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The Characteristics and Causes of Dividend Policy of China's Listed Companies—A Case Study Based on UF Network

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Abstract

Dividend policy is an important part of the company's financial management, which is directly related to the company's survival and development. Although higher incentives can increase shareholders' confidence in the company's development and obtain considerable profits, it will reduce the company's retained earnings, affect the company's further development, and the company's expected growth rate will fall; lower dividends will bring the company more development funds, but deviate from the company's shareholders' wishes and damage the company's image. A company's dividend policy affects the company's financial structure and investment financing activities, reflecting the company's direct return on shareholder investment. This article starts from the "UF network", analyzes its dividend policy, and tries to explain the reasons for this feature.

Keywords

Cashing Policy, Listed Company, Case Analysis

1. The Theoretical Basis

1.1. Non-Distribution of Dividends

The Dividends-Free Theory (MM Theory) was proposed in 1961 by the American economist Franco Modigliani and the finance scientist Merton Miller (Momi). Based on the perfect capital market, Momi puts forward the theory of dividend policy and enterprise value irrelevance from the perspective of uncertainty. This is because the increase of the company's profit and value depends entirely on its investment policy. The market value of the enterprise and the capital structure is irrelevant, but depends on the average cost of capital in its industry and its expected future returns. Under the conditions given by the company's investment policy, the dividend policy will not have any impact on the value of the company. Furthermore, it is concluded that the cost of equity capital of a company is a linear increasing function of its capital structure.

1.2. Dividend Related Theory

The dividend-related theory of the opposite view of the "dividend related theory" school believes that the payment of dividends is subject to a variety of factors. In the case of uncertain factors, the distribution of the company's earnings between retention and dividends will affect the stocks' value [1].

1.2.1. "One Bird in Hand" Theory

The theory of "a bird in hand" was proposed by Gordon and Lintner. The income of shareholders is: first, dividends, and second, capital gains. Shareholders prefer dividends because dividend income is more reliable than future capital gains from retained earnings, and "one dollar today is worth more than one dollar tomorrow". If you do not pay dividends, and let shareholders earn capital gains, it is tantamount to "double birds in the forest." A bird is in the hand, stronger than the two birds in the forest—shareholders prefer cash dividends rather than capital gains, tend to choose stocks with high dividend payout ratios. Therefore, a high dividend policy should be maintained to eliminate the investor's sense of insecurity.

1.2.2. Signal Transmission Theory

The basis for the establishment of signal transmission theory is that the probability distribution of information among market participants is different, that is, information asymmetry. In the case of asymmetric information, companies can pass information about the company's future profitability to the market through dividend policy. The information effect generated by the dividend policy will affect the price of the stock. Given the difference in dividends and investor perceptions of dividend signal information, the judgments made on the value of the firm are different.

1.2.3. Tax Difference Theory

According to the tax difference theory, if the stock transaction cost is not considered, the higher the ratio of dividend distribution, the tax burden of shareholders' dividend income will be significantly higher than the capital gains tax burden, and enterprises should adopt a low cash dividend ratio allocation policy. If there is a transaction cost of the stock, even when the sum of capital gains tax and transaction cost is greater than the dividend income tax, shareholders who prefer to regularly receive dividend income will naturally prefer the company to adopt the high cash dividend payout rate policy.

1.2.4. Customer Effect Theory

Investors with higher marginal tax rates prefer stocks with low dividend payout ratios. Investors with lower marginal tax rates prefer stocks with high dividend payout ratios.

1.2.5. Agency Theory

Common agency conflicts: agency conflicts between shareholders and creditors; agency conflicts between managers and shareholders; agency conflicts between controlling shareholders and minority shareholders. The analysis of the choice of dividend distribution policy based on agency theory will be a complex process of balancing various factors.

1.3. Factors Affecting Dividend Policy

1.3.1. Legal Factors

The business activities of any company are carried out under a certain legal environment. In order to protect the interests of creditors and shareholders, relevant laws and regulations often impose restrictions on the company's dividend distribution. Such as: restrictions on capital preservation; restrictions on the accumulation of enterprises; restrictions on net profits; restrictions on excess accumulated profits; restrictions on insolvency.

1.3.2. Shareholder Factors

The company's dividend policy is ultimately determined by the board of directors representing the interests of the company's shareholders. Therefore, the shareholders' requirements cannot be ignored. The shareholders' own economic interests often have such effects on the company's dividend distribution: stable income and tax avoidance; and dilution of control.

1.3.3. Company Factors

The company's own operating conditions and operational capabilities will influence and constrain the choice of dividend policy: the stability of earnings; the liquidity of assets; the ability to borrow; investment opportunities; capital opportunities; debt demand.

