The Secret Sauce (Part 2): Buybacks (and Cancellation) Driving Market Resilience

A Framework Suggestion for a Malaysia "Value Up" Programme

Authors

Imran Yassin Yusof
Head of Research
imran.yassin@midf.com.my

Strategy Report

KEY INVESTMENT HIGHLIGHTS

- Share buybacks and cancellations reduce outstanding shares, theoretically improve EPS and supporting valuations when executed strategically. Global evidence shows correlation of advanced markets like the U.S. and Japan and higher returns.
- Buybacks act countercyclically, cushioning valuations during downturns and enhancing market resilience
- Japan and Singapore have adopted policy-driven frameworks (e.g., Value Up Program) to normalize buybacks, while Malaysia remains dividend-centric with minimal buyback activity
- A proposed Malaysia "Value Up" programme advocates embedding buyback-and-cancel strategies into capital frameworks to elevate shareholder yield and break FBM KLCI's sideways trend
- Recommended framework includes: 1) Clear capital allocation hierarchy and valuation triggers, 2) Balance sheet guardrails and stress testing, 3) Structured program cadence with transparency, 4) Robust investor communication and governance alignment
- Simulation using Maybank shows buybacks can improve BVPS and share price, offering comparable shareholder rewards to dividends

INTRODUCTION

Part 2 of share buybacks and cancellation report.

In part 1 of our report, we analysed share buybacks, also known as stock, repurchases, (and cancellation). These shares are either held as treasury stock or cancelled, reducing the total number of shares outstanding. This reduction in share count can have several financial and strategic implications. A summary of part 1 of our report are as follows:

The benefits of buybacks are multifaceted.

They increase demand for shares, strengthen financial ratios, and bolster investor sentiment. However, they are not without risks. Poor timings such as repurchasing overvalued shares—can erode shareholder value, while debt-funded buybacks may heighten financial vulnerability. Additionally, funds allocated to buybacks could represent an opportunity cost, diverting resources from growth initiatives or research and development.

Globally, advanced markets lead in buyback intensity

Globally, advanced markets lead in buyback intensity and exhibit a positive correlation between buyback activity and market performance. For instance, the S&P 500 averaged 1.7% of market capitalization in annual buybacks between 2020 and 2024, delivering a robust 14.2% annual return alongside a 7.6% EPS compound annual growth rate and 16.9% ROE. Similarly, Japan's Nikkei index recorded 1.2% buybacks and 11.8% annual returns, supported by governance reforms and capital efficiency measures. These trends underscore the role of buybacks in reinforcing valuations and sustaining long-term performance.

Share buybacks can coexist with dividends.

Contrary to concerns that buybacks cannibalize dividends, evidence suggests both can coexist. Over the past five years, dividends per share rose significantly in markets like the U.S. and Japan, even as buybacks accelerated. This indicates that companies with strong earnings and balance sheets can simultaneously reward shareholders through multiple channels.

Timing plays a critical role in buyback efficacy.

Activity often peaks during market downturns, as seen in 2022, when disciplined repurchases cushioned valuations amid volatility. Such countercyclical behavior enhances index resilience and supports long-term per-share metrics.

Regional dynamics reveal contrasting approaches.

Japan has embraced buybacks aggressively, with record authorizations and widespread adoption among Nikkei constituents, driven by regulatory initiatives promoting capital efficiency. Singapore's Straits Times Index witnessed a breakout in 2024, fueled by bank-led buybacks and cancellations under the Value-Up Program aimed at improving transparency and governance. Conversely, Malaysia's FBM KLCI lags significantly, with negligible buyback activity and a continued preference for dividends. Where buybacks occur, they are largely reactive and tied to employee share schemes rather than strategic cancellations.

Policy reforms have amplified buyback adoption.

Industry patterns further highlight concentration in sectors such as financials, consumer goods, and communications, reflecting their cash-generating capacity and shareholder return priorities. Policy reforms in Japan and Singapore have amplified buyback adoption, signaling a broader shift toward governance-driven capital allocation strategies.

Conclusion of part 1.

In conclusion, disciplined and transparent buybacks complement dividends, enhance shareholder returns, and fortify market stability. While not a panacea, they represent a critical lever for capital efficiency in mature markets and an opportunity for emerging markets to strengthen resilience and attract long-term investment.

MALAYSIA "VALUE UP" PROGRAMME

A pivotal role.

Our analysis of share buybacks across various markets from 2020 to 2025 underscores its pivotal role in shaping market performance, investor sentiment, and corporate financial strategies. Evidence from advanced markets such as the US, Japan, and Europe demonstrates that share repurchase programs, when executed strategically, can significantly enhance shareholder value and support index resilience during periods of volatility.

Compelling argument for share buybacks and cancellation.

Share buybacks—when married to cancellation, discipline, and transparency—may be seen as quick fixes, but it is a mature capital allocation tool that coexists with dividends, improves per share economics, and supports indices over time. The comparative data across the US, Europe, Japan, and Singapore highlights this. We believe that for Malaysia, the opportunity is to elevate from a dividend only culture to one that also values total shareholder yield and per share compounding, by embedding credible buyback and cancel programs at the heart of blue-chip capital frameworks. With execution discipline and ecosystem support, the FBM KLCI can position itself for a more durable breakout when macro tailwinds align.

