

Growing Presence of Share Buybacks - May Resolutions at Record Highs, Exceeding Five Trillion Yen

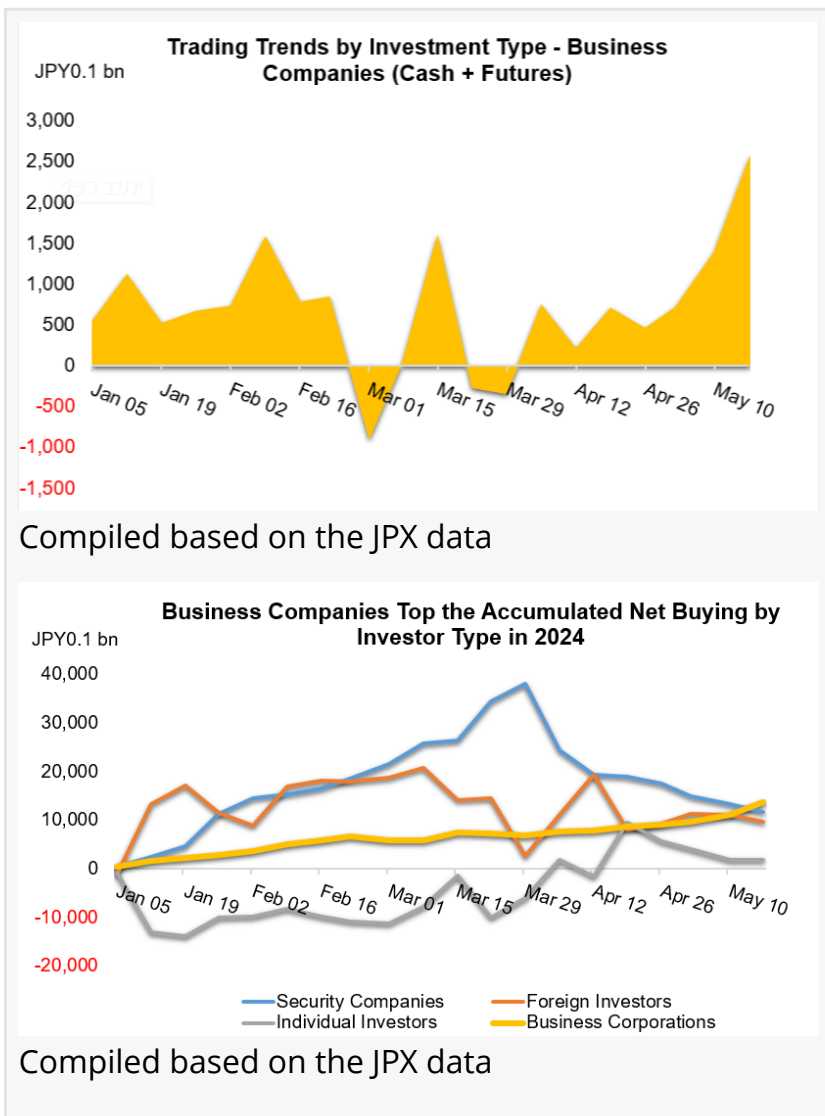
Corporate share buybacks are becoming increasingly prominent in the stock market.

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/EINPresswire.com/ -- [QUICK Market Eyes] Corporate share buybacks are becoming increasingly prominent in the stock market. Looking at cumulative net buying since the beginning of the year, including share buybacks, Japanese business companies were the biggest net purchasers among investor types. In May, companies resolved to repurchase over JPY 5 tn of their own shares, a record amount. The buybacks are a way of unwinding cross-shareholdings. The increase in share buybacks also helps tighten the supply and demand balance, while elimination of excess corporate capital may enhance the valuation of Japanese stocks as a whole.

□ Surprisingly Large Net Buying - Who Are the Main Players?

"Honestly, I was surprised at the scale of net buying," said a trader at a Japanese securities firm while looking at the trading trends by investor type for the third week of May (May 13-17) released by the Japan Exchange Group (JPX) on May 23. The trend was not driven by foreign investors, who account for a large market share of Japanese stocks, but by business companies repurchasing their own shares. Net buying by business companies during the week amounted to JPY256.7 bn in cash and futures. In 2023, there were only three weeks in which business



companies' weekly net buying exceeded JPY200 bn, making May 13-17 remarkable.

On May 8, Toyota Motor (7203) resolved to buy back up to JPY1 tn of its own shares, exceeding the previous May's limit of JPY150 bn. When asked about the share buyback and the selling of at the May 8 earnings conference, Masahiro Yamamoto, Chief

Officer of accounting group at Toyota Motor, explained, "Many companies are promoting the conversion of their shares into liquid assets." Without referring to specific stocks, he added, "We can make use of our treasury stocks, as the impact on the market from selling is significant." Mr. Yamamoto suggested the company would use share buybacks as a means for unwinding cross-shareholdings.

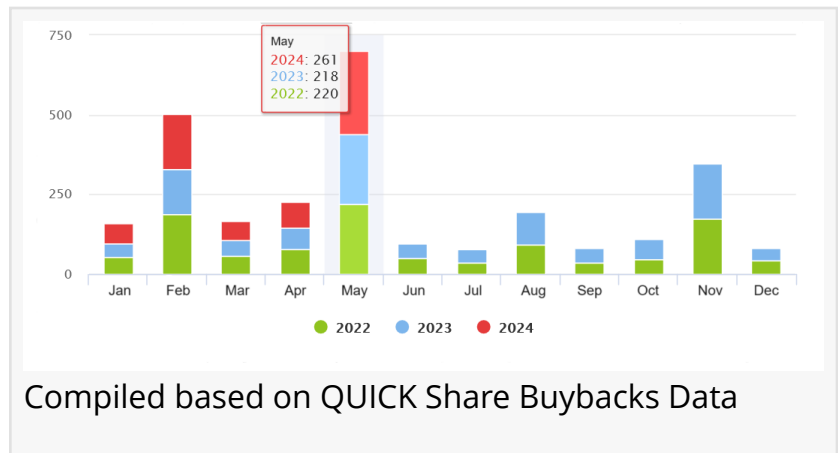
□ "Japanese Stock ROE to Rise from 9% to 10%"

Seiichi Suzuki, chief equity market analyst at Tokai Tokyo Intelligence Laboratory, pointed out, "Since major non-life insurers have recently unveiled their policy of aggressively unwinding cross-shareholdings, institutional investors tend to be wary of a supply and demand imbalance." On the other hand, he noted, "The market has not yet factored in the expectation that selling stocks to unwind cross-shareholdings will end soon, as companies are increasingly setting up share buybacks as a means of unwinding their cross-shareholdings."

Unwinding of cross-shareholdings and increased share buybacks could make Japanese stocks more attractive overall. In a report issued on May 22, Nozomi Moriya, strategist at UBS Securities, noted, "Many Japanese companies have a low return on equity (ROE) due to excess capital accumulated during the deflationary period. The report estimated that "the ROE of Japanese stocks will rise from 9% to 10% as a result of the elimination of excess capital," based on a straightforward assumption that cross-shareholdings, which account for 12% of Japanese stocks, will be eliminated through mutual share buybacks and sell-backs.

Ms. Moriya predicts that changes in Japanese companies' management attitudes toward enhancing corporate value could increase Japan's ROE to about 12%. The share buybacks, set at record highs on a monthly basis, have yet to be implemented. It will be necessary to keep a close eye on progress, including the supply and demand balance and positive factors resulting from share buybacks, such as the elimination of excess corporate capital.

(Reported on May 29)



Share Buybacks Data on QUICK Data Factory

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