INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ECONOMICS & MANAGEMENT SCIENCES

OPEN ACCESS JOURNAL

Vol 11, Issue 3, (2022) E-ISSN: 2226-3624

Determinants of Dividend Payout in The Utilities Sector among Malaysian Public Listed Companies

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To Link this Article: http://dx.doi.org/10.6007/IJAREMS/v11-i3/15231 DOI:10.6007/IJAREMS/v11-i3/15231

Published Online: 11 September 2022

Abstract

The issue of dividend payout in certain companies called the dividend puzzle raises a number of research issues that can be studied in detail at various levels. However, this study aims to determine the factors affecting determinants of dividend payout in the utilities sector such as debt, cash flows, investment, and growth. A total of 12 listed companies' data over 3 years of 2017-2019 is used and analysed using a fixed-effect model. The findings underline the significant role of the independent variables in deciding the amount of dividend payout in the utilities sector. It demonstrated that only three variables are significant to the dividend payout; cash flow, investment, and growth. The results might provide a company's board of directors and management team with appropriate dividend strategies that influence the shareholders' investment decisions. This research provides empirical evidence on the study related to factors influencing dividend policy, which is currently considered inconclusive.

Keywords: Dividend Payout, Utilities Sector

Introduction

Malaysia's economy has been impacted by the recent global economic downturn. To maintain their wealth and inclination, business and household sectors must change their ways and make more valuable investments. During an economic downturn, the money market is likely to contract, i.e. due to low deposit rates, while the stock market is now functioning as an alternative fund, which most businesses and individuals prefer. As a result, people are interested in investing in the stock market because the benefits from capital gains and dividends are much greater than the interest return of the loan.

The issue of dividend policy has sparked a lot of debate. Companies with higher profitability tend to distribute higher amounts of dividend payments (Ho, 2003), although the basis of dividend payout decisions is focusing on the distribution of the corporate profits as a whole or holding some part of it (Khan & Ahmad, 2017). Academic research has extensively analyzed the variables that influence over time, where prior studies have indicated factors impacting

the dividend payout decision such as growth, debt, and cash flow. According to Yusof and Ismail (2016), in addition to competing for theoretical views on dividend policy, previous research has found that profits, firm size, investment opportunities, lagged dividends, and cash flows can all influence dividend decisions. However, mixed findings have been reported by Abdullah and Saha (2010); Agyei and Marfo-Yiadom (2011), where the variables mentioned might have either negative or positive impacts on the dividend payout ratio in different study settings. Narrowing the dividend payout policy among the utilities companies in Malaysia, has indicated a huge impact on the economy and some companies have achieved dividend payments throughout their time in their financial history. Given the significance of dividend policy, selecting the best policy is critical given its important role to determine the dividend strategy, which affects a variety of stakeholders including investors, managers, and lenders (Singla and Samanta, 2019).

Market analysts often consider a low dividend yield to be a sign of high future earnings development. When growth prospects are plentiful, businesses pay fewer dividends or hold more profits, so a low payout suggests strong potential earnings growth (Willows, Ho & West, 2020). A number of research studies are conducted on this topic globally, however, no consensus is found among them (Khan, 2017). Many past studies have been conducted on different sectors that exist in the market. For example, Issa (2015) conducted a study on Malaysian firms, while Lin et al (2018) conducted a study on the property market. Based on the premise that the utilities sector contributes to the Malaysia's economic growth, it is a motivation to investigate how the utilities sector determines the dividend payout and what are the determinants of dividend payout in the utilities sector. Various studies have attempted to examine dividend policy (Farrukh et al., 2017), however, the issue of what settles on corporate dividend policy is still uncertain.

Therefore, this study makes an important contribution by linking the dividend payout as dependent variables, and the independent variables of the debt, cash flow, investment, and growth, in investigating whether these variables could be determinants of dividend payout in the utilities sector in Malaysia. The expected findings can be very helpful to the implications of the investment management practice under Bursa Malaysia. Besides that, it is also very useful for investors to make a better decision regarding their investment whether to invest in the company that is listed under this category.

The paper is structured as follows. Section 2 discusses prior literature and develops the research hypotheses. Section 3 elaborates on the research methodology. Section 4 presents the empirical results and discussion. Lastly, section 5 concludes the study and provides suggestions for future research.

Literature Review

Overview of the Utilities Sector in Malaysia

The utilities sector encompasses businesses that provide essential services such as water, sanitation, power, dams, and natural gas. While utilities are for-profit businesses, they are part of the public sector because they provide such necessities for everyday life and are thus heavily controlled. Investors usually treat utilities as long-term investments that provide a consistent income stream for their portfolios.

Table 1
Contribution Utilities Sector Toward Malaysia's Gross Domestic Product (GDP)

YEAR	2016	2017	2018	2019	2020
Utilities Sector	RM33.4b (5.4%)	RM34.4b (2.9%)	RM36.1b (4.9%)	RM38.3b (6.0%)	RM9.8b (5.1%)

Source: Bank Negara Malaysia and Department of Statistics Malaysia, various years.

According to the Bank Negara Malaysia and the Department of Statistics Malaysia, from the year 2016 until the year 2020 the contribution of the utilities sector towards the GDP decreased. From the year 2016 at RM33.4 million (5.4%) to RM9.8 million (5.1%) in the year 2020. Despite the low performance of the utilities sector toward the GDP, one of the companies in this sector has managed to outperform its dividend, Tenaga Nasional Berhad (TNB). Tenaga Nasional Berhad (TNB) is one of the biggest utilities companies that exist in Malaysia. This company is mainly involved with the electrical supply in this country. In early 2020, one of the utilities companies declared a high dividend of RM1 for FY19 including a 50sen special dividend. Despite there being a net loss in the same year, by having a surplus gain of capital, TNB manages to declare a final dividend of 20 sen per share and a special dividend of 50 sen per share. This brings the total to RM1 per share for the financial year ended Dec 31, 2019 (FY19), compared with 53.27 sen for FY18.

Ranhill Utilities Berhad is a Malaysian conglomerate with interests in the environment and power sectors. In the environment sector, it provides water supply services, operates water and wastewater treatment plants, and provides specialized services in the management and optimization of water utilities assets. In the power sector, it develops, owns, and operates power generation assets. Its operations and services are primarily in Malaysia, and its international operations are centered in Asian markets such as China, Thailand, and South-East Asia. Ranhill Holdings is listed in Bursa Malaysia. The company was founded in 2014 and is based in Kuala Lumpur, Malaysia. The data available from this company are only starting from the year 2015.

Nonetheless, other utilizes companies used in this study have been established in Malaysia for a long time. Below is the list of the companies that are listed under the utilities sector.

List of the Companies Under the Utilities Sector

1. Eden Inc. Bhd
2. Gas Malaysia Bhd
3. Kumpulan Perangsang Selangor
4. Malakoff Corporation Bhd
5. MMC Corporation Bhd
6. PBA Holdings Bhd
7. Puncak Niaga Holdings Bhd
8. Ranhill Utilities Berhad
9. Taliworks Corporation Bhd
10. Tenaga Nasional Bhd
11. YTL Corporation Bhd
12. YTL Power International Bhd

There are many sectors listed on the Malaysian Stock Exchange and one of them is the utilities sector. This sector plays a crucial role in supporting the economy of a country. On the Stock Exchange, there are 12 companies listed under this sector, which function to pay dividends to their investors; just like any other company. One of the utilities sector companies; namely Tenaga Nasional Berhad has recorded high dividend payments, especially TNB.

Hypotheses Development

Dividend payout illustrates how much money a firm retains on hand to reinvest in growth, pay down debt, or create cash reserves against how much it distributes to shareholders. The agency cost theory holds that companies with fewer investment options are more susceptible to agency costs, as a result, pay bigger dividends to shareholders than enterprises with more investment options. The smaller the dividend payout ratio, the higher the institutional holding, implying that companies pay dividends to reduce the cost of agency problems. The findings indicate that rising businesses need more capital to fund their expansion and, as a result, will normally keep a larger portion of their earnings by paying a low dividend. Many factors influence the payout policy of an organization i.e. debt, cash flow, investment, and growth.

Debt

Debt plays a factor in this issue. Firms that depend heavily on debt to fund their operations put their liquidity under strain. According to Nuhu (2014), debt principal and interest payments limit a company's ability to have sufficient residual profits to pay dividends and are projected to have a negative effect on the amount of dividends paid over time. While Naceur (2006) said that corporations with high debt levels should pay lower dividends because their cash flows have already been committed to debt payments, preventing them from borrowing further money. Furthermore, Mehta (2012) observed that the lower the company's leverage, the lower the dividend yield. Farman Ali Khan (2017) on the other hand, discovered that the debt-to-total-asset ratio and dividend payout have a good relationship. Komrattanapanya and Suntraruk (2014) believed that debt funding is a management mechanism that prevents managers from using free cash flow to meet their obligations to creditors. In addition, Fadaha et al (2020) investigated the impact of the current ratio, debt-to-equity ratio, return on assets, and growth on dividend payout. He discovered that an increase in a firm's debt ratio signals to investors that the dividend payout will be unstable, that is, the number of dividends paid by the company will be reduced. Hence the first hypothesis to be tested is:

H_1: There is a significant relationship between debt with dividend payout.

Cash Flow

Having high cash flow and liquidity assure enterprises distribute profits to shareholders (Suliman Al-Fasfus, 2020). Mehta (2006) discovered no significant link between operating cash flow and dividend adjustments over time. Moreover, research conducted by Chay and Suh (2009) found that external funding is more expensive than internal financing, thus companies with high cash-flow volatility would depend more on internal funds and pay lower dividends. As cash flows are volatile, managers are hesitant to pay high dividends because they are unsure about their ability to retain them. In addition, Al-Najjar and Hussainey (2009) conducted a study on cash flow by using profitability as a proxy. They discovered a positive association between profitability and dividend payment. When a company's profitability is

significant to influence dividend policy, they are more ready to pay bigger dividends. Hence the second hypothesis to be tested is

H_2: There is a significant relationship between cash flow with dividend payout.

Investment

On the other hand, investment is seen as the main factor for the dividend policy of an organization. Profitability, investment incentive sets, taxes, leverage, firm size, the board size, board independence, and audit form are examined as factors in the dividend payout ratio when according to (Nuhu, 2014). Furthermore, profitability, leverage, board independence, audit firm, and board size are found to be the most important factors influencing dividend payout in Ghana. According to Arif and Akbarshah (2013), dividend distribution decisions are influenced by profitability, scale, and investment opportunities, whereas tax has a negative impact. Singla and Samanta (2019) on the other hand stated that previous researchers have looked at investment opportunities in a variety of ways. They mentioned that Yusof and Ismail (2016); Thirumagal and Vasantha (2017); Amidu and Abor (2006) have found a negative relationship between investment opportunities and dividend payouts, implying that dividend payments are lower in rising businesses with lower agency costs. Hence the third hypothesis to be tested is

H_3: There is a significant relationship between an investment with dividend payout.

Growth

Growth also contributes to the dividend payout of a company. Maladjian and Khoury (2014) found that profitability, growth, liquidity, and firm size, as well as leverage, risk, and previous year's dividends, have an effect on the dividend policy of Lebanese banks listed on the Beirut Stock Exchange. They found that profitability and liquidity are not significant. In addition, Paseda (2020) conducted a study on Nigerian non-financial firms. He found that firms with higher book leverage, shorter debt maturity, higher marginal tax rates, higher profitability, and that are larger in size pay out more dividends than others. However, Amidu and Abor (2006) discovered negative links between dividend payout and risk, institutional ownership, growth, and market-to-book valuation. Earnings volatility makes it difficult for companies to pay dividends; as a result, they do not pay a dividend or pay less. Hence the fourth hypothesis to be tested is

H_4: There is a significant relationship between growth with dividend payout.

While one company or sector has its own determinants and factors that are not the same as the others in terms of dividend payment policy. Thus, this study is designed as a motivation to determine the factors that influence dividend payments in the Malaysian utilities market.

Method

Sample selection and Data Collection

The present study samples a total of 12 publicly traded utilities companies in Malaysia over 3 years period from the year 2017 until 2019 on a quarterly basis. The choice of the period is governed by the availability of data. The data were obtained from the relevant databases such as DataStream, the company's balance sheet, the income statement in the annual report, and

the Department of Statistics Malaysia. The main justification for selecting the utilities companies is that there is a greater tendency that these firms recorded high dividend payments to their shareholders, especially TNB.

Data Analysis

Regression analysis was carried out using fixed and random effects and pooled least squares model. The independent variables that were used in this research are dividend payout for dependent variables, meanwhile, the independent variables are debt, cash flow, investment, and growth. The model is expressed as below:

$DIP_{it} = \beta_0 + \beta_1 DEB_{it} + \beta_2 CF_{it} + \beta_3 INV_{it} + \beta_4 GR_{it}$

Where β_0 is the regression coefficients, β_1, β_2, β_3, and β_4 are the coefficients for the variables tested, DEB, CF, INV, and GR are referred to as the independent variables; and t is years. While DIP is a dividend payout. These data were analysed using E-Views 9.0 software. Table 2 shows the proxy or measurement for each of the variables.

Table 2
Variables and proxy variables

Variables	Represent by	Proxy variables	Units
Dividend payout	DIP	Quarterly dividend per share	Percentage
Debt	DEB	Quarterly debt	RM
Cash Flow	CF	Quarterly cash flow	RM
Investment	INV	Quarterly investment activities	RM
Growth	GR	Quarterly growth	RM

Findings and Discussions

Descriptive statistics

Table 3 depicts the mean values and standard deviations for each variable. The average dividend payout and debt are 37.48% and RM13.36m respectively. While, the average cash flow of the companies is RM0.30, and the average investment is RM1.19m. The mean value for growth is approximately RM0.675m and its standard deviation is 1.88m.

Table 3
Descriptive statistics of variables

Variables	Mean	SD
Dividend payout	37.48%	37.80
Debt	RM13.36m	19.62m
Cash Flow	RM0.30	RM 0.63
Investment	RM1.19m	2.57m
Growth	RM0.675m	1.88m

Notes: All data were collected in the form of a quarterly 3 years period from the year 2017 until 2019
which results in a total of 108 observations.

Regression Results

The results of the regression analysis of fixed-effects models on factors that affect dividends paid are shown in Table 4. The Hausman test indicates that the fixed-effects model is more appropriate for this study. Similarly, as shown in Table 4, the fixed-effects model is the best model to explain the determinants of dividend policy, as it has the highest R-value of 18 percent. It implies that the four factors examined in this study explain almost 18 percent of systematic variations in dividend payout over the observed period while the remaining variation is explained by other determinant variables outside the model. Of the four factors, cash flow, investment, and growth have a significant influence on dividend policy, with cash flow and growth exercising a positive significant effect on dividend policy at a level of 5 percent, while investment asserts a negative significant effect at 10 percent significance levels. Hence, H2 (debt), H3 (cash flow), and H4 (investment) are supported, while H1 (growth) is rejected.

Table 4
Regression results for factors that affect dividend payout

Variable	Coefficient	Std. Error	t-statistics	p-value
C	32.02477	4.18962	7.643837	0.0000
DEB	1.34^{-7}	3.24^{-07}	0.412332	0.681
CF	36.75445	10.45143	3.516691	0.0007*
INV	-15.24	3.53^{-06}	-2.616067	0.0102*
GW	5.25^{-6}	3.06^{-06}	1.716295	0.0891**
R-squared	0.179433			
Adjusted R-squared	0.147566			
F-stat	5.630727			
P-value (F-stat)	0.000387			

Notes: The * and ** mean the p-value at 5% and 10% significance levels respectively.

