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DIVIDEND POLICY, SHARE PRICE AND FUTURE PROFITABILITY: CASE OF UZBEKISTAN

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Abstract

The study analyzes the effect of the dividend policy for commercial banks in Uzbekistan on share prices and their potential profitability. A correlation and regression analysis is applied to the study using secondary panel data of 13 commercial banks between 2005 and 2016. The impact of the dividend policy on share prices is analyzed first and the results in the study showed a substantial negative impact on dividend yield and retention ratios, while earnings per share have significant positive effects on share prices.

Keywords: Cash Dividend, Dividend Yield, Retention Ratio, Earning Per Share

INTRODUCTION

In terms of the cash, securities and other forms of the shareholders' income for investments in share capital, the term dividend is known as the company's revenue. That is the way cash is extracted from the company and used in the stock market by the shareholders. Any investor who invests their money in the shares of any company will receive a dividend or a capital gain value appreciation. Thus, the distribution of revenues in two parts, dividends and/or deferred profits, is one of the important financial decisions on the stock market. For this, the amount of dividend to be allocated to shareholders and the amount of profits to be maintained within the company should be determined correctly by each business. The fundamental principle of dividend policy is this scenario of assessing the divided / retained earnings rate. Therefore, dividend policy refers to a management judgment about how cash flows from corporate operations are to be used and what the shareholders are to be invested in and how much they will earn. According to Irandoost (2013), the primary aim of financial management by businesses, i.e. to optimize the wealth of stockholders, is to raise the wealth of shareholders in the end. Enterprise operating in a given industry follows a kind of dividend or dividend payment pattern, a financial measure of course for the company. The company's share price should therefore rely to some degree on the company's dividend policy (Masum (2014). The dividend-to-share price ratio is one of the biggest mysteries in financial affairs and the relationship between these two is unsatisfactory. Baker et al (1985) consider dividend policy to be meaningless to a research community like Miller and Modigliani (1961), implying that dividend policy has little effect on either stock price or capital cost. A group of researchers such as Walter (1956) and Gordon (1963) argue that there is unique knowledge on dividend payments that contributes to an increase in share prices. Similarly, another research community such as Pettit (1972) suggests that the payment of dividends contributes to lower stock prices and therefore a decline in the valuation of firms.

The question of the formation of a rational structure of sources of funds is closely related to the dividend policy. This is due to the following circumstances: 1) the amount of dividends depends on the structure of the enterprise's funds; 2) the formation of a rational structure of the enterprise's funds is due to the rate of distribution of profit for dividends. In this regard, the dividend policy should be considered as a method of managing its own funds (capital). This is due to the fact that the decision on the amount and procedure for paying dividends affects the attraction of own funds (capital) from internal sources through capitalization of profits. The purpose of the study is to estimate the statistically significant variables of dividend policy in Uzbekistan.

LITERATURE REVIEW

An enterprise dividend policy specifies which share of the profits is dividended to shareholders and which proportion is returned to the shareholders for reinvestment. The strategy of dividends includes payout rules that managers follow over time in deciding on the cash distribution size and pattern for shareholders (Waithaka and et al . (2012)). Since financial management's main goal is to optimize the market value of equity shares, the link between dividend policies and equity prices is a key area of research. Dividend policy is still seen as one of the longest-running concerns in corporate finance. Various researchers vary in their interpretation of dividend policies. Miller and Modigliani (1961) claim that the valuation is dependent on the company's fundamental earning power and investment decision in a perfect market regardless of the way the company distributes its earnings and also note that the dividends pay-out policy choices, given the investment strategy of a company, would not affect the present share price nor its overall returns. Similarly, Black and Scholes (1970) claim the dollar value of dividends as a dollar of capital gains on the market. Investors who purchase high-dividend return securities or low-dividend return securities while managing the critical risk variable do not have any differential returns. Research by Black and Scholes (1974) also points out that there is no significant connection between dividend policy and common stock prices. Other scholars, such as Bhole (1980), Ali and Chowdhury (2010), Grullon and others (2005), assume that dividend policy is meaningless in terms of stock prices and that there are no details on potential earning adjustments to dividend policy. Therefore, dividends policy can not justify any difference in share prices clearly.

