

Analysis of stock buyback in Chinese A-share market

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Abstract: The capital markets of western developed countries developed earlier, and stock buyback is a common behavior. However, China's capital market started late, subject to the slow development of the market and the imperfection of relevant laws and regulations. In the early stage, China's stock market had obvious characteristics of China [1]. Now, with the continuous development of our market economy and the promotion and improvement of relevant policies, more and more listed companies have begun to conduct stock repurchase.

Keywords: Stock Repurchase; Buyback Scale; Buyback Motivation; Characteristics of Repurchase

Introduction

Chinese stock buyback began in 1993 with the Great Yuyuan Garden stock buyback event. Due to the limitations of domestic economic development and related legal system, few enterprises carry out stock buyback. Our country carried out the reform of non-tradable shares in 2005, and enterprises gradually began to use stock buyback to promote their own growth and development [2], with an increase in stock buyback behavior. In 2013, the regulatory authorities revised the published guidance on stock buyback of listed companies through centralized bidding, and began to encourage listed companies to adopt buyback behavior [3]. Thanks to the continuous development and improvement of policies and economy, the scale of share buybacks has since grown significantly.

1. Buyback scale analysis

1.1 Statistics on the number of companies engaged in stock repurchase and the amount of repurchase

According to the data of wind database, from 2012 to 2021, the number and scale of the company's buyback gradually increased. In 2019, 1,041 companies made share buybacks, the highest number in history. In 2020, the number of companies carrying out share buybacks declined slightly due to the global coronavirus pandemic, but still showed a 16% increase compared to 2018 figures. In terms of the amount of share repurchase, the amount of share repurchase on the whole shows a rapid rising trend, from 6.3 billion in 2014 to 121.47 billion in 2021, reaching the peak in recent years.

1.2 The third buyback boom

In 2013-2014, the first buyback boom for A shares. At that time, the A-share market companies were seriously undervalued. In 2013, the amount of buyback reached 6.337 billion yuan, 2.57 times of the amount of buyback in 2012. A total of 73 enterprises carried out buyback. In 2014, 136 enterprises in the A-share market carried out buybacks, and the amount of buybacks reached 8.825 billion yuan. Two years after the first buyback boom, the buyback amount reached 15.161 billion yuan.

After the leveraged stock market crash in 2015, for the second buyback boom. In order to stabilize stock prices, enterprises began to carry out large-scale buybacks. In 2015 and 2016, 180 and 278 companies carried out buybacks respectively, with the number of

buyback companies reaching a record high.

In 2021, the stock market situation was slightly improved, and there were 990 companies engaged in stock buyback, slightly increased compared with 2020, and the buyback amount reached another 100 billion yuan, up to 121.471 billion yuan, the largest in history.

In conclusion, the buyback scale of Chinese A-share stock market shows an increasing trend in the aspects of the number of companies implementing the buyback and the amount of buyback, and the overall volume of stock buyback in the recent three years has reached the most in history, which is worthy of attention.

2. Industry distribution of share repurchase

According to the Wind database, we can know the industry distribution of completed share repurchase in China's A-share market from 2005 to 2021. From the distribution of buyback times, capital goods, software and services, technical hardware and equipment, materials, pharmaceuticals, biotechnology and life sciences, and consumer durables and clothing are the six industries with the most buyback times. The industries with the least buybacks were insurance, diversified finance, telecommunication service, household and personal goods, food and staple goods retail and energy, with the number of buybacks of 1, 18, 27, 27, 36 and 48 respectively. From the perspective of share repurchase amount, consumer durables and clothing, materials, capital goods, pharmaceuticals, biotechnology and life, and software and service industries were the most repurchase amount, accounting for 21.37%, 11.99%, 11.79%, 6.95%, 6.31% respectively. The industries with the lowest share of buyback dollars were household and personal goods, telecommunications services, consumer services, semiconductors and semiconductor production equipment, and transportation. The number of repurchase does not mean the amount of repurchase, there is the particularity of repurchase industry.

