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MARKETS

Share Buybacks Surge in China

Regulators made share repurchases easier as they battled a market selloff last year

An investor monitors stock prices at a brokerage house in Beijing. **PHOTO:** MARK SCHIEFELBEIN/ASSOCIATED PRESS

By Shen Hong

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SHANGHAI—Chinese companies are buying back record amounts of stock, a move authorities have encouraged as they seek to protect a fragile market recovery.

Buybacks were previously only allowed in a few limited cases, for example to offset the dilution caused by employee stock options. But as they battled a market selloff last year, regulators made share repurchases easier by permitting them for a broader range of purposes, such as defending corporate value or protecting shareholders' interests.

Companies listed in Shanghai and Shenzhen have bought back 93.6 billion yuan ($13.6 billion) of shares this year, Wind data shows. That is nearly twice the 51 billion yuan spent in all of last year, and the most since the data provider started collecting these statistics in 2011.

The biggest buyers include some of China's best-known companies, such as dairy giant Inner Mongolia Yili Industrial Group Co. which tops the league table with 4.1 billion yuan of buybacks. Financial conglomerate Ping An Insurance (Group) Co. so far has spent 3.4 billion yuan on stock repurchases this year.

That total is still small set against a market with a total value of roughly $7.8 trillion, according to Refinitiv data. And it is dwarfed by U.S. outlays: S&P 500 companies spent $206 billion on buybacks just in the first quarter, S&P Dow Jones Indices data shows.

By encouraging such actions, authorities are still trying to put a floor under a sagging market, said Landing Zhang, chief executive of Shanghai asset-management firm CYAMLAN Investment.

The benchmark Shanghai Composite Index dropped steeply in 2018, rallied in the first four months of this year, and then retreated again on renewed uncertainties about trade and economic growth. It remains about 18% below its closing peak from early last year.

Some companies also repurchased shares to boost confidence in what they perceived as undervalued stocks, said Wu Zhaoyin, chief strategist at AVIC Trust Co., a financial firm. "These companies tend to have stronger financial performance and some of them consider buying back their own shares may generate better returns than building a new plant," said Mr. Wu.

Meanwhile, some smaller firms are also active buyers because falling stock prices puts pressure on major shareholders who have pledged shares as collateral for loans, analysts say. About 9.3% of shares traded on the country's two onshore exchanges are used in this way.

As shares fall, lenders can ask for more collateral. But if investors can't cough up the cash needed to resolve these margin calls, that can trigger forced selling of shares to settle the loan. That further depresses stock prices and prompts fresh demands for collateral. Buybacks can help support share prices, thus avoiding a vicious circle.

Another trend also demonstrates the fragile confidence in this market. Large shareholders —or those with at least 5% ownership stakes—at a record 1,290 listed companies have cut their holdings this year. Some sales could be the result of margin calls.

In most cases, substantial shareholders are selling down at smaller companies that aren't backed by the state, said Mr. Zhang from CYAMLAN Investment. He said this showed growing pessimism among entrepreneurs about China's economy and their own business outlook.

"During turbulent times like this, bigger companies are getting the upper hand while smaller ones are finding it more difficult. We are seeing a divergence," Mr. Zhang said.

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