Dividend policy

Dividend policy affects cash flow, liquidity, capital structure, share price and bank value. Therefore, the financial manager bears a great deal of responsibility in determining an acceptable dividend policy. Modern banks spend huge amounts of money on dividend payments.

Dividends are paid at the expense of the bank's profit after taxation, and the regularity of specific dividend payments is established by the charter of the credit institution. The general meeting of shareholders may decide on non-payment of dividends. In addition, shareholders may decide to pay incomplete dividends on preference shares.

Issuing banks

Today, the presence of issuing banks on the stock market is very limited. At the same time, the main share is occupied by large Moscow commercial banks, as well as credit structures controlled by the state. Nevertheless, there are a number of features of the dividend policy that are characteristic of modern banks:

1) the use of special schemes by many banks that minimize the amount of official, namely taxable dividends;

2) the lack of the possibility of forming a long-term stock policy;

3) unwillingness of both small and large banks to reduce the level of dividend payments to achieve the financial stability of the bank.

Factors affecting dividend policy

So, we can conclude that the key link in the bank's dividend policy is the ratio between the parts of profits directed to development, to reserve funds and to the payment of dividends. In turn, this ratio is influenced by a number of factors: - the stage of development at which the bank is located. Thus, young, newly created banks and dying, insolvent credit institutions pay insignificant dividends or refuse to pay them altogether, using the profits for accelerated development or for restructuring and maintaining operations. And, conversely, for banks at a stage of mature growth and a mature stage of development, significant and stable flows of dividends are characteristic; - the type of policy that the bank adheres to. Aggressive expansion-oriented policies involve directing a substantially larger portion of profits to development. Conservative policy (for example, creating the image of a small specialized credit institution, leading an operation in a small market niche, with high efficiency, for a small group of clients) involves the formation of sufficient reserve funds and the payment of significant dividends; - type of investors, for which the bank is guided by. For example, if these are investors whose interests are related to obtaining stable current income, then this presupposes the maintenance of significant and regular dividend payments; - the level of financial management in the bank. For example, the simplest approach can be adopted: the payment of dividends according to the residual principle (from the financial reserves remaining after the deduction of funds for development and the creation of reserve funds). The ability of a bank to pay dividends indicates its financial condition. Dividend policy should be aimed at maximizing shareholder wealth. However, the best solution for shareholders does not always mean paying the maximum dividends from the profits received, since the use of dividends within the bank itself can increase its market value.

METHODOLOGY

Both share capital companies follow some kind of policy on dividends. As shareholders are the company's owners, they expect equal returns for their investment from the company. It is not just the benefit gained by investors but also the capital gains in a short period. Buyers also take into account not just the price, but also the profit of the company when they make the purchase decision. With the primary aim of wealth maximization, businesses are keen to know what factors impact the market movement of their stocks and how their policy on dividends affects share price. In addition in the business finance sector, the payment and size of dividends were addressed. Dividends is called a challenge in terms of symmetrical details and taxes. A number of scholars model the strategy of dividends on the premise that information is asymmetrically distributed between managers and investors. Some scientists claim that businesses pay dividends because dividends reflect management's private information and therefore help market customers appreciate the company.

The research model

Two validated analytical models were used for the analysis. Masum's (2014) research was used as a primary analysis to assess the effect of the dividend on commercial banks' stock prices in

Uzbekistan. In dividend policy , i.e. the rate of dividend return, retention ratio, profit after tax, return on equity etc., the study variables of the model are more important. In Bangladesh, which has similar financial markets to those in Uzbekistan, the model is well-tested and Masum (2014) has finally decided to select commercial banks, as the field of study was selected as the researcher.

$$MP = \beta 0 + \beta 1(DY) + \beta 2\ (RR) + \beta 3\ (PAT) + \beta 4\ (EPS) + \beta 5\ (ROE) + \eta + \lambda + \varepsilon$$

Where,

MP = Market price

DY = Dividend yield

RR = Retained ratio

PAT = Profit after tax

EPS = Earnings per share

ROE = Return on equity

The results of this study indicate that most of the regression model variables in this research have an important impact on stock prices. Findings show that earnings per share and asset return are positive with stock prices, and explain substantial fluctuations in stock market values, with negative and significant effects on stock prices on dividend yield and profit after tax.

