Stock Repurchasing in Turkey

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Abstract

The study is a literature compilation about stock repurchasing opportunity for businesses in Turkey. First of all; dividend puzzle and answer of the question "why businesses repurchase their own stocks?" are surveyed, to this end. After Asian, European and American samples are analyzed; stock repurchasing process of Turkish businesses is explained in details. Furthermore; data about Turkish businesses repurchasing their own stocks are stated and taxing dimension of the mentioned transaction is expressed briefly. Consequently; it is concluded that stock repurchasing process is developing and more businesses may repurchase more stocks soon, in Turkey.

Key Words: Dividend, Stock Repurchasing, Istanbul Stock Exchange, Turkey

Introduction

Businesses usually pay their shareholders in cash via dividends and stock repurchasing. In general, stock repurchasing is supposed to be the tax efficient method comparing to dividend payments because of the tax deferment possibility on capital gains and the larger tax burden on dividends. Therefore; a "dividend puzzle" exists in the finance literature through Black (1979: 5) who wrote "The dividend puzzle" and asked the question "Why do corporations pay dividends?" also answered his own question in 1990 with the conclusion "I think dividends that remain taxable will gradually vanish (Bierman, 1997: 267).

Herein; a tax efficient facility exists for shareholders due to the fact that the amount of stocks of a business is decreased and earning per shares is increased by stock repurchasing; hence, the market price of stock goes up and shareholders acquire capital gain in order to be paid in cash via dividends. However; providing the tax and transaction costs insignificant, both stock repurchasing and dividend payments may be comprehended as reasonable.

Stock repurchasing is applied in European and Asian countries together with dividend payments but it has been a very common practice especially in the U.S.; however, Turkey has been making regulations to allow stock repurchasing in capital markets since 2009. It is considered that stock repurchasing process and transactions in Turkish markets should be analyzed in order to acquire more and essential information to be able to predict the near future for business managers, investors and shareholders.

1.Why Do Businesses Repurchase Stocks?

Stock repurchasing means buying some of the shares back by the issuing company to reduce the amount of outstanding stocks on the open market. There are theoretical bases for businesses to repurchase their own stocks such as tax efficiency, signalling effect, earning more return per share, preventing rivals intended to control the company, absence of new investment opportunities, and make use of idle capital. Rather than receive cash, recipients receive an asset that might appreciate in value faster than cash saved in a bank account.

In the literature; all of the reasons are admitted but a single theory does not exist to explain stock repurchasing. So; non of the mentioned ones are sufficient to be the exact independent reason but the most approved one is signalling effect because the most effective indicator to predict the "undervalued stock" is supposed to be the stock repurchasing programs.

Stock repurchasing is defined as a useful and cost effective method to provide companies with greater flexibility to use share buy-backs as a form of capital restructuring (ACRA, 2002). It is shown that stock repurchasing can have a significant impact on the after-tax returns of shareholders and it seems clear that as more and more firms become aware of the advantages of repurchasing shares compared with paying dividends, this issue will have to be faced (Bierman and West, 1966: 695).

Also it is found that firms with the undervaluation motive experience a more positive stock price reaction when they report their repurchases to the market; overall, our results suggest that the undervaluation motive is a stronger signal than other repurchase motives, and contrary to the predictions of the standard signalling theories, management statements carry some value for the market (Akyol and Foo, 2013: 1). Furthermore; risk can be reduced by stock repurchasing, discipline can be imposed on management by adequate compensation incentives tied to performance, and information can be supplied by many different means.

In addition to the mentioned reasons; there are some advantages in repurchasing stocks for both businesses and shareholders such as increased flexibility and lower transaction costs comparing to paying dividends. Due to the transactions done to acquire the stocks; the repurchasing company pay in cash and its assets decrease as much as the amount worth the repurchased stocks' market value. In case of using debts; liabilities increase and leverage opportunity occurs. So; stock repurchasing by getting into debt may mean risk in the event of the interest rates' rise.