Regional insights and strategic implications.

Japan's and Singapore's Value Up Programme exemplifies how policy-driven initiatives can amplify the impact of buybacks. For Japan, its corporate reform programme, launched in 2023, has spurred record-breaking repurchases exceeding JPY10t in the first half of 2025, alongside significant corporate restructuring and de-listings. This underscores the potential for regulatory frameworks to influence corporate behaviour and market outcomes.

Share buyback as part of corporate reform programme.

The FBM KLCI's long sideways narrative reflects structural constraints and sentiment inertia. We opine that similar corporate reform programme in Malaysia may break this narrative, similar to what we observe in Japan and Singapore. We understand that the recent spate of share buybacks in Japan was driven by government's efforts of restructuring corporate Japan. The Tokyo Stock Exchange (TSE) and Japan's Financial Services Agency have pushed companies to improve capital efficiency and address low price-to-book (P/B) ratios especially for firms trading below 1.0x P/B. This comes on the heel of Japan's market restructuring (from 2022) and the Council of Experts' follow ups in 2023–2025 which created an expectations framework: emphasizes cost of capital awareness and disclose cost of capital thinking, act on excess cash/low PBR, and engage investors. TSE continually publishes materials (good/lagging case lists, surveys, "future initiatives") to keep pressure on improvement and deepen investor relations quality. Meanwhile, companies are unwinding cross-shareholdings (a legacy of Japan's keiretsu system) and using proceeds for buybacks, which boosts transparency and shareholder value.

Practical lever available.

Based on our research, cross-market evidence suggests a practical lever available to issuers (i.e. public listed companies) and stakeholders: systematic buyback-and-cancel programs that could complement Malaysia's dividend tradition. The data show that in markets where repurchases are normalised:

- ROE optics and EPS quality improve, anchoring valuation.
- Dividends keep rising alongside buybacks, contributing to total shareholder yield.
- Indices become more resilient in drawdowns as issuers step in opportunistically.

Malaysia "Value Up" which issuers can pursue.

We believe that suggestions for a corporate reform programme framework will require further study for an optimal outcome. However, we believe that public listed companies can pursue share buyback and cancellation to improve the sentiment inertia. We suggest the following framework on how issuers can pursue a share buyback and cancellation programme focusing on capital allocation, guardrails and communication:

1. Capital allocation hierarchy and triggers

- Issuers should define the capital allocation waterfall: Issuers must fund core organic growth and maintenance capex first; set hurdle rates for R&D and acquisitions; and only then deploy surplus to shareholder returns. (This preserves strategic option value while avoiding the "under-invest to over-distribute" trap.)
- Valuation triggers should be set: Pre-commit to repurchase below intrinsic value (e.g., blended DCF and multiples) or below specific multiples (e.g., PE < X, PB < Y), observed over a rolling window to curb market-timing noise.
- Cancellation default: Make cancellation the base case for bought-back shares, subject to clearly explained exceptions (e.g., offsetting employee equity dilution within caps). This structurally embeds per-share gains.

2. Balance sheet guardrails

- Ensure sufficient or robust capital buffers: For banks as example, calibrate share buybacks to CET1 and ICAAP comfort levels; for corporates, set net leverage and interest-coverage thresholds.
- Stress testing: Run downside scenarios (macro stress, rates, FX, revenue shocks) to confirm safety-first buyback envelopes.

- Liquidity and ratings: Engage early with lenders and rating agencies if relevant to ensure that repurchases do not jeopardize funding flexibility.

3. Program structure and cadence

- Authorisation size: Issuers should propose multi-year umbrellas (e.g., up to X% of shares) but execute in measured tranches keyed to valuation and liquidity conditions.
- Execution mechanics: Utilise on-market programmes with broker discretion windows and pre-determined price/volume bands to comply with safe-harbour rules.
- Blackouts & disclosures: Adhere to strict blackout windows around material non-public information; communicate quarterly on buyback progress, prices, and cancellations to build trust.

4. Investor communications

- Capital framework briefing: Publish a clear capital framework that explains the pecking order, valuation hurdles, cancellation policy, and how buybacks complement dividends.
- KPIs: Track and disclose per-share EPS, per-share free cash flows, ROE, DPS, total payout yield (dividends and buybacks / market cap), and leverage in order for investors to be able to see the compounding effect.
- Board oversight: Make explicit the Board's role in approving triggers, monitoring guardrails, and evaluating post-buyback performance.

5. Governance and incentives

- Align management incentives to per-share value (multi-year EPS/FCF per share growth, ROE, TSR) rather than just raw size or revenue.
- Clawbacks where buybacks were executed contrary to policy (e.g., materially above intrinsic value without justification), to reinforce discipline.
- Independent review after each cycle to assess timing, pricing, and outcomes.