Data

The population of this study is all 25 Commercial Banks presently operating in Uzbekistan. However, not all commercial banks are regularly paying cash dividend. Researchers, thus, applied judgement sampling technique while selecting sample banks. As such 13 commercial banks listed in Tashkent Stock Exchange that are paying regular cash dividends have been selected as sample commercial banks for this study. The study is conducted taking panel data analysis and study period covers years from 2005 to 2016 but for some banks only 3 and 4 fiscal years will be taken due to unavailability of data. Since the analysis is based on secondary data analysis, all required data are collected from the annual reports of respective commercial banks.

ANALYSIS AND FINDINGS

In this section an analysis is carried out using the statistical analysis tool of SPSS 16.0 on the effects of the dividend on the share prices and future profitability of the commercial bank.

Table 1 Descriptive statistics

	N	Minimum	Maximum	Mean	S.D.	C.V.
MP	101	198.00	6,830	1,377.50	1,301.77	0.94
DY	101	0	6.76	2.00	1.75	0.87
RR	101	0.21	100.00	61.20	26.50	0.43
PAT (in '000)	101	57,759.00	1,689,391.00	456,968.00	343,430.00	0.75
EPS	101	6.04	175.84	54.60	39.65	0.73
ROE	101	5.72	38.79	22.50	8.00	0.36

Table 1 provides a descriptive analysis of major variables such as market prices, dividend yields, withholding ratios, tax profit, per share earnings, equity rent for 101 observations of the study period by 13 commercial banks. Descriptive statistics show that the retention ratio and equity return data of all variables are relatively less than other variables. Key study variables are analyzed for the correlation as indicated.

Table 2 Correlation

	MP	DY	RR	PAT	EPS	ROE
MP	1	-0.149	-0.117	0.427**	0.738**	0.602**
DY		1	-0.378**	0.172	0.346**	0.376**
RR			1	-0.201*	-0.255*	-0.138
PAT				1	0.505**	0.596**
EPS					1	0.890**
ROE						1

The correlation matrix suggests that market prices, which are dependent on the study, are insignificantly negative with the yield and retention ratio of the dividend. Variables i.e. taxes on profits, income per share and equity returns are substantially positive in relation to market value per share. Linear regression analysis: The first row reports the coefficient for each regression, while t-statistics for the second row report. This analysis is based on the empirical regression equation:

Table 3 Regression output

$ln(MP) = \beta_0 + \beta_1(DY) + \beta_2\ ln(RR) + \beta_3\ ln\ (PAT) + \beta_4\ ln(EPS) + \beta_5\ (ROE)$								
β_0	β_1	β_2	β_3	β_4	β_5	R^2	DW	P Value
5.148	-0.239	-0.150	-0.031	0.789	0.022	0.813	1.259	0.000
4.294**	-10.267**	-3.059**	-0.48	4.929**	1.395			

CONCLUSION

It shows that dividend return, retention and after tax profit have negative consequences, while earnings per share and return on equity have a positive impact market price per commercial bank share. The results indicate that profits are negative. Variables statistics reveal a significant negative relationship between the market price and the dividend income and the retention ratio, and a significant positive link with income per share. There is an insignificant relationship between two variables i.e. profit after taxes and return on equity. The results from two variables: dividend return and income per share are consistent with Masum's (2014) results and incompatible with other values. This research can be a guideline for future researches in this area. Paying attention to the statistically significant variables of dividend policy may serve to improve the dividend policy of enterprises in Uzbekistan

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