2.Worldwide Stock Repurchasing Samples

In the past decade major U.S. corporations have increasingly repurchased significant amounts of their own common shares because repurchasing shares, rather than paying dividends, has significant tax advantages for shareholders besides in view of the fact that U.S. corporations have experienced an unprecedented growth in liquidity over roughly the same period that stock repurchasing has flourished (Bierman and West, 1966: 687-688). Banyi, Dyl and Kahle (2008) report that from 1985 to 2004, the total announced value of repurchases in the U.S. was USD 1,96 trillion and 89% of them were to open-market repurchases (Akyol and Foo, 2013: 1). Besides; the businesses included in S&P 500 Index paid USD 589 billion to repurchase their own stocks in 2007 (Ergin, 2011: 67). BORYAD (2007) reports that most known companies e.g. Microsoft paid USD 24,3 billion and Exxon Mobil paid USD 31,6 billion to repurchase its own stocks. Also Procter&Gamble, Coca Cola, Time Warner and Nestle repurchased their stocks worth USD 10,3 - 13 - 11,8 - 20 billion respectively. Fama and French (2001) report that the share of businesses paid for dividends were 67% in 1978 and the mentioned share decreased to 21% up to 1999 in the meantime the amount of cash paid for dividends went up during the term because it is essential to express that stock repurchasing U.S. businesses also pay for dividends at the same time (Ergin, 2011: 67).

The share of businesses paid for dividends in Japan and European countries such as Denmark, France and U.K., remained at the same point or increased on the contrary to the U.S.; moreover, their amount of cash paid for dividends increased as in the U.S, but their ratio of stock repurchasing / dividend payments always has been lower than the U.S. businesses (Ergin, 2011: 67). Graph 1 indicates the amounts paid both for stock repurchasing, dividend payments and the total payout by the listed Asian industrial businesses from China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand (Goyal and Muckley, 2013: 36).

It is clear that the total payments of businesses are nearly occurred of dividend payments and stock repurchasing is not so significant even if it has been benefited since late 1990s.Vermaelen (2005: 256) found out that stock repurchasing ratio arrived 13,6% from 3,7% while dividend payment decreased to 13,8% from 22,3% (Ergin, 2011: 69). Consequently; it is concluded that the importance of stock repurchasing increases worldwide day by day.

3.Stock Repurchasing Process And Samples In Turkey

According to Article 329 of the former Commercial Law No. 6762 which used to be valid up to July 2012; stock repurchasing was not legitimate with some exceptions. The new Commercial Law No. 6102 allows and organizes stock repurchasing via Article 379 as the legal basis, no longer.

Besides; weekly bulletin of Capital Markets Board issued principle decision No.27/748 dated 01.09.2009 to declare that investment trusts and brokerages quoted on Istanbul Stock Exchange (ISE) can repurchase their own stocks. Finally; it is declared that all the businesses quoted on ISE can repurchase their own stocks according to principle decision No.26/767 dated 10.08.2011. In accordance with the decision;

- repurchasing transactions should be carried out in a certain period up to 18 months.
- repurchasing should be applied only in Istanbul Stock Exchange.
- value of repurchased stocks should not exceed 10% of the firm's total paid in capital.
- the firm can hold the repurchased stocks up to 3 years even if they are not resold.
- if the holding period exceeds 3 years, repurchased stocks should be cancelled by lessening the capital.
- repurchased stocks should be booked in a reduction account included in equities on the firm's balance sheet.

3.1.Stock Repurchasing in Turkey Before Sept. 1st of 2009

Aysan (2007: 165) reports that 75% of the public companies do not have a profit distribution policy disclosed to the public in Turkey (Ergin, 2011: 72) which is in contrast with the principles of corporate governance. Hence; it used to be hard to define the ties between shareholders and the company as strong, especially in the mentioned term. Repurchasing own stocks was not legitimate with exceptions but purchasing the group companies' stocks used to be possible before 01.09.2009; so that, some of the corporations listed below repurchased stocks albeit indirectly, as it is shown in Table 1 (BORYAD, 2007).

