

An Analysis of the Influencing Factors of Kweichow Moutai's Dividend Policy

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Abstract: Dividend policy is one of the three main policies of financial management. A reasonable dividend policy is not only beneficial to a company's development, but also the capital market's growth and perfection. In order to develop a reasonable dividend policy, it is necessary to first analyze its influencing factors. Taking Kweichow Moutai as an example, this paper analyzes the characteristics and influencing factors of its dividend policy and provides reference for listed companies to develop reasonable dividend policies.

Keywords: Kweichow Moutai; Dividend policy; Influencing factors

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1. Introduction

As one of the important financial decisions, dividend policy is closely related to the capital structure, capital market, future development direction, and the interests of small and medium-sized shareholders; additionally, it directly affects the interests of investors. A good dividend policy not only preserves the relationship between the listed company and its investors, but also creates a good image for the company and sends a positive signal to the market, thus attracting more investors. Taking Kweichow Moutai as an example, this paper studies the characteristics, causes, existing problems, and countermeasures of its dividend policy and provides reference for Kweichow Moutai and other listed companies to develop reasonable dividend policies ^[1].

2. Influencing factors of dividend policy

The influencing factors of dividend policy include four aspects: legal factors, corporate factors, shareholder factors, and other factors ^[2].

2.1. Legal factors

According to legal provisions, a company must be in accordance with a certain proportion and the basis of the withdrawal of provident fund. As far as China is concerned, the statutory surplus reserve fund should be drawn at 10% of net profit ^[3]. In addition, companies should implement the principle of "No profit, No dividend," which disallows the use of equity and capital reserves to pay dividends.

2.2. Corporate factors

2.2.1. Cash flow

Cash dividend requires sufficient cash flow as a guarantee. Enterprises with sufficient cash flow can adopt

a high dividend policy, whereas enterprises with insufficient cash flow cash flow can only adopt a low dividend policy even if they make profits ^[4].

2.2.2. Investment opportunity

Dividend decision is closely related to investment decision. Generally speaking, if a company has good investment opportunity, the amount of capital required will be larger; the company will then adopt a low dividend policy. However, if a company lacks investment opportunity, it will then adopt a high dividend policy ^[5].

2.2.3. Financing ability

A company is considered to have a strong ability to pay dividends if it has strong financial capabilities and can raise the required funds ^[6].

2.2.4. Profitability

A company with strong profitability and good stability may implement a high dividend policy. Companies with weak profitability and poor stability should implement a low dividend policy ^[7].

2.2.5. Debt-paying ability

Companies with good liquidity of debt-paying assets and strong short-term debt-paying ability may implement a high dividend policy. On the other hand, companies with poor liquidity and short-term solvency should implement a low dividend policy.

2.3. Shareholder factor

2.3.1. Control

In order to protect against dilution of control, shareholders tend to rely on low dividend policy.

2.3.2. Stable income

Shareholders who rely on dividends often hope that the company will pay more stable dividends to obtain a stable source of income.

2.3.3. Tax avoidance

Shareholders with high dividend income tend to adopt a low dividend policy in consideration of tax avoidance because the personal tax on dividends is generally higher than the tax rate on capital gains ^[8].

2.4. Other factors

2.4.1. Debt restriction

In order to guarantee the solvency of a company and protect the interests of its creditors, dividend restrictions are often included by creditors in the loan contract.

2.4.2. Inflation

As inflation causes prices to rise, a company may adopt a low dividend policy in order to make up for the fixed asset replacement capital gap caused by the decrease in purchasing power.

3. Guizhou Moutai's dividend policy characteristics

Kweichow Moutai, as the leader of the local liquor industry, has been adhering to a high dividend policy since its listing in 2001. **Table 1** shows the dividend distribution of Kweichow Moutai from 2015 to 2021.

Table 1. Dividend distribution of Kweichow Moutai from 2015 to 2021

| Reporting period | Dividend per share | Earnings per share | Dividend pay rate (%) | Undistributed profits per share |
|-------------------|--------------------|--------------------|-----------------------|---------------------------------|
| December 12, 2021 | 21.68 | 41.76 | 51.92 | 127.9 |
| December 12, 2020 | 19.29 | 37.17 | 51.9 | 109.5 |
| December 12, 2019 | 17.03 | 32.8 | 51.92 | 92.26 |
| December 12, 2018 | 14.54 | 28.02 | 51.89 | 76.41 |
| December 12, 2017 | 11 | 21.56 | 51.02 | 63.69 |
| December 12, 2016 | 6.79 | 13.31 | 50.99 | 49.93 |
| December 12, 2015 | 6.17 | 12.34 | 50.01 | 43.69 |

As can be seen from **Table 1**, Kweichow Moutai's dividend policy has certain characteristics.