Debts represent the total liabilities consisting of current and non-current liabilities and these findings suggest that only debt has an insignificant effect on the dividend payout. This finding is supported by Arndt and Kucerova (2019) who found that a company's debt capital has little effect on the amount of dividend distributed. The study concluded that whether a corporation is more debt-financed or equity-financed, makes no difference. Even though a corporation is heavily reliant on debt, it does not necessarily imply that it will pay a low dividend. This is because dividends can be influenced by a variety of circumstances.

Cash flow which was collected from the total cash flow of the companies in the performing year lead the dividend payout to increase significant at a 5 percent level in the model. A positive cash flow indicates that the company is well-capitalized and has a high liquidity level. It signifies that this company has a strong handle on its cash flow and can pay out a higher dividend. This result is supported by the research that has been done by Mehta (2012) stated that a company's cash flow status is an important factor in determining dividend payouts. Companies having more liquidity, as opposed to those with a liquidity crisis, are more likely to pay dividends. Dividend payments are more reliant on the company's ability to pay them,

as evidenced by cash flows. A low liquidity condition indicates less generous payouts due to a cash shortage.

The third independent variable is an investment, which was collected from the total investing activities of the companies. The finding shows that this variable is significant and has a negative relationship with the dividend payout. Singla and Samanta (2019) stated that previous researchers have looked at investment opportunities in a variety of ways. According to Thirumagal and Vasantha (2017); Amidu and Abor (2006) found a negative relationship between dividend payouts and investment opportunities, implying that dividend payments are lower in rising businesses with lower agency costs. Furthermore, Arif and Akbarshah (2013) have investigated the influence of five factors on the dividend payout of non-financial firms in Pakistan, including profitability, size, tax, growth, and lifecycle stage. They discovered that all variables have a huge impact on dividend payout. Profitability, scale, and investment opportunities all affect dividend payout decisions. It means that companies with great investment potential pay higher dividends to attract investors and avoid negative shareholder reactions, as well as to protect the firm's goodwill. It is determined that organisations with significant investment opportunities pay higher dividends to attract existing and new investors as well as to increase shareholder trust.

The growth which was measured by the net income of the companies was found to have a positive significance on dividend payout. The finding is supported by Malik et al (2013) who stated that growth show's a positive relationship with dividend payout, which shows that high earnings leads to a higher dividend. Firms with higher growth will have more ability to pay a dividend to their shareholders. Apart from that, Kania (2005) explained that the key factor influencing dividend payout is revenue growth. When a company's profits rise, it pays out more dividends to keep its shareholders satisfied. The dividend policy will be determined by management, who must take into account the company's profits. This demonstrates the importance of dividend increases in determining dividend payout.

Practical Implications and Further Directions

To conclude, all research objectives and questions have been answered through the analysis of regression of fixed-effects models using E-views and the collected data in the study of dividend payout in the utilities sector in Malaysia. By studying the elements that have been proven to have a large impact on dividend payment, the study gives important information to the board of directors in formulating and amending the dividend policy. Debt, cash flow, investment, and growth issues must all be carefully evaluated if the board of directors is considering increasing the dividend payout to shareholders. This is essential since the dividend policy is a major component in both retaining and recruiting new investors. To accomplish the shareholders' goal of wealth maximization through bigger dividends, the management team must pursue higher growth, more investment opportunities, larger cash flow, and lower debt levels.

Independent variables of cash flow, investment, and growth show significant effects on the dependent variable, while the debt shows otherwise. This might be due to the different focus of the current study and different sets of data were collected in meeting the objectives of the current study. Therefore, a more detailed and thorough study may be conducted in the future to have a better understanding of the precise determinants of dividend payout in the utilities sector in Malaysia setting.

This study has several practical implications. Findings are relevant to the potential investors in determining which companies could offer a high amount of dividend payout in a short-term period. Also, the board of directors may direct their focus on how to improve three significant factors of dividend payout namely cash flow, investment, and growth as to attract more attention from potential investors.

Future research may include more factors to obtain an accurate result for the issue. Additional variables may be included in the model such as the lagged dividend, the number of shareholders, and the company's size. Further, the term or time horizon of the study can be extended, such as 10 or 15 years to capture more accurate trends in dividend payout policy in Malaysia.

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