As it is understood from Table 1; Akbank and Sabancı Holding repurchased their own stocks benefiting the exceptions but Doğan Holding and Doğan Yayın Holding corporations purchased a number of stocks possesed to some of their group companies. Dividend payments of Istanbul Stock Exchange companies are indicated in Table 2 for 1998-2008 term (Ergin, 2011: 73).

3.2.Stock Repurchasing in Turkey After Sept. 1st of 2009

SİNPAŞ GYO A.Ş repurchased its own stocks between 14th July 2010 and 13th August 2010, initially. Owing to the former Commercial Law and the principle decision of Capital Markets Board dated 01.09.2009; stock repurchasing was not common then but the process was embodied.

3.3.Stock Repurchasing in Turkey After August 10th of 2011

Due to the principle decision of Capital Markets Board dated 10.08.2011; all the businesses quoted on ISE authorized to repurchase their own stocks. Accompanying with the studies completed for the new Commercial Law which would be valid as from July 2012; many companies made public disclosures and 13 of them began their stock repurchasing programs. Some of the companies completed their repurchasing programs, a number of them have still been repurchasing and several companies have been waiting for suitable environment, so far. Table 3 displays the stock repurchasing businesses quoted on ISE, below.

As it is accounted from the table; 33.117.537 TL (approximately USD 17,9 million) is paid for stock repurchasing in 2 years. 10% limitation, the number of the companies and their shares indicated in the table mean that a great potential exists for stock repurchasing from now on because there are hundreds of businesses quoted on ISE.

3.4.Tax Dimension of Stock Repurchasing in Turkey

Stock repurchasing in Turkey is more tax efficient comparing to pay for dividends because 15% witholding tax rate is applied for dividend payments but taxing rate of capital gains is maximum 10%, both for corporations and individual taxpayers (YKB, 2013).

4.Conclusion

A literature compilation to discourse stock repurchasing opportunity for businesses in Turkey is prepared in the study. So; a very interesting matter in finance literature, "The dividend puzzle" is investigated to understand why businesses pay their shareholders in cash for dividends in order to repurchase their own stocks which is a tax efficient method comparing to dividend payments.

While analyzing the Asian, European and American repurchasing samples; it is understood that the repurchasing method is quite common in the U.S. contrary to the others but it is getting more popular both in Europe and Asia. As the dividend payment and stock repurchasing ratios move closer; it is concluded that the importance of stock repurchasing increases, worldwide.

The Turkish capital markets allow businesses to repurchase their own stocks on Istanbul Stock Exchange via several changes in regulations since 2009. Therefore; 14 companies quoted on Istanbul Stock Exchange have repurchased their own stocks and they paid USD 17,9 million up to now, yet. Some of the companies completed the repurchasing process and a number of them still go on stock repurchasing. It is concluded that hundreds of companies may repurchase their own stocks in accordance with the trend in the world because the mentioned process is developing and quite tax efficient comparing to dividend payments, anyway.

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Annex

Graph 1: Cash Dividends, Stock Repurchases and Total Payout Amounts in Asia (in billions of USD, as real 1990 prices, 1990-2009)

