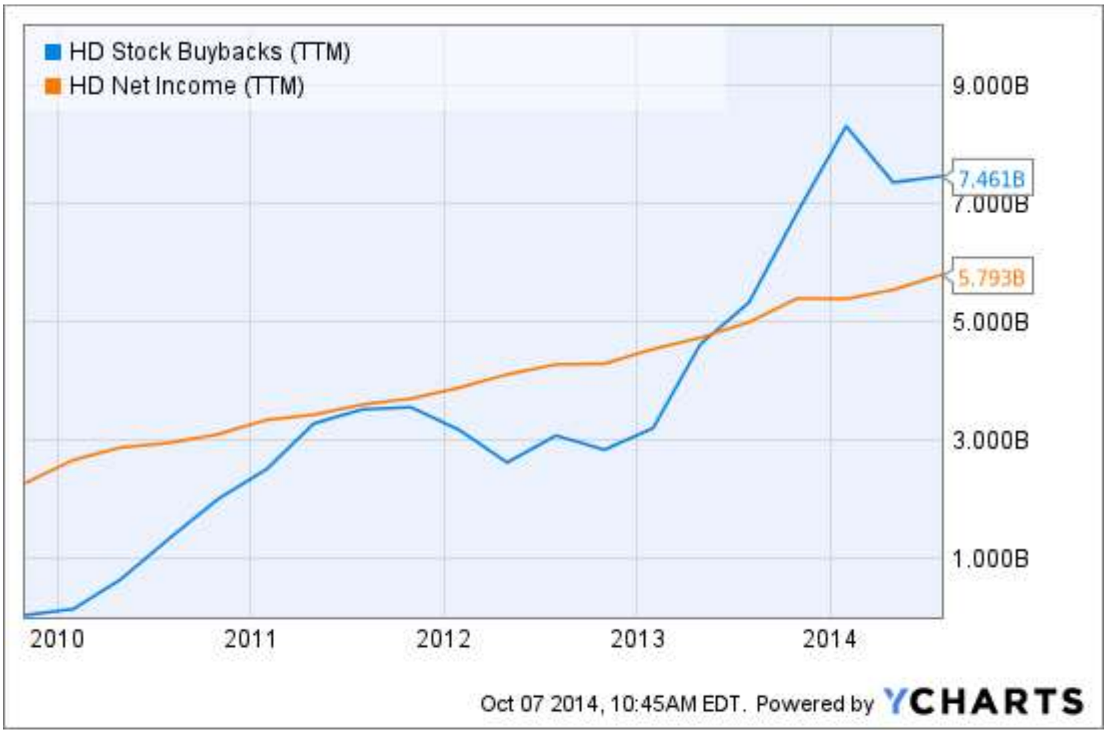
Screening For Aggressive Buyback Companies

News that S&P 500 companies in 2014 are expected to distribute to shareholders – combined through stock buybacks and through dividends – nearly as much as the profits they'll bring in should raise investor alertness about possible over-emphasis on buybacks, a problem that occurred heading into the mid-2000s market plunge and recession.

Bloomberg reported this week that S&P 500 companies are expected to distribute $914 billion this year in combined buybacks and dividends, or roughly 95% of profits. Getting short shrift, in the view of some economists and investors, are capital expenditures, and that raises questions about future growth prospects of major American companies and for the economy overall.

