

THE IMPLICATION OF SHARE BUYBACK ON SHAREHOLDERS WEALTH AND FIRMS VALUE

Prepared by: Liu Xiaochi

ABSTRACT

Malaysia implemented the common stock repurchase system on September 2, 1997. Recently, the share buyback has become an important way of distributing earning to shareholders in Malaysia. This paper examines the share buyback announcement effects on the shareholders wealth and firms values. Thus, this research will investigate repurchasing firm's return on equity and debt-to-equity ratios before and after the share buyback of different firms' size. Beside this, this research also uses the abnormal return and cumulative abnormal return to test the stock price performances surrounding the share buyback of different firms' size. The empirical results of this study shows that there is no difference on the return on equity ratio and debt-to-equity ratio of small firms and large firms. Furthermore, on average those repurchasing firms do not exhibit superior abnormal performance either initially or over long run when they make actual share buyback announcement. This finding shows that the stock price performances remain the same surrounding the share buyback announcement days. Over a long run, there is strong evidence that the small firms can deliver superior performance to long term shareholders. The result of this study basically is not consistent with previous researches that were done overseas due to the short period of the study.