

Buybacks start small on the stock market

LUIGI DELL'OLIO

During the lockdown, big names like Eni, Maire Tecnimont and Saras pressed pause on stock buybacks. But for many companies, the low prices proved to be an opportunity. Including the AIM

Greater flexibility compared to dividends, which may prove to be decisive in a phase where the markets are improvising. Stock prices at Piazza Affari – unlike other stock markets – remain below pre-COVID levels. Additionally, there is the need to create stockpiles to honour commitments made with managers on the stock option front. In recent weeks, these three reasons have been driving an acceleration of buybacks, when a listed company repurchases its own shares.

The last transaction took place a few days ago, with Servizi Italia announcing it had purchased a new package of its own shares, bringing the total to 4.54% of capital. The purchases serve to create a warehouse of stocks to be used as payment in extraordinary transactions or for the exchange of investments. "With market tensions dying down, it is likely that we will see a recovery in mergers and acquisitions, and holding treasury shares promotes paper for paper purchases", notes Angelo Meda, Head of Equities at Banor SIM. Moving in this direction is Tamburi Investment Partners (TIP), which last week concluded a buyback worth € 29.5 million (for 2.9% of the share capital, bringing the total held to 8.32%) and announced that it would acquire up to a maximum of 20 million shares in 13 months.

"Investment holdings like TIPs find buybacks convenient, also because nearly all are listed at a discount compared to the NAV (*Ed. method used by investment companies to value the equity return of their portfolios*)", adds Meda. According to Giovanni Cuniberti, Head of Fee-only Consultancy at Gamma Capital Markets, since the start of the year, 14 companies at Piazza Affari have gone in this direction. Given that there are no official statistics, the expert notes that this is a consistent number, considering the current environment. The biggest firms include Generali, Snam, Avio, Azimut, Brembo, Interpump and Terna. "They are joined by various AIM [alternative investment market] companies, which were hit by generalised sell offs in the spring, pushing business owners to buy back a portion of discounted stocks", adds Cuniberti. The main advantage of a buyback is that it reduces the number of shares in circulation, supporting the earnings per share. "Beyond the FTSE MIB, the Milan stock market has dozens of companies whose business has continued to perform even in recent months", adds the expert. He uses Salcef as an example, listed on the AIM and active "in a promising segment like railway infrastructure", it too in the midst of repurchasing its own shares.

"We are unlikely to reach Wall Street levels, where buybacks benefit from a more favourable tax treatment compared to dividends, but even in Milan, more and more companies are considering the possibility to opt for it over dividend distribution", says Meda. "We are currently in limbo and must wait for the quarterly results to understand the impact of the crisis on financial statements. If they have

sufficient resources, many listed companies could launch buybacks, considering that they offer greater flexibility compared to dividends when it comes to compensating shareholders". Once approved, dividends are distributed, whereas with buybacks, the maximum purchase threshold is fixed, without prejudice to the possibility to pause the transaction at any moment, in the event of changes to the economic situation. A decision that, following the outbreak of the pandemic, was made by Eni (until oil returns to \$60 per barrel), Saras and Maire Tecnimont.

"The European Market Abuse Regulation sets out three possible aims of buybacks: to serve stock option plans, to cancel shares purchased with the buyback or to convert convertible bond loans, whereas Italian law places an additional limitation on the issuer, which must have sufficient reserves, meaning a buyback cannot take place by recourse to debt, unlike in the United States", explains Bruno Mestice, Head of the Brokerage Trading Area at Banca Akros.

Among the companies set to buy back their own shares to support prices is Unicredit, as announced by CEO Jean Pierre Mustier. But it must wait a few more weeks: "The ECB has recommended that, throughout 2020, the banks cannot have recourse to this, given the difficulties of the macro framework", reminds Mestice. Much will depend, he reminds us, on changes to the accounts. In the event of improvement, removal of the ban on a sector with significant weight in the FTSE MIB cannot be ruled out.

©ALL RIGHTS RESERVED