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The Effects of Earnings on Share Repurchase: Evidence in Malaysia

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Abstract

The aim of this study is to investigate the influence of earnings on share repurchase for firms listed in Bursa Malaysia. The dependent variable in this study is share repurchase while dividend per share, earning per share, and operating income are the proxies to earnings representing the independent variables. The analysis uses data from the time series for the period of 2014 to 2018 on an annual basis. The information is gathered using secondary data gathered from the Bursa Malaysia Terminal and accessed through the data stream. The results of this study revealed that earning per share and operating income have a significant positive effect on share repurchase. In other words, earning per share reduces the number of outstanding shares in the market while operating income encourages excess income to be spent for share repurchase activity. On the other hand, the dividend per share has an inverse impact on the share repurchase. The findings of this study not only benefit the body of knowledge and current literature but also act as a useful tool for the management and key stakeholders to influence their decisions in conducting share repurchase activity in Malaysia.

Keywords: Earnings, Dividend Per Share, Earning Per Share, Operating Income, Share Repurchase

Introduction

Share repurchase, also known as share buyback was introduced to the Malaysian market in September 1, 1997. However, not every firm manager in Malaysia is aware of the share repurchase mechanism and what advantage could it bring to the firm that announces share repurchase rather than paying dividend to the stockholders. Share repurchase has become the desired means for distribution of capital gain to the stockholders. In fact, share repurchase has outperformed cash dividend and became a Repurchase of share can be used by the managers or regulator as a tool to overcome a decreasing stock price. Thus, this research can be used by the firm to know slightly more about share repurchase. However, lately, share repurchase has become a concern to some individuals such as financial analysts, stockholders, regulatory authorities and investors. The government has used share repurchase as a mechanism to sustaining the share value in the marketplace and to boost the performance of the depressing exchange trading during the period of