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Research on Non-Dividend Behavior of Listed Companies

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Abstract: The dividends of listed companies are related to external factors such as the macroeconomic situation and the industry level of these companies. They may also be related to internal factors such as the company's financial status, equity structure, and their development cycle. This article analyzes the non-dividend listed companies in terms of the external and internal factors; focusing on industries with more non-dividend listed companies.

Keywords: Industry heterogeneity; Industry life cycle

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1. Introduction

On September 18, 2020, the China Association for Public Companies with the Shanghai and Shenzhen Stock Exchange released the cash dividend list of the A-shares listed companies. According to the 2019 annual report, the total cash dividend of listed companies was about 1.36 trillion yuan with a year-over-year increase of about 10.7%. Listed companies with dividends account for approximately 66% of the total number of listed companies. Although the total amount of cash dividends has increased, the total number of dividend-paying listed companies has decreased; in 2018, it was 79.07% while it was 75.5% in 2017. The reason for this situation was inextricably linked to the continuous downturn of the economy in the year 2019.

A certain degree of cash dividends in listed companies provide investors with tangible returns and they reflect their potential investment values. Generally, these are the results of excellent business performances and corporate governances.[1] The dividends of listed companies as well as external factors such as the macroeconomic situation and the company's industry level may be associated with internal factors such as the company's financial situations, ownership structure, development cycle, and so on. This article analyzes the listed companies that do not have dividends in term of the external and internal factors.

2. The Influence of External Factors

2.1. Macroeconomic environment analysis

The macroeconomic environment has significant impacts on business development and other aspects of enterprises. When the overall macroeconomic environment improves, the operations of enterprises would also improve. Subsequently, there will be more room for profit; hence, a higher possibility for enterprises to pay dividends.

Using the 2008 financial crisis as an example, the global financial crisis caused by the outbreak of the subprime mortgage crisis in the United States impacted many companies in various industries. These companies' business situations deteriorated, and their profits fell sharply in which the distributable profits decreased. According to the Wind database, the total number of listed companies in 2007 was 1,476 in which only 851 companies paid dividends, accounting for 57.66%. In comparison to 2008, there were 1552 listed companies, however, only 855 companies paid dividends which accounted for 55.09%. In 2009, the proportion of dividend-paying companies was 58.40%. This showed an improvement compared to the data in 2008. However, the impacts of the financial crisis had not been eliminated. The reason for the increase in the proportion of dividend-paying companies in 2008 was partly due to the introduction of compulsory dividend measures in China.[2]

2.2. Industry gap analysis

There is also a close relationship between the dividends of listed companies and development of industries.[3] With gradual economic development, some industries inevitably decline. If the listed companies in these industries are unable to recognize the changes over time, their benefits would decrease. In emerging industries, listed companies which are in the growing stage require a significant amount of funds for their development. Hence, the less dividend or no dividend phenomenon is inevitable. However, as companies gradually mature, their profits will stabilize, resulting in continual dividends and an increase in dividend payout rates year by year.

In comparison with the capital markets in developed countries, China's stock market functions to provide financing services for companies. Based on the Wind database statistics, the inability of investors to acquire returns from listed companies has become a common phenomenon. The data showed that there were 499 companies that did not pay cash dividends for 3 consecutive years from 2017 to 2019 while 327 companies did not pay cash dividends for five consecutive years from 2015 to 2019. As of 2019, 194 companies did not pay dividends for the past 10 consecutive years. Several companies became "well-known companies" because they did not pay dividends such as Jinbei Automotive, etc.

This section shows the analysis of the non-participating companies from the meso level. The cash dividend data from 4171 companies were selected from the Wind database in the year 2010 to 2019 and the industry distribution of non-dividend companies was analyzed. The statistical results are shown below.

Table 1. Industry distribution of non-dividend companies

Industry category	C	B	A	Mean
Energy	0.04	0.14	0.18	0.12
Material	0.05	0.09	0.13	0.09
Industry	0.04	0.06	0.11	0.07
Optional consumption	0.05	0.09	0.14	0.09
Daily consumption	0.07	0.13	0.15	0.12
Medical insurance	0.04	0.06	0.07	0.06
Financial	0.02	0.03	0.06	0.04
Information Technology	0.05	0.06	0.11	0.07
Public utilities	0.09	0.12	0.18	0.13
Real Estate	0.09	0.14	0.16	0.13

According to Table 1, C, B, and A represent the number of companies that did not pay cash dividends in 10 years (long-term), 5 years (medium and long-term), and 3 years (medium-term) respectively. Among the companies that did not pay long-term dividends (10 years), the industrial sector accounted for a relatively large percentage which was 20.61%.

It can be seen that companies which did not pay dividends for a long time predominantly involved three industries which were the public utilities, real estates, and daily consumptions. A common feature of public utilities and real estate development is the long production cycle. These industries need to invest a large amount of capital in engineering constructions, but the capital return is slow; hence, it takes a longer time to gain benefits. Only if large-scale projects are successfully completed, they are then more likely to pay dividends; otherwise, they would face the risk of bankruptcy.

On the other hand, the daily consumption industry often requires flexible cash flow to support its commodity turnovers. Compared to other industries, daily consumption industries do not tend to make high profits via the sales of a single product, but they are dependent on the sales volume of products sold. Therefore, most profits from such companies are used to promote their brands, stores, or products to increase sales and eventually, gaining more profits.

It can also be seen that listed companies which did not pay dividends for medium-term involved three other industries which were the finance, information technology, and industry.

The financial industry mainly comprises of investment companies. In China, financial industries rarely lose money; however, there are many financial companies that do not pay dividends for many years. The main reason is that most investors would buy companies' stocks not for the sake of dividends and most profits are made through the bid-ask spread.

One of the characteristics of the information technology industry is research and development (R&D). Large investments are required for scientific research and innovation, yet its returns are ambiguous. Only if the market recognizes the research results, then the investments would be rewarded. In this way, companies may pay dividends. In contrast, there will be less dividends or no dividends at all if the situation was otherwise.

3. The Influence of Internal Factors

In analyzing the internal factors of a company, financial indicators are considered as objective factors that would affect a company's dividends. For listed companies to implement dividend policies, the prerequisite is that firstly, they need to have sufficient cash flow in which it is a necessity to have good profitability prior implementing dividend policies. Secondly, companies need to have adequate solvency. Debts have priority over ordinary equity; hence, companies need to fully settle repayments in time and priority should be given to guaranteeing solvency.

4. Conclusion

In 2008, when the mandatory dividend policy was introduced, the number of dividend-paying companies in various industries increased. This showed that the mandatory dividend policy had evident effect that year; however, the dividend status of different industries such as high-tech industries varied. Since R&D requires a long time and their results are uncertain, there are possibilities that the profits are low without any dividends. Therefore, if such companies do not pay dividends, they should explain their reasons in order to improve the recognition and support from investors.

Disclosure statement

The author declares no conflict of interest.

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