Illustration of the theoretical effect.

To illustrate the theoretical effect of a share buyback and cancellation, we simulated a comparison between the total returns (share price returns and dividend yield) from company's dividends and from share buyback and cancellation. We chose Maybank (NEUTRAL, TP: RM9.92) as an example given that it gives consistent dividends with high yield, solid capital buffers and in a stable industry (i.e. one that does not require extensive capex spendings for growth). We use FY24's actual financial performance of Maybank for our comparison as we wanted to understand how it is affected by share buyback and cancellation rather than assuming its financial performance.

Parameters for simulation.

The parameters for our comparison are as follows:

1) Base case scenario as is FY24 performance, with dividend per share of 61sen (73% payout ratio). Share price is based on yesterday's closing price, and an implied PBV is calculated based on this.
2) Scenario 1: assuming mixture of dividends and share buyback and cancellation. Dividend payout ratio is assumed to be 50%. The difference in cash paid for dividends between base case scenario and scenario 1 is assumed to be used for share buyback and cancellation. The implied PBV is base scenario is assumed to be the valuation post share buyback and cancellation.

3) Scenario 2: assuming no dividends and, only share buyback and cancellation. The difference in cash paid for dividends between base case scenario and scenario 2 is assumed to be fully used for share buyback and cancellation. The implied PBV is base scenario is assumed to be the valuation post share buyback and cancellation.

Note, our comparison does not assume any valuation uplift that may be induced from positive sentiment following share buyback and cancellation, as have been observed in other markets. This is to ensure a ceteris paribus type of comparison.

The results of our simulation are as follows:

FY24 (actual)	Base case: Full cash dividend	Scenario 1: Share buyback & 50% div. payout		Scenario 2: Share buyback & 0% div. payout	
		SBB	Cancelation	SBB	Cancelation
Net profit (RM 'm)	10,089	10,089	10,089	10,089	10,089
Share capital (RM 'm)	54,736	54,736	54,736	54,736	54,736
Reserves (RM 'm)	39,234	41,543	39,234	46,588	39,234
Treasury held (contra) (RM 'm)	0	-2,309	0	-7,354	0
Shareholders fund (RM 'm)	93,970	93,970	93,970	93,970	93,970
EPS (RM)	0.84	0.84	0.85	0.84	0.89
BVPS (RM)	7.79	7.79	7.95	7.79	8.30
ROE	10.7%	10.7%	10.7%	10.7%	10.7%
Share base ('m)	12,055	12,055	11,824	12,055	11,318
Implied P/BV	1.28	1.28	1.28	1.28	1.28
Share price/theoretical share price (RM)	10.00	10.00	10.20	10.00	10.65
DPS (RM)	0.61		0.42		0.00
Dividend payout	73%		50%		0%
Dividend paid (RM'm)	7,354		5,045		0
Share buyback (RM 'm)			2,309		7,354
No. of shares bought ('m)			231		735
Returns					
Dividend yield	6.1%	4.2%	4.1%	0.0%	0.0%
Share price	0.0%	0.0%	2.0%	0.0%	6.5%
Total	6.1%	4.2%	6.1%	0.0%	6.5%

Source: Company, MBSBR

From our simulation, our findings are as follows:

Findings.

1) There is no improvement in ROE given that there is no change in shareholders fund in all scenarios. Note that the simulation is comparing full dividends and mixture of dividends and share buyback and cancellation. Should the comparison be on a scenario of no dividends vs. share buyback and cancellation, then there will be an uplift in ROE.

2) Simulation is to compare the difference between dividends and share buyback and cancellation. It shows that share buybacks and cancellation have almost the same impact dividends. We believe that this is evidence that share buybacks, and cancellation is a form of reward to shareholders.
3) The improvement in BVPS due to lower share base. As a result, share price improves without even any improvement in valuation. It is possible that share buyback and cancellation may enhance valuation from improvement in sentiment.
4) There is a slight improvement in total returns based on share price improvement if shareholders' reward is based on share buyback and cancellation alone. Nevertheless, we recognize the fact that some investors prefer dividends over share price improvement alone.

Conclusion.

Therefore, based on our simulation, we postulate that should the large caps companies of Bursa listed companies adopt a recurring share buyback-and-cancel programmes (probably sized at a modest 0.5–1.0% of market cap per year as comparable to what we observe for the STOXX lower bound and below S&P500 or Dow Jones levels – as per part 1 of our report), EPS per share could see incremental lift, supporting a re-rating over time. However, this should be based on companies which are; (1) profitable, (2) operating cash flow positive, (3) small capex burden or capex not tied to company's growth, (4) not borrowing for the programme, and (5) strong balance sheet.

However, we should note that the effect may be varied depending on many factors such as earnings cycles, global risk appetite, rates/FX, commodity prices, geopolitics, and policy. We believe that share buyback is not a "silver bullet", but the thesis here is directional: by broad-basing disciplined buyback-and-cancel across heavyweights, structural return drivers can be strengthened, improving the odds of a breakout when macro conditions are supportive.

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology