MARKET PERFORMANCE, DIVIDEND POLICY AND FINANCIAL STABILITY: EVIDENCE FROM SELECTED TOP LISTED COMPANIES IN UZBEKISTAN

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Abstract

Dividend policy, market performance and financial stability of a listed company are three main forces which guarantee the long-term sustainable expansion through operation in stock market with diversity of investors and capital funding sources. Optimized market performance and growth-oriented dividend policies can be a clue for smoothing the path of successful corporate development. However, key driver of dividend policy and normal market performance is financial stability of a company which is the key reason of staying solvent in market. Therefore, practical aspects of corporate businesses focus on financial stability – market performance – dividend policy chain and interrelated trilemma. This article examines the applicability of trilemma approach for top three listed companies of Tashkent Stock Exchange in terms of stock market turnover and analyses income and capital factors to market value growth. The multiple regression test showed that there is striking difference in terms of effect between financial and non-financial listed companies.

Keywords: Dividend policy, market performance, financial stability, Tashkent Stock Exchange

INTRODUCTION

Market performance is one of the key indicators of companies which are attempting to build a brighter future of expansion and stability. Having strong linkages with market behaviour and economic condition of an operating environment, companies often involve in stock market operations at different levels and evaluate their perspectives from diverse angles. Threats from

financial market fluctuations, riskier market environment and being tied to wider business climate in an economy often outweigh the benefits of being active in both financial and industry markets. Profitability, liquidity and leverage ratios often reflect how a company is taking steps towards objectives before being listed. In turn, investors seek for a profit from dividends which company has to pay out. In a common scenario, after paying the dividends to shareholders, a company gets rid of one burden – investors, but faces to another one: remaining financially stable. Therefore, listed companies have to deal with this trilemma: Financial Stability–Market Performance – Dividend Policy by exploiting a new approach.

Modern business development strategies are highly focused on expansion through wider access to financial markets as an issuer and an investor. However, being to be listed in stock markets is not easy as to enter the market of particular industry. To stay sound and attractive in the stock market, listed companies always keep their financial soundness with a generous dividend policy which originally stem from a good market performance. Modern business structures are required to be solvent and active in both markets: industry's market in which they are operating, and stock market they are listed. The old and everlasting market theory – risk and uncertainty – is in force in both markets. In double-edged market complexity, keeping the financial stability is of the primary importance, as brands and fame deal with the success in both markets. If financial profile of a company starts deteriorating, stock prices and market share also reduces. Therefore, financial stability becomes the prerequisite for market performance and consequent dividend policy. Profitability, efficiency and stability factors may bear dividend if a company succeeds in withstanding to stock market fluctuations.

Uzbek stock market is one of the developing one among those of developing and transition economies. Series of development-oriented reforms shaped the local financial market structure and became a ground for key market operations for national companies. Hence, in terms of growth in number and turnover of listed companies it has been lagging behind with inefficient operations and low attractiveness. Moreover, it seriously lacks the diversity of listed companies. Current profile of Tashkent Stock Exchange is boldly marked with dominance of domestic financial companies. In this study we analysed the selected top listed companies and found out that seven of top ten listed companies are banks and insurance companies. We examined the strength of relationship among trilemma forces through key ratios of income, capital structure and profitability status.

LITERATURE REVIEW

Despite a large number of literature on dividend policy, market performance or financial stability, there is no any in-depth study which embraces the relations between these three trilemma

forces. A limited number of companies' reports has highlighted the trilemma interrelations in case of their own operating market and legislature. There are many literature dedicated only dilemma forces which reflects the linkages between a pair of attributes. Therefore, this paper may be unique in terms of scale and approach. Research based on a similar approach was conducted by Pascareno and Sirigringo (2016). They set a trillema of three powers of listed company's market success: financial performance, firm's value and dividend policy. Their trilemma was not fully formed because of its pass-through effect, as they analyzed the effect of financial performance on company's value moderated by dividend policy. Their analyses proved that financial performance does not affect the company's value, and dividend policy does not moderate the effect of financial performance on company's value. Another trillema-based approach was exploited by Gul et al. (2015) in their research on interrelation among political institutions, stock market liquidity and firm dividend policy, which showed relevant result to our study. Priya and Mohanasundari (2016) examined several dividend policy-market performance theories and tested them in practice. Their studies showed that corporate dividend policy needs more focus as a modern and flexible way of developing market performance. All related literature we studied strongly concentrated on a stock market of a particular country or a country group. However, none of them studied the stock market relations and trilemma forces in stocks markets in transition economies. Therefore, our study faced limitations in research history.

