



BLOG

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Hang Seng Index: Beneficiary from Share Buyback Theme

In 2022, the market was down 18% YoY, whereas the buyback value increased to HKD 104.9bn up 175%YoY. In general, when the corporates believe their listed shares are undervalued, they would perform share buyback to support the share price and improve their financials. Notably, this trend of buyback has extended into 2023. Since Jan 2023 (as of 15 Sep), the buyback value reached HKD 73.5bn, representing 70% of the prior full-year total. Among the flagship indexes, the Hang Seng Index covers 87% (i.e. HKD63.6bn) of the YTD2023 share buyback value in Hong Kong. For investors seeking a leading benchmark to gauge the Hong Kong blue-chips, and exposure to share buyback theme, the Hang Seng Index ('HSI') should be an excellent choice.

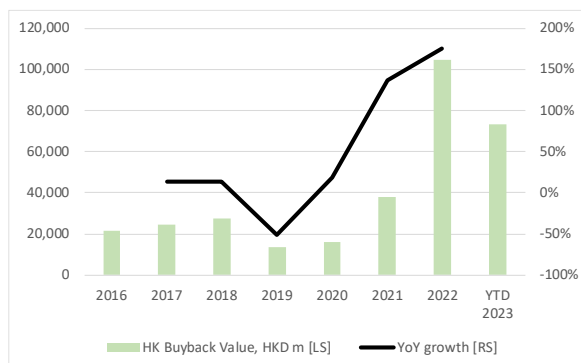
Share buyback value at high level in 2022 & YTD2023; in line with undervalued market

In 2022, the Hong Kong market (represented by Hang Seng Composite Index ('HSCI')) was down 18% YoY, whereas the corporate buyback value increased to HKD104.9bn, up 175%YoY (Exhibit 1), which is 4.4x higher than the prior 5-year annual average of HKD23.9bn. The underlying motives for the corporate buyback are sector and company-specific, which may be related to their capital structure, finance cost, excess cash level, etc. In general, when the corporates believe their listed shares are currently undervalued and expect a meaningful re-rating in future, they would perform share buyback to support the share price, improve their financials, and enhance shareholders' return.

Notably, this historically high-level buyback trend has extended into 2023. Since Jan 2023 (as of 15 Sep), the buyback value reached HKD 73.5bn, representing 70% of the prior full-year total. Using a simple extrapolation, the 2023e annual buyback value might reach HKD 92.9bn, which is 3.9x higher than the prior 5-year annual average. This extraordinary high-level of buyback value might reflect that the corporates believe their listed shares in Hong Kong are undervalued in 2022 and YTD2023, leading to their "buy on dip" during the period.

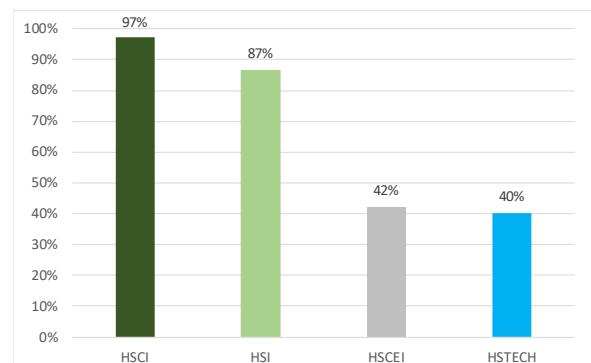
We aggregate the index constituents' buyback value since 2020, and compare with that of the Main Board, to estimate the coverage ratio. Among the flagship indexes, the Hang Seng Index covers 87% (i.e. HKD63.6bn) of the YTD2023 share buyback value in Hong Kong. For investors seeking a leading benchmark to gauge the Hong Kong blue-chips, and exposure to share buyback theme, the HSI should be an excellent choice.

Exhibit 1: Hong Kong Mainboard Annual Buyback Values and YoY growths



Source: WIND; Data as of 15 Sep 2023

Exhibit 2: Index Coverage of Buyback Value (as % total) in YTD2023



Source: WIND; Data as of 15 Sep 2023

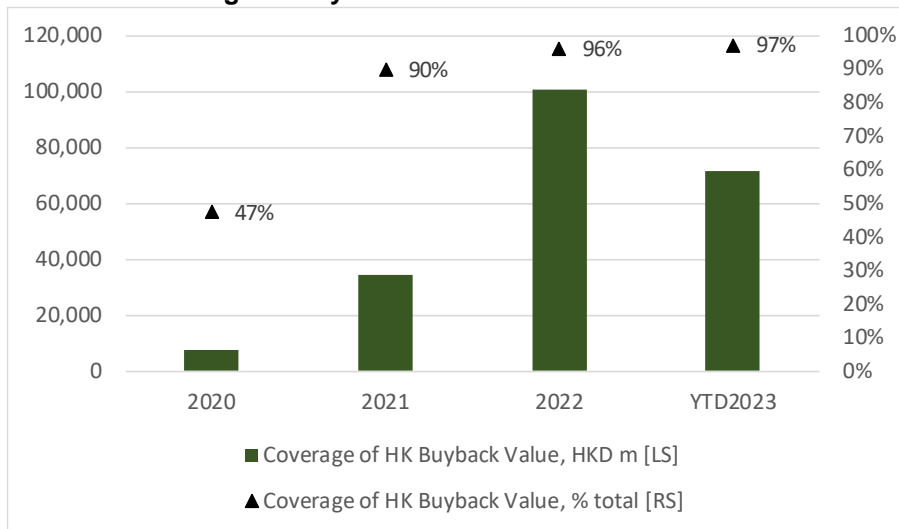


Broad Market: High Buyback Value and Undervaluation

As the HSCI covers 95% of the market cap in Hong Kong market, its constituents would cover a substantial percentage of the aggregate buyback value by the stocks listed on the Hong Kong Main Board. The HSCI (with 517 constituents) covers 96%/97% of the buyback value in 2022/YTD2023 (Exhibit 3).

The broad equity market performance (represented by the HSCI) was down 18.0% in 2022, and further down 7.6% in YTD2023 (Exhibit 4). Its forward P/E is trading at only 9.8x (Exhibit 5), below 1 Standard Deviation ('SD') of 5-year average. The market undervaluation has been one of the consideration factors for corporate buyback.

Exhibit 3: Coverage of Buyback Value and % of total - HSCI



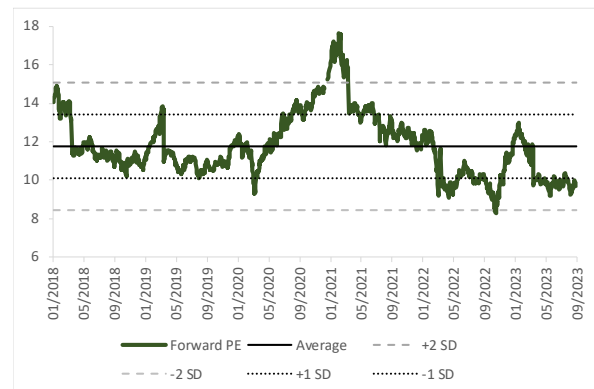
Sources: WIND, Hang Seng Indexes Company; Data as of 15 Sep 2023

Exhibit 4: HSCI Performance



Source: Hang Seng Indexes Company; Data as of 15 Sep 2023

Exhibit 5: HSCI forward P/E



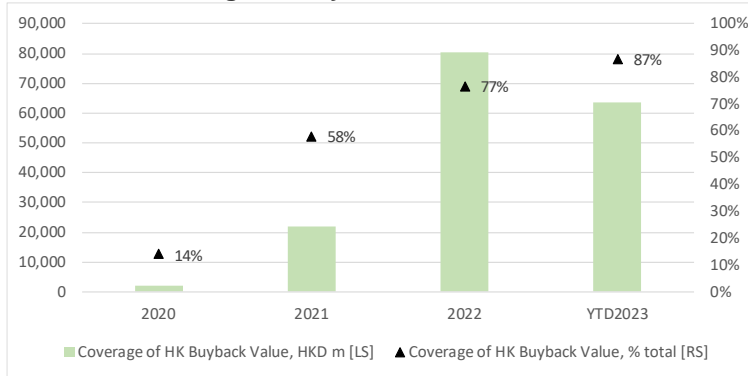
Source: Bloomberg; Data as of 15 Sep 2023



Flagship Indexes: The HSI has the highest buyback value coverage at 87%

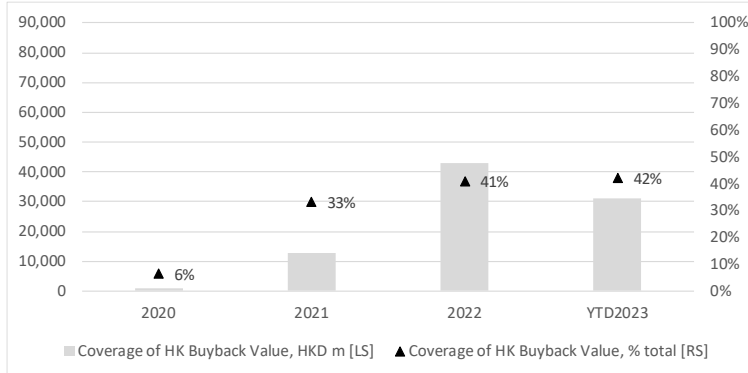
Applying the similar estimation on flagship indexes, the buyback value coverage of the HSI was 87% (HKD63.6bn) in YTD2023 (Exhibit 5), that of the HSCEI was 42% (HKD31.0bn) and that of the HSTECH was 40% (HKD29.5bn). As such, the HSI has the highest exposure to the share buyback investment theme.

Exhibit 6: Coverage of Buyback Value and % of total - HSI



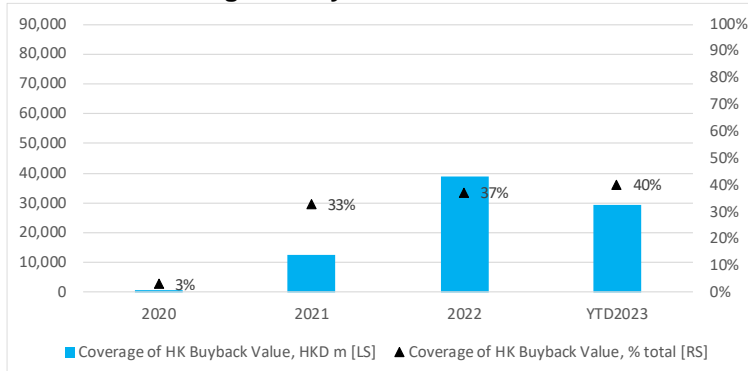
Remarks: Using the same set of constituents (as of 15 Sep) for prior years
Sources: WIND, Hang Seng Indexes Company; Data as of 15 Sep 2023

Exhibit 7: Coverage of Buyback Value and % of total - HSCEI



Remarks: Using the same set of constituents (as of 15 Sep) for prior years
Sources: WIND, Hang Seng Indexes Company; Data as of 15 Sep 2023

Exhibit 8: Coverage of Buyback Value and % of total – HSTECH



Remarks: Using the same set of constituents (as of 15 Sep) for prior years
Sources: WIND, Hang Seng Indexes Company; Data as of 15 Sep 2023



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