Liu Chenguang LCG / October 11, 2023

Hong Kong stocks start a buyback boom! The amount of buybacks this year has exceeded last year by 80%. Why has the momentum not diminished?

Since the beginning of this year, three companies have repurchased Hong Kong stocks exceeding HK$10 billion, namely Tencent Holdings, AIA and HSBC Holdings.

Since the beginning of this year, buybacks in the Hong Kong stock market have not stopped.

On October 9, Tencent Holdings announced that it would repurchase 1.31 million shares at a price of HK$302.8 to HK$308.6 per share, with the repurchase amount reaching HK$402 million. It is worth noting that this is Tencent's fifth repurchase this month.

Wind data shows that as of October 10, three companies have repurchased Hong Kong stocks exceeding HK$10 billion this year, namely Tencent Holdings, AIA and HSBC Holdings, with repurchase amounts of HK$34.17 billion, HK$21.126 billion and HSBC respectively. 14.313 billion Hong Kong dollars.

The amount of buybacks by Hong Kong stock companies remains high, exceeding 80% of last year's level. Wind data shows that since the beginning of this year, the amount of Hong Kong stock buybacks has reached HK$86.445 billion. In comparison, the repurchase amount for the whole of last year was HK$104.869 billion. The repurchase amount in 2021 is only HK$38.112 billion.

Drew Bernstein, co-founder and co-chairman of Marcum Asia Accounting Firm, pointed out to Jiemian News reporters that usually, companies choose to repurchase shares to achieve a series of purposes. Management may believe the stock is undervalued and investors are failing to properly assess the company's prospects. The Hang Seng Index has fallen more than 11% this year, and the management teams of many Hong Kong listed companies are worried that the slowdown in the real estate market will spread to other industries.

Bernstein shared that buybacks allow the company to increase earnings per share by reducing the number of shares (the denominator), even if net income remains relatively flat. Some companies may use buybacks as a way to compensate for the issuance of shares under a stock option plan. Additionally, stock buybacks are a relatively efficient way to return capital to shareholders and, unlike dividends, do not require an ongoing commitment of cash every quarter. The downside, of course, is that investors may think the company doesn't have many compelling investment opportunities.

Bernstein believes the biggest risk with aggressive buybacks is that if companies don't have enough cash to pay for buybacks or finance them with debt, they could end up in trouble if they hit a recession or industry downturn. Shareholders are likely to put a lot of pressure on management to "step up" into large-scale buybacks. However, boards need to be confident that buybacks will not ultimately destabilize the capital structure.

“Share buybacks on the Hong Kong Stock Exchange have been very active so far in 2023. Given that global funds continue to be net sellers of these stocks, it's reasonable to expect that companies with strong balance sheets will continue to use share buybacks as long as valuations remain depressed.." Bernstein analyzed.

Zheng Lei, chief economist of Samoyed Cloud Technology Group, believes that Hong Kong listed companies will generally repurchase when the company believes that the stock price is significantly lower than its actual value. Especially in the case of a bear market, repurchases will become more frequent. Frequently, some companies destroy the repurchased shares, which is beneficial to shareholders and sometimes enhances investor confidence in listed companies. However, there are also some listed companies that only conduct strategic repurchases, with small quantities and low amounts, which generally have little impact on stock prices.

Shun Zhiyong, director of the Hong Kong Research Department of Metro Finance, said frankly that for a company, if its management believes that the current price is relatively low, they will use funds to buy shares, which is called a repurchase. Generally speaking, this action It sends a signal to the market that management or major shareholders are optimistic about the company's development. If the decline in the Hang Seng Index and individual stocks continues, there will still be companies that continue to carry out buybacks.

Yan Zhaojun, a strategic analyst at Zhongtai International, said that the company's buyback shows that management believes that the market value is lower than the intrinsic value and hopes that the buyback will increase shareholder returns. The larger the repurchase amount, the more undervalued the current price is.

He pointed out that under the constraints of a strong U.S. dollar and high interest rates, it is difficult for Hong Kong stocks to attract incremental capital inflows in the short term, so there is no obvious room for growth. However, China's economic momentum is gradually recovering, and the downward revision pressure on corporate profits has eased; the inflow of Hong Kong Stock Connect; Expectations of a meeting between the Chinese and US presidents have brought support to Hong Kong stocks.