METHODOLOGY

Data is obtained by the daily updates of Tashkent Stock Exchange regarding tops listed companies in terms of market turnovers with comparatively higher dividend payout ratios (Table 1). Latest available data on top listed companies with high payout and turnover ratio were analysed with financial statement data. Using financial statement data for 2009-2016, we set several ratios in order to simplify the analysis by selecting the top three companies in Table 1. To get a clearer result, we specify the indicators and ratios, as two of selected three companies are financial companies – banks.

Table 1. Top listed companies with largest stock market turnover (own stock), UZS.

Name	Nominal value per share	Own stock turnover
InFinBank JSCB	1 000	13 172 465 000
Savdogarbank JSCBFC	100	7 999 999 744
Qo'qon yog'-moy JSC	3 970	7 770 203 900
Turkiston PJSCB	1 000	4 532 002 000
Asia Alliance Bank JSCB	250	4 345 517 280

Farg'ona go'sht-sut savdo JSC	2 337	3 204 500 000
Ipoteka-bank JSICB	1	3 070 186 378
Alskom IC JSC	1 380	2 304 130 700
Turonbank JSCB	1 700	2 032 293 720
Marg'ilon Fayz savdo kompleksi JSC	1 000	1 214 608 830

Source: Tashkent Stock Exchange, 2017

Depending on the financial statement and character of business, we set following ratios:

MV/TA - Market value to total asset– an indicator of company's stance in the stock market.

II/TA – *Interest income to total assets*– an indicator of profitability of a company which enables observing the income-capital balance for financial firms.

OOI/TA – *Other operating income to total assets*– an indicator of profitability of a company, which enables observing the income-capital balance at non-financial firms.

TC/TI – Total cost to total income– an indicator of net profitability and replacement (covering) position of a company's performance.

TE/TA – *Total equity to total assets*– capital structure determinant.

Deriving from the set of indicators, we use OLS method in analysing the relationship and impact:

$$\left(\frac{MV}{TA}\right)_{it} = \beta_0 + \beta_1 \left(\frac{II}{TA}\right)_{it} + \beta_2 \left(\frac{OOI}{TA}\right)_{it} + \beta_3 \left(\frac{TC}{TI}\right)_{it} + \beta_4 \left(\frac{TE}{TA}\right)_{it} + \varepsilon_i$$

ANALYSIS AND RESULTS

After running multiple regression test for set panel data of selected listed companies, we gained preliminary results to interpret the relationship between elements of trilemma. By means of EVIEWS 9.0 econometric analysis tool, we analysed impulse response of the abovementioned four ratios for each listed company.

Table 2. OLS results for InFinBank JSCB

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.782916	0.382283	4.663867	0.1345
II/TA	-3.458693	0.664263	-5.206814	0.1208
OOI/TA	-1.964793	0.416440	-4.718070	0.1330
TC/TI	-1.678769	0.372017	-4.512613	0.1388
TE/TA	0.436123	0.082037	5.316189	0.1184

R-squared	0.989817	Meandependentvar	0.058325
Adjusted R-squared	0.949085	S.D. dependentvar	0.002751
S.E. ofregression	0.000621	Akaikeinfocriterion	-12.05608
Sumsquaredresid	3.85E-07	Schwarzcriterion	-12.22961
Loglikelihood	41.16824	Hannan-Quinncriter.	-12.75075
F-statistic	24.30083	Durbin-Watsonstat	2.136488
Prob(F-statistic)	0.150852		

$$\frac{MV}{TA} = -3.458\left(\frac{II}{TA}\right) - 1.964\left(\frac{OOI}{TA}\right) - 1.678\left(\frac{TC}{TI}\right) + 0.436\left(\frac{TE}{TA}\right) + 1.783$$

Privately owned joint stock commercial bank InFin Bank JSCB, which holds the highest position among all listed companies in Tashkent Stock Exchange has a reverse effect between market performance and income sources. Interest income and income from other operations negatively impacted on firm's market value and asset structure. The same scenario was also observed with cost to asset ratio. However, equity to asset ratio, capital structure was of positive correlation with InFin Bank's market performance.