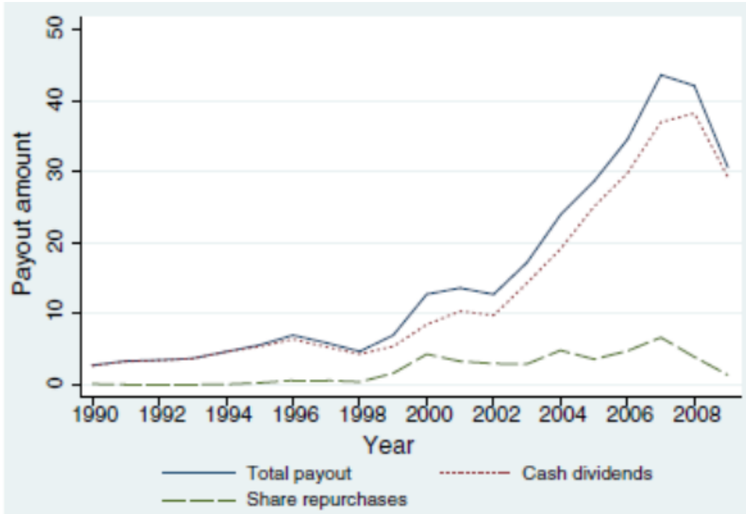

Table 1: Stock Repurchasing Corporations in Turkey-Before 01.09.2009

Year	Repurchasing Corporation	Company Possessing the Stocks to be Purchased
2003	Doğan Holding	Petrol Ofisi
2003	Doğan Yayın Holding	Hürriyet, Milliyet, Doğan Burda Rizzoli
2005	Akbank	Akbank
2005	Sabancı Holding	Sabancı Holding

Table 2: Dividend Payments of ISE Companies (1998-2008)

Years	A	B	C (B/A)	D	E	F (D/E)	G	H (D/G)
	Total Number of Companies	Number of Companies Paying for Dividends	Share of Companies Paying for Dividends (%)	Total Gross Payment for Dividends (1000TL)	Total Profits of Companies (1000TL)	Share of Payments for Dividends (%)	Total profits/ Losses (1000TL)	Share of Payments for Dividends (%)
2008	306	95	31	9.490.639	25.846.743	37	22.579.148	42
2007	309	119	39	10.338.950	35.817.335	29	35.195.535	29
2006	311	122	39	7.151.796	21.087.842	34	19.921.373	36
2005	307	117	38	5.205.183	15.088.675	34	11.218.737	46
2004	300	110	37	3.970.946	12.789.682	31	11.891.689	33
2003	294	63	21	1.941.984	10.704.967	18	9.936.695	20
2002	282	79	28	931.170	5.520.252	17	4.571.716	20
2001	276	75	27	664.470	2.053.602	32	-2.949.114	-23
2000	279	82	29	663.372	2.846.287	23	2.143.695	31
1999	300	101	34	609.956	2.635.826	23	1.753.412	35
1998	268	108	40	422.210	2.635.826	16	1.339.276	32

Table 3: Stock Repurchasing Businesses in Turkey (*)

Companies and Their Abbreviations on ISE	**Total Amount of Stock Repurchasing (paid in TL)**	**Share of the Stock Repurchasing Amount in Company's Total Paid-in Capital (%)**	**Period (**)**
MARTI GYO-MRGYO	1.891.438	1,72	17.08.2011-25.11.2011
MARTI OTEL-MARTI	2.537.167	2,91	17.08.2011-25.11.2011
KARKİM AŞ-KARKM	375.000	5	18.08.2011-05.09.2011
DAGİ GİYİM-DAGI	660.000	2,28	28.01.2013-03.06.2013
TORUNLAR GYO-TRGYO	273.295	0,12	21.11.2011-14.03.2011
AKFEN HOLDİNG-AKFEN	3.390.916	1,17	23.11.2012-04.06.2013
LOGO YAZILIM-LOGO	911.415	3,65	04.07.2012-04.06.2013
MCT DANIŞMANLIK-MCTAS	99.000	1,93	17.09.2012-05.06.2013
GLOBAL YATIRIM-GLYHO	17.025.516	7,57	30.05.2012-06.06.2013
İNDEKS BİLGS.-INDES	54.790	0,10	04.06.2013-06.06.2013
REYSAŞ LOJ.-RYSAS	1.500.000	1,36	12.11.2012-11.03.2013
UTOPYA TURİZM-UTPYA	1.000.000	4	09.04.2013-10.05.2013
ULAŞLAR TURİZM-ULAS	99.000	0,89	24.04.2013-25.04.2013
SİNPAŞ GYO-SNGYO (***)	3.300.000	0,66	14.07.2010-13.08.2010

(*) All the data is gathered from the web site of Public Disclosure Platform. (www.kap.gov.tr)

(**) The data have been collected up to 6th June 2013 by the author.

(***) SNGYO is the first stock repurchasing company of Turkey in 2010. (before10.08.2011)