

The Determinants of Share Repurchase: Evidence from Thailand

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ABSTRACT

This study investigates the frameworks that explain the share repurchase decision in the Stock Exchange of Thailand. Drawing from previous studies which were almost based on the U.S. data, a decision to do stock repurchase is possibly driven by many factors.

These hypotheses, namely, excess cash, a substitution for cash dividend, optimal leverage ratio, accounting performance improvement, a tool of defensive strategy to avoid takeover, a stock options for bonuses to manager and undervaluation hypotheses, are concluded to be the important factors that affect the decision to do share repurchase. We try to test whether the understanding of share repurchase decisions based on the international evidence can be extended to the context of emerging market economy like Thailand. To achieve this proposal, the samples of repurchasing companies are compared to matched sample of non-repurchasing companies.

The empirical findings suggest that the decision of stock repurchase is significantly related to the excess cash flow. With positive relation to stock repurchase, this result supports the excess cash flow hypothesis. Furthermore, the empirical evidence also suggests that dividend substitution is one of the important factors for stock repurchase decision. With statistically significant negative impact on the stock repurchase decision, it implies that firms tend to reduce their cash dividend payment before they decides to do stock repurchase. The result also indicates that stock price undervaluation hypothesis is held in Thailand. With the poor stock price performance in the past, Thai companies have incentive to do stock repurchase to exploit the benefit from such undervaluation. Others frameworks are also supported by the sign of the test but the degrees of the statistical significant are low.