3.1. Cash dividend as the main mode of dividend payment

The forms of dividends include cash dividend, stock dividend, property dividend, and liability dividend. Kweichow Moutai only adopts cash dividend for dividend payment from 2015 to 2021 ^[9].

3.2. Continuity of dividend policy

Since its listing in 2001, Kweichow Moutai has consistently paid out cash dividends every year. The continuity of its dividend policy is good ^[10].

3.3. Stability of dividend policy

As can be seen from **Table 1**, the dividend payment rate of Kweichow Moutai has been relatively stable since its listing in 2001; especially since 2015, Kweichow Moutai's cash dividend payment rate has been stable at about 50% ^[11].

3.4. High dividend payout rate

Kweichow Moutai has been implementing a high dividend payout policy since its listing in 2001. The average dividend payout rate has been as high as 37.72% over a 21-year period. This phenomenon is particularly evident from 2015, in which Kweichow Moutai's cash dividend payout rate has been above 50% ^[12].

4. Analyzing the influencing factors of Kweichow Moutai's dividend policy

The reason why Kweichow Moutai is able to maintain a high dividend policy is strongly tied to the company's cash flow, solvency, profitability, and money holdings on the one hand, and shareholder factors on the other hand. The impact factors of Kweichow Moutai's dividend policy will be analyzed from the company level and shareholder level, respectively.

4.1. High profitability

Kweichow Moutai's high dividend policy is inextricably linked to its high degree of profitability support. As shown in **Table 2**, its average gross profit margin of 91.24%, average net sales rate of 50.55%, total return on assets of 23.31%, and return on equity of 30.35% are all well ahead of the industry average. Kweichow Moutai's super-high profitability has laid a solid financial foundation for its high dividend policy implementation ^[13].

Table 2. Profitability indicators of Kweichow Moutai from 2015 to 2021

| Profitability indicators | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | Average |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|---------|
| Return on equity (%) | 29.9 | 31.41 | 33.09 | 34.46 | 32.95 | 24.44 | 26.23 | 30.35 |
| Return on total assets (%) | 23.78 | 24.98 | 25.65 | 25.69 | 23.44 | 18 | 21.63 | 23.31 |
| Gross profit margin on sales (%) | 91.54 | 91.41 | 91.3 | 91.14 | 89.8 | 91.23 | 92.23 | 91.24 |
| Net profit margin on sales (%) | 52.47 | 52.18 | 51.47 | 51.37 | 49.82 | 46.14 | 50.38 | 50.55 |

4.2. Sufficient operating cash flow

Kweichow Moutai's high dividend policy needs not only strong profitability, but also sufficient operating cash flow. Its operating cash flow from 2015 to 2021 is shown in **Table 3**. As can be seen from **Table 3**, Kweichow Moutai's 2021 cash flow far exceeds the cash dividend paid per share, which is about twice the size of the dividend per share ^[14].

Table 3. Operating cash flow of Kweichow Moutai from 2015 to 2021

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Dividend per share (yuan) | 21.68 | 19.29 | 17.03 | 14.54 | 11.00 | 6.79 | 6.17 |
| Operating cash flow per share (yuan) | 50.97 | 41.13 | 35.99 | 32.94 | 17.64 | 29.81 | 13.88 |

4.3. Strong solvency

A high dividend policy will result in a large amount of cash outflow, reducing the debt service ability and damaging the interests of creditors. Therefore, if an enterprise wishes to implement a high dividend policy, it must have strong solvency; otherwise, it will be bound by creditors. **Table 4** shows the solvency of Kweichow Moutai from 2015 to 2021.

