DETERMINANT OF DIVIDEND PAYOUT RATIO: EVIDENCE FROM PUBLIC LISTED COMPANY IN MALAYSIA

MUHAMMAD TAUFIQ BIN HARUN

MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA
JANUARY 2016

DETERMINANT OF DIVIDEND PAYOUT RATIO: EVIDENCE FROM PUBLIC LISTED COMPANIES IN MALAYSIA

By

MUHAMMAD TAUFIQ BIN HARUN

Thesis Submitted to
School of Economics, Finance, and Banking,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences (Finance)

PERMISSION TO USE

In presenting this dissertation/project paper in partial fulfilment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in their absence, by the Dean of School of Economics, Finance, and Banking where I did my dissertation. It is understood that any copying or publication or use of this dissertation parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation.

Request for permission to copy or to make other use of materials in this dissertation in whole or in part should be addressed to:

Dean of School of Economics, Finance, and Banking
Universiti Utara Malaysia
06010 UUM Sintok
Kedah DarulAman

ABSTRACT

This dissertation examines the determinants of dividend payout ratio of 139 public listed companies in Malaysia over the period 2001 to 2014. Data are collected from DataStream database and analysed using Ordinary Least Squares (OLS). Dividend payout ratio is measured by dividend value divided by total asset, while the determinant variables are size, profitability, cash flow, sales growth, leverage ratio and historical growth.

The findings demonstrate that size, profitability, leverage ratio and historical growth influence the dividend payout ratio of Malaysian public listed companies in the period studied. Size negatively influence dividend payout ratio, profitability positively influence dividend payout ratio, leverage ratio has a positive relationship with the dividend payout ratio and lastly historical growth negatively determine dividend payout ratio. This implies that in Malaysia, bigger size companies pays less dividend, more profitable companies pay more dividend, higher leverage companies pay more dividend and finally, lower growth companies pay higher dividend.

Keywords: Dividend Payout Ratio, Malaysia

ABSTRAK

Disertasi ini mengkaji penentu nisbah pembayaran dividen bagi 139 syarikat tersenarai awam di Malaysia sejak 2001 hingga 2014. Data yang dikumpul diperolehi daripada pangkatan data "DataStream" dan dianalisis menggunakan "Ordinary Least Squares". Nisbah pembayaran dividen yang diukur adalah berdasarkan nilai dividen dibahagikan dengan jumlah aset. Manakala pembolehubah bebas adalah saiz, keuntungan, aliran tunai, pertumbuhan jualan, nisbah hutang dan sejarah pertumbuhan.

Hasil kajian menunjukkan bahawa saiz, keuntungan, nisbah hutang dan sejarah pertumbuhan mempengaruhi nisbah pembayaran dividen bagi syarikat tersenarai awam di Malaysia dalam tempoh tersebut. Saiz mempengaruhi nisbah pembayaran dividen secara negatif, keuntungan mempengaruhi nisbah pembayaran dividen secara positif, nisbah hutang mempunyai hubungan yang positif dengan nisbah pembayaran dividen dan akhir sekali, sejarah pertumbuhan mempunyai hubungan yang negatif dengan nisbah pembayaran dividen. Hal ini menunjukkan bahawa syarikat-syarikat yang lebih besar membayar sedikit dividen, syarikat-syarikat yang lebih menguntungkan membayar dividen lebih banyak, syarikat-syarikat yang memiliki hutang yang lebih banyak membayar lebih banyak dividen dan akhir sekali syarikat-syarikat yang bertumbuh dengan kadar yang lebih rendah membayar dividen yang lebih tinggi.

Kata kunci: Nisbah Pembayaran Dividen, Malaysia

ACKNOWLEDGEMENT

Alhamdulillah. I would like to express my deepest gratitude to Allah for the strength, peace of mind, good health and ability granted, in order to complete this dissertation. All the efforts and hard work was paid off when I can make this dissertation finally ready.

Foremost, I would like to express my appreciation to my charismatic and committed supervisor Dr. Azira binti Abd Adzis for all the guidance and patience that she had shown in making my dissertation the very best that it could be.

