Treasury Stock

Qualification checklist

- The company has positive retained earnings:
  Share repurchasing can be conducted by less than the amount of total retained earnings. Part of the firm’s retained earnings should be allocated as a reserve equivalent to the amount paid for share repurchasing. The reserve should be maintained until all repurchased shares are resold, or the company reduces capital by reducing shares unsold, as the case may be.

- The company has excess liquidity, so that over the next six months, the company is able to repurchase shares without any impact on its debt servicing ability.

- The company’s free float shares are equal to or higher than SET requirements: (That is, the free float shares are not less than 15 percent of paid-up capital and 150 retail shareholders.)

Treasury stock is…

Shares repurchased by listed companies for financial management purposes if, at the time of purchase:
- The firm’s share price is below its fundamental value (P/BV < 1 time and/or P/E ratio < industry average)
- The company’s retained earnings and financial liquidity are high, and the company has no need for fund raising.

Share repurchase/resale methods

There are two methods available, as follows:
1. Repurchase/Resale via the main board
2. Repurchase/Resale via a general offer (GO)

The company is able to resell its shares six months after repurchasing them. The resale procedure shall be conducted within three years.

After three years, if there are still shares unsold:
- Unsold shares must be reduced using capital reduction procedures and:
- The company must proceed with its capital reduction with the Ministry of Commerce.

Relevant notifications

www.set.or.th

>> Regulation
  >> Regulation by subject
  >> Treasury Stock

TIPS

- Capital gains from treasury stock programs are not subject to tax. Capital gains from reselling repurchased shares at a price higher/lower than repurchasing cost will be booked as changes to shareholders’ equity, not as profit (loss) from share sales in the income statement.
  - If the share resale price is higher than the cost, the profit shall be booked as a surplus in shareholders’ equity, under “premium on treasury shares”.
  - If the share resale price is lower than the cost, the loss shall be deducted from premium on treasury shares (if any) first. The remaining amount shall be settled against retained earnings.

“Treasury stock is…

The company has positive retained earnings:
Mr. Adirek Sripratak
President and Chief Executive Office
Charoen Pokphand Foods Pcl., (CPF)

The company has benefited from using treasury stock twice. The first time helped inflate KCE’s stock price from lower-than-fundamental price / actual performance.

The second time, after the firm issued 10 million ESOP shares to employees, the company launched a treasury stock program equivalent to the issued ESOP in order to eliminate the dilution effect from the ESOP shares to benefit shareholders. The company aims to gradually repurchase shares using cash from the ESOP. The repurchased shares are not eligible for dividends, so there will be no impact on shareholders.

Ms. Tanyarat Tessalee
Accounting Director,
KCE Electronics Pcl., (KCE)

Finansia Syrus Securities Pcl., (FSS)

62 The Stock Exchange of Thailand Building, Ratchadapisek road, Klongtoey, Bangkok 10110

Listed Company Development Department, The Stock Exchange of Thailand
Benefits of treasury stock

**Company**
- Adds demand for the company’s shares, which could boost the company share price
- Reduces the number of free float shares, consequently increasing earnings per share
- Can be a financial instrument in giving returns to shareholders
- Generates capital gain for the company. If the company’s management is confident of future performance and believes that the company’s share price is significantly lower than its fundamental value, share resale in a proper time will generate profitable returns.

**Shareholders**
- Boosts earnings per share. After the listed company repurchases shares, its number of free float shares will decline. The repurchased shares will not be counted in earnings per share calculation. The higher earnings per share may accordingly boost share prices, which may create the opportunity for shareholders to profit from stock trading without paying taxes.
- Boosts dividends per share because repurchased shares are not included in dividend per share calculation.

Issues for consideration and practices in treasury stock

- Repurchasing/resale limitations if repurchasing shares from the main board include:
  - Repurchasing treasury stock cannot be done when the company is disclosing information that is sensitive to price movement or may impact its share price or shareholder benefits, e.g., before disclosure of financial statements, before announcing a capital increase, before paying dividends, being taken over or when there are facts showing that the company is going to be taken over.
  - Repurchasing treasury stock cannot be conducted with connected persons.

- Treasury stock cannot be conducted on the big lot board or using the put-through method.

- The company has to ensure that it does not need a capital increase while it is conducting the treasury stock project, as regulations do not allow a capital increase during that time; the firm must resell all repurchased shares before a new capital increase.

**TIPS**
- Repurchasing treasury stock can reduce conflict between shareholders and the company. If some shareholders are against the firm’s policy on voting rights or dividends, the company is able to repurchase shares from these shareholders in order to allow the firm to conduct smoother business operations.
- If there are several treasury stock programs, shares of all programs shall be combined in carrying out calculations.