Table 3. OLS results for Savdogar bank JSCBFC

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.016306	0.025527	0.638770	0.6381
II/TA	-0.340676	0.104259	-3.267591	0.1891
OOI/TA	0.881374	0.090403	9.749350	0.0651
TC/TI	-0.001033	0.025342	-0.040768	0.9741
TE/TA	0.572493	0.037976	15.07497	0.0422
R-squared	0.998852	Meandependentvar	0.126991	
Adjusted R-squared	0.994260	S.D. dependentvar	0.033112	
S.E. ofregression	0.002509	Akaikeinfocriterion	-9.263284	
Sumsquaredresid	6.29E-06	Schwarzcriterion	-9.436817	
Loglikelihood	32.78985	Hannan-Quinncriter.	-9.957954	
F-statistic	217.5364	Durbin-Watsonstat	3.247689	
Prob(F-statistic)	0.050802			

$$\frac{MV}{TA} = -0.340\left(\frac{II}{TA}\right) + 0.881\left(\frac{OOI}{TA}\right) - 0.001\left(\frac{TC}{TI}\right) + 0.572\left(\frac{TE}{TA}\right) + 0.016$$

During the selected period Savdogarbank JSCBFC performed comparatively better and increased stock market turnover by issuing additional stocks. As a top listed company in national stock market, it run a favorable dividend policy and enhanced the market position. Multiple regression results showed that Savdogarbank's trilemma impact scenario was different in terms of influencing factors. It market value was negatively affected by interest income flows and insignificantly cost to income imbalance. Capital structure and other operational income supported the market value strength.

Table 4. OLS results for Qo'qon Yog'-Moy JSC

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.050833	0.053746	-0.945794	0.5177
II/TA	-0.405570	0.069776	-5.812466	0.1085
OOI/TA	-0.436884	0.131430	-3.324073	0.1860
TC/TI	0.059154	0.064294	0.920065	0.5265
TE/TA	1.151302	0.044990	25.59031	0.0249
R-squared	0.998871	Meandependentvar		0.134952
Adjusted R-squared	0.994356	S.D. dependentvar		0.019853
S.E. ofregression	0.001491	Akaikeinfocriterion		-10.30329
Sumsquaredresid	2.22E-06	Schwarzcriterion		-10.47682
Loglikelihood	35.90986	Hannan-Quinncriter.		-10.99796
F-statistic	221.2410	Durbin-Watsonstat		3.416216
Prob(F-statistic)	0.050376			

$$\frac{MV}{TA} = -0.405\left(\frac{II}{TA}\right) - 0.437\left(\frac{OOI}{TA}\right) + 0.059\left(\frac{TC}{TI}\right) + 1.151\left(\frac{TE}{TA}\right) - 0.051$$

Among three listed companies with highest stock turnover in Tashkent Stock Exchange was Qo'qon Yog'-Moy Joint Stock Company which is the only non-financial firm in top list. Its income structure is significantly different from that of financial firms. Its main revenue is gained from operational income not from interest income. In order keep the comparability of results and considering its large scale financial activity, we used the same regression equation. Regression test showed that both income-related factors did not give the positive response to market value growth. However, cost to income ratio and capital structure showed positive effect in market value change.

CONCLUSION

Trillema approach enabled us to view the real scenario of interaction among stock market performance (market value), financial stability (profitability) and dividend policy (payout ratio). In this study, we rejected the aged theory of weak interconnectedness among these three powers. Moreover, our study clearly showed that financial and non-financial listed companies may have differences in income structure: financial companies are prone to greater risk from fluctuation in interest income. Market value of a non-financial listed company takes more risk from non-interest income.

OLS-based empirical analysis presented a clearer view of interrelations between trilemma forces and enabled us to propose following result-based recommendations for listed companies in Tashkent Stock Exchange:

- Market value of a listed company is vulnerable to other systemic and non-systemic risks which were not included in the empirical analysis above. Considering the context of rapidly growing economy of Uzbekistan, listed companies may face several external risk sources derived from structural changes and reforms in business environment and legislature. Therefore, listed companies must keep a low-risk market value and more sustainable income structure.

- Selected three listed companies are opted from top-10 companies with market turnover in the last 365 days. As can be seen from the Table 1, Seven out of top-10 belong to the financial sectors which proves that financial companies have gained dominance in terms of market operations. In consistent with procyclicality rule, worsening in national financial services market may negatively influence on stock market condition. Local stock market may lost liquidity and performance of the market itself may have deteriorating effect in listed companies' financial stability and payout ability.

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