I also want to express my gratefulness to my family who gives full support and prayers for my success in this academic area and believes me to accomplish their wish and hopes. Not to forget, my wife Izyan Farhana binti Sharif and my entire friend who gives full moral support to complete this dissertation as well.

Last but not least, thanks to UUM for giving a chance and trust to me to perform my best in this academics area.

Thank you very much.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

DPAYOUT	Dividend payout ratio
SZ	Size
PROFT	Profitability
CFLOW	Cash flow
SGRWOTH	Sales growth
DERATIO	Debt to equity ratio
HGROWTH	Historical growth

CHAPTER ONE: INTRODUCTION

1.1. Background of study

The term of dividend usually refers to a cash distribution of earnings. If a distribution is made from sources other than current or accumulated retained earnings, the term distribution rather than dividend is used. However, it is acceptable to refer to a distribution from earnings as a dividend and a distribution from capital as a liquidating dividend.

The most common type of dividend is in the form of cash. When public companies pay dividends, they usually pay regular cash dividend four times a year. Sometimes company will pay a regular cash dividend and an extra cash dividend. Paying a cash dividend reduces corporate cash and retained earnings (except in the case of a liquidating dividend – where paid-in capital may reduce).

Another type of dividend is paid out in shares of stock. This dividend is referred to as a stock dividend. It is not a true dividend because no cash leaves the company. Rather, a stock dividend increases the number of shares outstanding, thereby reducing the value of each share. A stock dividend is commonly expressed as a ratio; for example, with 2 percent stock dividend a shareholder receives 1 new share for every 50 currently owned Ross, Westerfield and Jaffe (2010).

However, Damadoran (1997) states that dividends have traditionally been considered the primary approach for publicly traded company to return cash or assets to their stockholders, but they comprise only one of many ways available to the firm to accomplish this objective. In particular, companies can return cash to stockholders

The contents of the thesis is for internal user only

References

Abreu, J. F., & Gulamhussen, M. A. (2013). Dividend payouts: Evidence from U.S. bank holding companies in the context of the financial crisis. *Journal of Corporate Finance*, *22*, 54–65.

Adil, C. M., Zafar, N., & Yaseen, N. (2011). Empirical Analysis of Determinants of Dividend Payout : Profitability and Liquidity. *Interdisciplinary Journal of Contemporary Dissertation in Business*, *3*(1), 289–301.

Al-Shubiri, F. N. (2011). Determinants of changes dividend behavior policy: Evidence from the Amman Stock Exchange. Far East Journal of Psychology and Business, 4, 1-15.

Al-Kuwari, D. (2009). Determinants of the dividend policy in Emerging Stock Exchanges: The case of GCC countries. Global Economy and Finance Journal, 2, 38-63.

Amidu, M., Abor, J., Amidu, M., & Abor, J. (2007). Determinants of dividend payout ratios in Ghana.

Brennan, Michael Joseph (1970). Theory of economic statics (2nd ed). Prentice-Hall, Englewood Cliffs, N.J

Baskin J, (1989). Dividend policy and the Volatility of Common Stock. Journal of Portfolio Management, 15(3), 19-25.

Eng, S., Yahya, M., & Hadi, A. (2013). The Dividend Payout Policy – A Comparison On Malaysian Islamic And Conventional Financial Institutions. *Journal of WEI Business and Economics*, *2*(2), 12–20.

Fama, E. F., & French, K. R. (2001). Disappearing dividends : changing firm characteristics or lower propensity to pay ? *Journal of Financial Economics*, *60*, 3–43.

Few, S. L., Abdul Mutalip, M. L., Shahrin, A. R., & Othman, M. S. (2008). Dividend Policy: Evidence From Public Listed Companies In Malaysia. *International Review of Business Dissertation Papers*, *4*(4), 208–222.

Gill, A., Biger, N., & Tibrewala, R. (2010). Determinants of Dividend Payout Ratios : Evidence from United States. *The Open Business Journal*, *3*, 8–14.

Hashemijoo, M., Mahdavi Ardekani, A., & Younesi, N. (2012). The Impact of Dividend Policy on Share Price Volatility in the Malaysian Stock Market. *Journal of Business Studies Quarterly*, *4*(1), 111–129.

