



These 3 Companies Are Buying Up Their Own Shares — Should You Be Buying Too?

Description

Companies that have executed substantial share buyback programs have managed to perform considerably better than their peers in the U.S. market over the past five years.

The **Nasdaq BuyBack Achievers Index** (Index: ^DRB) tracks the performance of U.S. companies that have reduced their outstanding issued shares by at least 5% over the previous 12 months. This index has outperformed the broader market by more than 6% per year over the past 10 years and by 5% every year for the past five years.

Warren Buffett is a strong supporter of companies that utilise excess company capital to buy its own stock. He explained in his 2011 letter to **Berkshire Hathaway** shareholders that buying up a company's own undervalued stock is a sure way to make money for shareholders.

Share buybacks provide an alternative and more flexible method for companies to return excess, low-yielding capital to shareholders. Due to changing market conditions or business environments, companies do not always fully execute their announced share buyback programs; however, reductions in dividend payments are normally poorly received by investors.

Depending on the tax rate on dividends and capital gains, it may also be more tax efficient for shareholders to receive a return of capital in the form of a capital payment rather than a dividend.

The Canadian share buyback stars

The **PowerShares Buyback Achievers ETF** ([NASDAQ: PKW](#)), which tracks U.S. buyback companies, has been very successful both in term of outperforming the wider U.S. equity market and gathering a considerable asset base (now \$2.6 billion).

PowerShares recently launched an international version (ticker NASDAQ:IPKW), tracking non-U.S. companies with considerable share reductions over the previous 12 months. Three Canadian companies are included in the ETF.

The Canadian company with the highest weight in the ETF is **Agrium** (TSX: AGU)(NYSE:AGU). Agrium is the largest agricultural retailer in the U.S., selling fertilizers, crop chemicals, and seed directly to farm customers. The company's wholesale business produces and markets the three main crop nutrients — nitrogen, potash, and phosphate — with natural resources located mainly in Canada and the U.S.

The company reduced its outstanding share count by almost 9% over the course of 2012-3, providing good support for earnings per share in a declining profit environment. The company paid an average of U.S. \$102.60 per share compared to a current price of U.S. \$93.59.

The second Canadian listed company included in this ETF is **Celestica** ([TSX: CLS](#))([NYSE:CLS](#)), a provider of supply chain solutions to customers in the communications; consumer; diversified; and enterprise computing end markets. The company struggled since it lost **BlackBerry** ([TSX:BB](#))([NASDAQ:BBRY](#)) as a customer, but it reduced the share count by 16% since 2012 at an average share price of \$8.35 per share compared to a current price of \$11.23.

The third Canadian company included in the ETF is **AGF Management** ([TSX: AGF.B](#)). This investment management company has struggled over the last few years as assets under management dwindled, putting pressure on company profitability. However, the share count was reduced by almost 10% over the past 24 months providing some support for the declining profit per share. Although the share price has declined over the past two years, management has done well to pay on average \$11.50 per share compared to the current price of \$12.16 per share.

Foolish bottom line

Companies may buy back their own shares for a variety of reasons; in a best case scenario, the company management buys the shares when they believe the stock is undervalued by the market, using company cash resources that cannot be better utilised elsewhere. The U.S. experience and evidence should also hold true for Canadian companies.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CLS (Celestica Inc.)
2. TSX:AGF.B (AGF Management Limited)
3. TSX:CLS (Celestica Inc.)

Category

1. Investing

Date

2025/07/02

Date Created

2014/03/25

Author

deonvernooy

default watermark

default watermark