3. Funding sources and methods of stock repurchase

In the statistical details of stock repurchase in the wind database, the process of the company's stock repurchase is divided into seven types: completion, implementation, approval by the general meeting of shareholders, cessation of implementation, plan of the board of directors, invalidity and failure. This paper mainly studies the completed and implemented stock repurchase data. Table 2 shows the buyback modes of Chinese A-share companies that have completed and implemented buybacks, among which the majority of listed companies use the directional buyback mode, accounting for 77.67% of all buyback modes. The share repurchase through centralized bidding accounted for 22.27%. Concentrated bidding and targeted buyback are mainly used. Only two companies, Qizhi Environment (stock code: 000826.SZ) and Hua Chuang Yang 'an (stock code: 600155.SH), have carried out four stock buybacks by other means.

4. Purpose of share repurchase

The statistics about the purpose of share repurchase are shown in Table 2, which mainly includes market value management, profit compensation, equity incentive, cancellation of equity incentive, reorganization and other purposes [7]. The purpose of equity incentive includes three categories: implementation of equity incentive, implementation of equity incentive or employee stock ownership and employee stock ownership. Among them, the number of buybacks related to the purpose of equity incentive cancellation was the largest, up to 4735, accounting for 71.82% of the total number of buybacks. In the buyback purpose, market value management is the least, accounting for only 3.94%. The actual completion of different buyback purposes of A-share listed companies were counted. During the period, a total of 65.745 billion shares were expected to be repurchased, while the actual number of repurchased shares totaled 52.352 billion shares. The proportion of actual completion of stock repurchase for different purposes from high to low is reorganization, equity incentive cancellation, profit compensation, equity incentive, other and market value management. The estimated number of stock buybacks for other reasons and the actual number of stock buybacks were the largest, and the completion rate reached 75.01%. The number of repurchases for the purpose of market capitalization management repurchase was the largest in addition to other buyback purposes, but its actual completion ratio was the lowest, reaching only 66.88%. According to the existing research and experience, it can be speculated that after the release of the stock buyback plan, if the short-term market benefits

generated by the announcement promote the company's stock price to increase, that is, the buyback purpose of market value management will be realized. A small number of companies do not implement the buyback plan as planned, thus resulting in a low actual completion rate of the final stock buyback. This kind of information asymmetry "flicker type" repurchase makes the small and medium-sized investors who can not obtain the comprehensive information of the enterprise "in the dark", the interests of the damage. The actual buyback completion rate for restructuring purposes is as high as 100%. The reason is that from 2005 to 2021, only two companies have repurchased shares for restructuring purposes: Western Venture (ticker symbol: 000557.SZ) and Petrochemical Oilfield Services (ticker symbol: 600871.SH).

5. The characteristics of the stock buyback in our A-share market

5.1 The scale of buyback is closely related to the development of the stock market

On the whole, the buyback scale to about large. The number of stock repurchase companies increased from 11 companies in 2012 to 990 in 2021, indicating that stock repurchase has gradually become a commonly used capital operation tool in the capital market. From the perspective of buyback period, the three "spring tides" of stock buyback occurred under the background of stock market depression. Based on the above analysis, it can be seen that stock buybacks can send positive signals, improve investor confidence, and thus increase stock prices, drive the stock market recovery, and then reverse the depressed state of the stock market.

5.2 The purpose of buyback is mainly market value management

In the above analysis of buyback purposes, it is not difficult to find that except for other purposes of share buyback, the number of share buyback plans aiming at market value management is the largest. In terms of the actual amount of buybacks, market capitalization management for share buybacks still tops the list. The number of plans for buyback with market value management is not very large, but it has the characteristics of large number of stock buyback and large amount of stock buyback. Therefore, the buyback purpose based on market value management is the main buyback purpose with the largest amount of actual buyback in addition to other purposes.

5.3 It is difficult to discern the true or false motive of repo behavior

In the downturn of the stock market, stock buyback by enterprises can effectively drive the stock market recovery and increase the share price. However, the information held by shareholders and business managers is asymmetrical, and it is difficult to discern the true or false motive of buyback. It is also to take advantage of this point, some enterprises on the one hand issued a stock repurchase plan announcement, so that investors in the state of insufficient access to information blindly optimistic, one after another investment; On the one hand, it is premeditated to wait for the stock price to rise, not to fulfill the buyback plan or a small buyback. The opportunistic buyback behavior not only damages the interests of minority shareholders, but also disturbs the order of the capital market. From the actual completion of the above share repurchase, the completion rate for the purpose of market value management repurchase is the lowest for other buyback purposes. It can be seen that it is difficult to discern the true or false motive of corporate buyback behavior, and investors and relevant regulatory authorities need to pay full attention to it.

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