UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF DIVIDEND PAYOUT IN UTILITIES SECTOR

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ABSTRACT

This study attempts to determine the factors affecting determinants of dividend payout in the utilities sector. The factors examined in this study are debt, cash flows, investment and growth. The assumptions that were applied in this research are if a company prefers to make a dividend payout, what are the determinants of it and do the variables have an impact on the dividend payout? Data was obtained from the relevant databases and annual reports of the sampled companies. The study examines a total of 12 listed companies. The data were collected quarterly starting from year 2017 until 2019. In analyzing the data, the study used fixed and random effects and an ordinary least squares model. The findings underline the significant role of the independent variables in deciding the amount of dividend payout in the utilities sector. The more the dividend payment, the better the company's profitability (Bhattacharya 1979). This result was also supported (Ho 2003). As stated by Farman Ali Khan (2017) the decision to pay out dividends is usually based on whether to distribute all of the company's income or keep a portion of it. The results demonstrate that cash flow, and growth have a significant and positive relationship with dividend payout, while, investment has a significant but negative relationship with dividend payment and debt has an insignificant but positive link with dividend payout. The results of this study will help a company's board of directors and management team decide on a dividend strategy that is suitable for the company. The findings can also help shareholders make investment decisions.

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INTRODUCTION

1.1 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 (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/or dividends are much greater than the interest from a loan.

The 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 (retained earnings). The dividend payout in this study use dividend per share as the proxy. The dividend per share formula can be written as can be written as (*Dividend Per Share = Total Dividends Paid / Shares Outstanding*). The issue of dividend policy has sparked a lot of debate. The higher the amount of dividend payment, the greater the profitability of the company (Ho 2003). As stated by Khan and Ahmad (2017) dividend payout decision tends to focus on the distribution of the corporate profits as a whole or holding some part of it. According to Abdullah and Saha (2010) and Agyei and Marfo-Yiadom (2011) variable such as growth, debt and cash flow have negative impact to dividend payout while investment and growth have positive effect towards the dividend payout ratio. As for the utilities sector, there are companies that have achieved highest dividend payments throughout their time in their financial history.

Given the significance of dividend policy, selecting the best dividend is critical. According to Yusof and Ismail (2016) in addition to competing theoretical views on dividend policy, previous research has found that profits, investment opportunities, lagged dividends, and cash flows can all influence dividend decisions. Academic research has extensively analyzed the variables that influence over time. For this research, researchers will only take 4 independent variables which are debt, cash flow, investment and growth.