Table 4. Solvency of Kweichow Moutai from 2015 to 2021

| Solvency indicator | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | Average |
|---------------------------|-------|-------|-------|-------|------|-------|-------|---------|
| Current ratio | 3.81 | 4.07 | 3.87 | 3.25 | 2.9 | 2.44 | 3.24 | 3.37 |
| Quick ratio | 3.24 | 3.43 | 3.26 | 2.70 | 2.3 | 1.88 | 2.34 | 2.74 |
| Cash flow ratio | 1.11 | 1.13 | 1.10 | 0.98 | 0.6 | 1.01 | 0.87 | 0.97 |
| Asset-liability ratio (%) | 22.81 | 21.40 | 22.49 | 26.55 | 28.7 | 32.79 | 23.25 | 25.42 |
| Equity multiplier | 1.30 | 1.27 | 1.29 | 1.36 | 1.4 | 1.49 | 1.30 | 1.34 |
| Equity ratio | 0.31 | 0.28 | 0.30 | 0.38 | 0.4 | 0.51 | 0.31 | 0.36 |

As can be seen from **Table 4**, Kweichow Moutai's current ratio, quick ratio, and cash flow ratio averaged 3.37, 2.74, and 0.97, respectively, over the period of 2015 to 2021. The company has strong short-term solvency and good asset liquidity. On the other hand, Kweichow Moutai's average liability-asset ratio is only 25.42%, its equity multiplier is only 1.34, and its equity ratio is only 0.36. These data show that the company has a very strong long-term solvency. Given the foregoing, Kweichow Moutai is highly solvent, both in the short term and in the long term. Hence, Kweichow Moutai has the capacity to pursue a high dividend policy without being constrained by its creditors.

4.4. Adequate monetary funds

Cash dividends must be paid with adequate monetary funds. As can be seen from **Table 5**, Kweichow

Moutai has large monetary funds from 2015 to 2021, with an average holding of 578.24 billion yuan. On the one hand, the enormous sum of money is attributed to the company’s ongoing profit accumulation; on the other hand, it reflects the possibility of Kweichow Moutai’s lack of investment opportunities. Therefore, the money accumulated in the operation has not been fully utilized due to the lack of good investment projects, thus laying an objective basis for Kweichow Moutai’s high dividend policy ^[6].

Table 5. Monetary funds of Kweichow Moutai from 2015 to 2021

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | Average |
|------------------------------|-------|-------|-------|-------|-------|-------|------|---------|
| Monetary funds (100 million) | 518.1 | 360.9 | 132.5 | 1,121 | 878.7 | 668.5 | 368 | 578.24 |

4.5. Shareholder factors

The largest shareholder of Kweichow Moutai is China Kweichow Moutai (Group) Co., Ltd., which is in fact controlled by the State-owned Assets Supervision and Administration Commission of the People’s Government of Guizhou Province. Kweichow Moutai is seen as a typical enterprise that practices the “one share dominating exclusively” notion. As its largest shareholder, China Kweichow Moutai (Group) Co., Ltd.’s has maintained a 54-percent shareholding ratio. Since China Kweichow Moutai (Group) Co., Ltd. is under the jurisdiction of the State-owned Assets Supervision and Administration Commission of the People’s Government of Guizhou Province, Kweichow Moutai’s dividend policy may be influenced by the latter. Given that Kweichow Moutai has sufficient monetary funds and does not need to raise funds by issuing new shares, a high dividend policy may be implemented when the local finance in Guizhou Province is tight. In that way, large shareholders need not to be concerned about the issues of lower retained earnings caused by higher dividends and the dilution of large shareholder control caused by the issuance of new shares to raise funds ^[3].

5. Conclusion

Through the above analysis, Kweichow Moutai has high profitability, sufficient cash flow, a huge sum of monetary funds, good asset liquidity, and strong solvency in view of its efficient operation. All of these have provided strong backing for Kweichow Moutai’s high dividend policy. In contrast, Kweichow Moutai’s largest shareholder is under the jurisdiction of the State-owned Assets Supervision and Administration Commission of the People’s Government of Guizhou Province; hence, it can take advantage of its status as the largest shareholder to participate in dividends by formulating a high dividend policy to increase local fiscal revenue.

There are two sides to the high dividend policy. While taking into account the interests of stakeholders, improving the value of the company, and having stable and sustained high profitability, continuous and stable operating cash flow, as well as strong solvency, its blind implementation may lead to enterprise capital rupture and the weakening of debt paying ability, investment ability, and development ability.

Disclosure statement

The author declares no conflict of interest.

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