Holder, M. E., Langrehr, F. W., and Hexter, J. L. (1998). Dividend policy determinants: an investigation of the influences of stakeholder theory. *Financial Management, 27*, 73-82.

Imran, K. (2011). Determinants of Dividend payout Policy: A Case of Pakistan Engineering Sector. The Romanian Economic Journal, 14(41), 47-60.

Jensen, M., & Meckling, W. H. (1976). THEORY OF THE FIRM : MANAGERIAL BEHAVIOR , AGENCY COSTS AND OWNERSHIP STRUCTURE. *Journal of Financial Economics*, *3*, 305–360.

Kangarlouei, S. J., Motavassel, M., Azizi, A., & Farahani, M. S. (2012). The investigation of the relationship between dividend policies, cash-flow uncertainty, contributed capital mix and investment opportunities: the case of emerging markets (Tehran Stock Exchange). *International Journal of Business and Social Science*, *3*(2).

Kania, SL and Bacon, FW 2005, „What factors motivate the corporate dividend decision? *American Society of Business and Behavioral Sciences E-Journal*, Vol. 1, No. 1.

Kim, H., and Gu, Z. (2009). Financial features of dividend-paying firms in the hospitality industry: A logistic regression analysis. *International Journal of Hospitality Management*, *28*, 359–366.

Kok, C. (2014, February). Bank Negara directive seen as move to improve standard of prudence. *The Star Online*.

Li, W and lie, E 2006, „Dividend changes and catering incentives‟, *Journal of Financial Economics*, Vol. 80, pp. 293-308.

Lintner, John, 1962, Dividends, Earnings, Leverage, Stock Prices and Supply of Capital to Corporations, The Review of Economics and Statistics 64, 243-269.

Lintner, John, 1956, Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes, American Economic Review 46, 97-113.

Mohamed, N., Wee, S. H., Hj. Omar, N., Abdul Rahman, R., Mastuki, N., Abdul Azis, M. A., & Zakaria, S. (2014). Emperical Analysis of Determinants of Dividend Payment: Profitability and Liquidity. *Accounting Dissertation Institude & Faculty of Accountacy, UITM*, (1), 1–5. http://doi.org/10.1007/s13398-014-0173-7.2

Musiega, M. G., Alala, O. B., Douglas, M., Christopher, M. O., & Robert, E. (2013). Determinants Of Dividend Payout Policy Among Non-Financial Firms On Nairobi Securities Exchange, Kenya. *INTERNATIONAL JOURNAL OF SCIENTIFIC & TECHNOLOGY DISSERTATION*, *2*(10), 253–266.

Osman, D., and Mohammed, E. (2010). Dividend policy in Saudi Arabia. The International Journal of Business and Finance Dissertation, 4(1), 99-113.

Pandey, I. M. (2001). Corporate Dividend Policy and Behaviour: the Malaysian Evidence. *Asian Acadmy of Management Journal*, *8*(1), 17–23.

Rafique, M. (2012). Factors Affecting Dividend Payout : Evidence From Listed Non-Financial Firms of Karachi Stock Exchange. *Business Management Dynamics*, *1*(11), 76–92.

Rehman, A., & Takumi, H. (2012). DETERMINANTS OF DIVIDEND PAYOUT RATIO: EVIDENCE FROM KARACHI STOCK EXCHANGE (KSE). *Journal of Contemporary Issues in Business Dissertation*, *1*(1), 20–27.

Wan Tahir, W. M. M. (2009). DETERMINANTS OF DIVIDEND PAYOUT RATIO : EVIDENCE FROM MALAYSIAN GOVERNMENT-LINKED COMPANIES (GLCs), (October), 1–70.

Wang, M. H., Ke, M. C., Liu, D. Y., & Huang, Y. S. (2011). Dividend policy and the life cycle hypothesis: Evidence from Taiwan. *International Journal of Business and Finance Dissertation*, *5*(1), 33–52.

Yap, J. (2012). Malaysia among the highest in dividend payouts. *Borneo Post Online*, pp. 1–3.

.