	-0.6090	0.5425
day0 to 3	-0.48%	0.0743	-0.5509	0.5817	-0.95%	0.0753	-1.0900	0.2757

*,**,*** indicate significant at 10%,5% and 1% respectively.

Table 8 presents the CAAR for yearly resale events using MAR and MM. Companies experience significant positive 4.2% (3.65%) CAAR during 5 days prior to the resale dates using MAR (MM) methods. The results are similar as in Table 3 where CAAR is positive and significant prior to the date of resale.

Table 8: 108 Yearly events

	MAR			MM		
window	CAAR	Z score	p-value	CAAR	Z score	p-value
day-5 to 0	4.19%	5.5149	0.0000***	3.65%	5.6648	0.0000***
day-5 to5	3.72%	3.4277	0.0006***	2.68%	3.0724	0.0021***
day-3 to 0	3.01%	4.4501	0.0000***	2.77%	5.2656	0.0000***
day-3 to3	2.35%	2.2395	0.0251**	1.81%	2.6061	0.0092***
day-1 to 1	2.01%	3.7268	0.0002***	1.87%	4.0933	0.0000***
day-1 to 0	1.77%	3.7658	0.0002***	1.66%	4.4542	0.0000***
day 0 to 5	0.20%	0.2450	0.8064	-0.41%	-0.6303	0.5285
day 0 to 3	0.01%	0.0143	0.9886	-0.39%	-0.7470	0.4550

,* indicate significant at 5% and 1% respectively.

Table 9 summarizes the value of CAAR experienced by resale companies using weekly observations. Similar to the previous tables, companies experience positive and significant abnormal returns during day -5 to 0 with lower CAR values of 3% (2.5%) according to MAR (MM) respectively. CAAR using MAR for window periods after resale date are positive but insignificant. On the other hand, CAAR using MM are negative and insignificant after the date of actual resale. As a whole, companies experience positive and significant abnormal returns prior to the resale of treasury shares using all categories of events; first time, yearly or weekly. Companies experience significant and positive abnormal returns prior to the date of resale indicates that resale companies are on average better than the market. However, the abnormal returns quickly disappear after the event dates suggesting that market is quick to respond to the new information released thus is supportive of semi-strong form of efficient market hypothesis where prices fully reflect all publicly available information.

Table 9: 212-Weekly events

	MAR				MM			
	CAAR	STDEV	Zscore	p-value	CAAR	STDEV	zscore	p value
day-5 to 0	2.89%	0.0660	6.3911	0.0000***	2.48%	0.0670	5.8436	0.0000***
day-5 to5	2.93%	0.0979	4.3561	0.0000***	2.26%	0.0986	3.9385	0.0001***
day-3 to 0	2.26%	0.0578	5.6888	0.0000***	2.05%	0.0585	5.9277	0.0000***
day-3 to3	2.19%	0.0899	3.5409	0.0004***	1.84%	0.0893	4.0077	0.0001***
day-1 to 1	1.72%	0.0487	5.1329	0.0000***	1.60%	0.0494	5.3256	0.0000***
day-1 to 0	1.46%	0.0399	5.3267	0.0000***	1.36%	0.0392	5.5672	0.0000***
day 0 to 5	0.77%	0.0758	1.4801	0.1389	0.43%	0.0767	1.0143	0.3104
day 0 to 3	0.67%	0.0713	1.3648	0.1723	0.43%	0.0721	1.2420	0.2143

*** indicates significant at 1%.

The second objective is to examine the factors that influence the number of treasury share reissue or resale. Three important factors are examined in this study which are: companies current EPS, lagged EPS and the price performance prior to the date of resale. Table 10 presents the pairwise correlation matrixes for variables used. Multi correlation is not an issue as none of the coefficient is higher than 0.5. Breush-Pagan test for heteroskedasticity indicates that the value of chi^2 is 26.4 and is significant at 1 percent level. To address this issue, standard robust error is employed and variance inflation factors are checked for the variables used in the model.

Table 10: Pearson Correlations

	CAR30	LAGEPS	EPS
CAR30	1		
LAGEPS	0.036	1	
EPS	-0.026	0.464**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 11: OLS regression with robust standard error

PRESALE	coef	Robust std error	t	p-value	VIF
CAR30	-.0550	0.0271	-2.03	0.023**	1.00
LAGEPS	.07009	0.0534	1.31	0.097*	1.28
EPS	-.0386	0.0224	-1.72	0.045**	1.28
constant	.0208	0.0049	4.27	0.000	

*,**,*** indicate significant at 10%,5% and 1% respectively, using 1-tailed tests.

Table 11 presents the result OLS regression using robust standard error. The regression results are expected. CAR30 is cumulative abnormal return of 30 days prior to the actual resale date. It is a proxy for past immediate price performance. The result indicates that CAR30 is negatively and significantly related to the percentage of shares resale. This means that the lower is the prior abnormal returns; the higher will be the percentage of shares resold. It is expected that companies believe that their previous returns would not likely to reoccur and expect better returns in the future. Furthermore, it can be said that companies would not want jeopardize share prices or cause their share price to be lower due to reissuance or resale of treasury shares. As an analogy, whenever companies issue IPO (initial public offerings), the share prices would negatively be affected during the short window period. Likewise, as companies reissue their treasury shares, it is expected that the share price would negatively be affected.

LAGEPS has a positive and marginally significant relationship to the number of shares resold. The higher is the LAGEPS, the higher is the number of shares to be resold by companies. It is implied that companies are optimistic on companies future accounting earnings and expect that those earnings would be able to sustain in the future. Current EPS is significantly and negatively affecting the number of shares resold. This means that the higher is the current EPS; the lower is the number of shares resold to the public. Given the high performance of current profitability in EPS, there is no need to be aggressive in selling companies' treasury shares as high EPS generally means high returns to shareholders and investors.

5.0 CONCLUSION, LIMITATION, AND FUTURE RESEARCH

The first objective of the study is to examine whether there is significant price reactions on the resale of treasury shares events in Malaysia. Using market model (MM) and market adjusted return model (MAR) on 3 categories of resale events, this study indicates that companies gain positive and significant abnormal returns before the actual resale date. This indicates that resale of treasury shares have information content. However, there were no abnormal returns gained following the actual resale dates regardless of event category or method used. The abnormal returns quickly disappear after the event dates suggesting that market is quick to respond to the new information released thus is supportive of semi-strong form of efficient market hypothesis where prices fully reflect all publicly available information.

The second objective is to assess the relationships between three companies' financial characteristics and the magnitude of shares resale, which is the percentage of shares resale in the open market (PRESALE). Based on signaling theory, it is found that both prior returns and current EPS are positively and significantly affecting the percentage of treasury shares resold in the market while LAGEPS has a negative and significant relationship with PRESALE.

This study has several limitations. First, this study is limited to immediate announcement effect surrounding resale of treasury shares events. Future research may test on the persistence of the abnormal gains of treasury shares resale in the long-run. Besides signaling theory and information asymmetry, other underpinning theory of equity issuance can also be applied to resale of treasury shares context: for example, mispricing theory, corporate life cycle theory. Corporate governance mechanisms have long been known to have important implication on company's policy. Therefore incorporating them in the equation would more likely reveal i) type of companies that embarked on resale of treasury shares ii) price and operating performance of resale firms in the long run and iii) to what extent resale of treasury shares increase shareholders value.

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