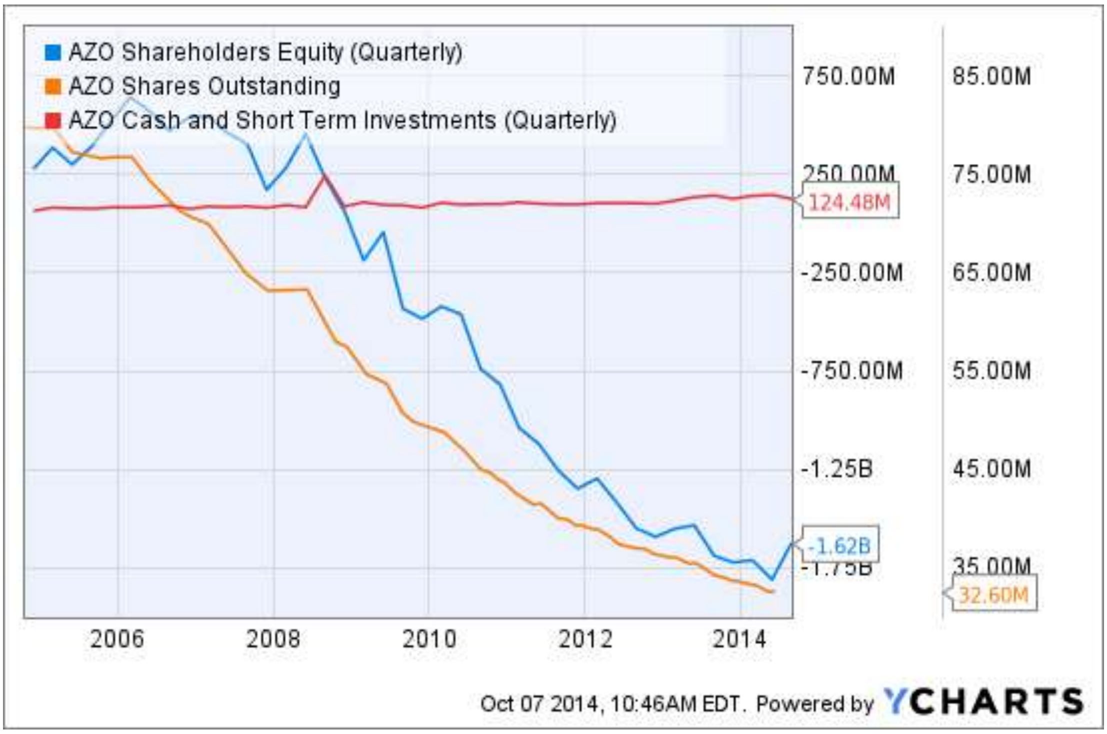


HD Stock Buybacks (TTM) data by YCharts

Using the YCharts Stock Screener, it's easy to separate out S&P 500 companies that, over the past 12 months, have paid out more in buybacks that they've reported in profit. According to the screener, 103 stocks in the index fit that description. The list includes known buyback champs such as International Business Machines (IBM), Home Depot (HD) and AutoZone (AZO).

As we've reported, IBM front-loaded 2014 buybacks, which has the effect of goosing EPS at a company struggling to grow. YCharts' research chief Erik Kobayashi-Solomon nonetheless found substantial upside in IBM shares, in a recent report. We named Autozone the stock market's new buyback champs this past spring, replacing perennial leader DirecTV (the broadcast concern was headed into the arms of AT&T *(T)). And YCharts questioned whether Home Depot, a long-time aggressive buyer of its own shares, wasn't at times inclined to overpay.

Other companies popping up on the buybacks-greater-than-profit screen: Abbott (ABT), Adobe (ADBE), Boeing (BA), Bed Bath & Beyond (BBBY), General Dynamics (GD), General Mills (GIS) and Corning (GLW). To the screen linked above, we also added columns for capital expenditures, so you can see if the company is investing in its business; for dividends paid (expressed as a negative number because the data comes from the cash flow statement); and for the debt-to-equity ratio, to try to flag a buyback champ that has become highly leveraged.



AZO Shareholders Equity (Quarterly) data by YCharts

AutoZone, for instance, shows the increasing view among finance officials that shareholders equity is an outmoded, quaint concept. It has bought back stock so aggressively in recent years that its equity is a huge negative number. It keeps a decent stockpile of cash around, but this is a capital model that presumes everything's going to work out just fine. Perhaps it will.

AZO data by YCharts

AutoZone has smoked the broader market in recent years using this strategy. The screener was set at trailing 12 months, so quite a few of these companies will have engaged in uncharacteristically aggressive buybacks of late, and one shouldn't extrapolate out that they'll keep up such a pace. But given the pricy nature of today;s stock market, should we suffer a substantial correction, many of these repurchases will look costly in hindsight.

GE data by YCharts

Almost a decade ago, in the extreme we had banking and other financial concerns – companies expected by regulators to maintain healthy capital bases – buying in costly shares, only to be bailed out by the government when a liquidity crisis hit. The bailout proved highly dilutive for some. And a half-financial company, General Electric (GE), was in the same position.

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