1.3.4. Other Factors

In addition to the above factors, there will be: debt contract constraints; inflation and other factors.

2. UF Network Company Dividend Policy Analysis

2.1. Company Introduction

UF (Group) was established in 1988. In May 2001, UFIDA was listed on the Shanghai Stock Exchange's A-share market (on January 30, 2015, the stock short name was changed from "UFIDA Software" to "UF Network"; stock code: 600588). In 2002, the "UF" trademark was recognized as "China Famous Brand". In 2004, UFIDA Software Co., Ltd. was assessed as a national "key software company". "UFIDA Software" is the most well-known brand in China's software industry and the most representative enterprise in China's software industry. In

2005, UFIDA entered the UF Software Park, which can accommodate tens of thousands of people at the same time and work at a world-class level. UFIDA's goal is to become a world-class, long-lived software company. UFIDA's software products have become the mainstream application software and practical standards for promoting the informationization of Chinese enterprises, providing a powerful tool for Chinese enterprise information construction and ERP popularization [2] [3].

2.2. UF Network Dividend Distribution Plan

The strategy of maintaining high dividends since the launch of UFIDA has been declining in recent years. In 2002, UFIDA released the dividend distribution announcement for 2001. The dividend per share was 0.6 yuan per share. In 2002, 2 shares were transferred for every 10 shares and then 6 yuan. In 2003, every 10 shares were transferred to 2 shares for 3.75 yuan. For every 10 shares, 2 shares will be sent for 3.2 yuan. Prior to 2010, UF's cash dividend payout ratio remained above 70%. According to **Table 1**, the net profit of UFIDA Network began to fluctuate greatly in 2011, and the total profit rate maintained the same trend. The previous abnormal high sentiment is currently changing due to its own profitability, but it remains in a higher position [4].

From **Table 2** we can see that although the decline in total profit has led to a decline in the value of cash dividends per share. However, the overall dividend distribution rate is still rising, indicating that UFIDA still maintains a clear high-distribution policy. In contrast, the cash dividends of the same type of listed companies between 2011 and 2016, the average is only in the range of 0.1 - 0.2.

3. Analysis of the Reasons for the High-Status Policy

3.1. Shareholder Factors

The top three shareholders of UFIDA were under the control of Wang Wenjing, the unified controller. Wang Wenjing's control over Beijing UFIDA Technology Co., Ltd., Beijing UFIDA Management Co., Ltd. and Shanghai UF Technology Consulting Co., Ltd. were 99%, 66.536% and 76.26 respectively. %. Then the two major shareholders also have a relationship with each other as the second and third largest shareholders. This shows that UF has an obvious dominant feature, and the decision-making power of the dividend policy is entirely in the hands of the actual controller Wang Wenjing. Before 2005, China's capital market shares were split, and the shares held by the promoters could not be listed and circulated. Therefore, the private interests of the majority shareholders could not be realized through the stocks in the hands of the traders, and the choice of dividend policy was adopted. And related party transactions transfer profits and cash flows from listed companies. Although through the share-trading reform, non-tradable shares will gradually embark on the road of circulation, but this will still be a long process. The higher the concentration of general equity, the

Table 1. UF 2011-2016 important financial indicators (unit: yuan).

ITEM \ YEAR	2011	2012	2013	2014	2015	2016
Net profit	486,705,905	387,154,236	568,659,075	569,555,393	291,524,434	244,169,080
Total assets	4,917,585,822	5,587,871,215	7,229,803,894	8,810,634,863	9,341,286,038	12,155,131,565
total liability	2,010,492,845	2,609,447,308	3,866,908,135	4,368,120,313	4,291,541,727	5,766,723,203
Operating income	2,480,196,110	4,235,210,610	4,362,690,774	4,374,241,957	1,622,838,106	5,113,348,861
Total profit	532,690,980	441,034,267	647,064,749	611,823,146	283,597,934	295,489,206
Owners' equity	2,907,092,977	2,978,423,907	3,362,895,759	4,442,514,550	5,049,744,311	6,388,408,362
Equity concentration indicator (%)	29.0814	29.3103	29.9164	29.5681	28.7259	28.6337

Source: Guotaian Database.

Table 2. UF Network 2011-2016 Dividend Distribution Plan (Unit: Yuan).

ITEM \ YEAR	2011	2012	2013	2014	2015	2016
Earnings per share	0.66	0.39	0.57	0.47	0.2	0.14
Payout ratio	0.4	0.2	0.3	0.3	0.15	0.13
Transfer ratio	0.2	0.2	0.2	0.2	0.2	0.2
Cash dividend per share	0.36	0.19	0.285	0.285	0.15	0.13
Dividend distribution ratio	0.592473	0.505785	0.51235	0.617018	0.640548	0.779616

Source: Guotaian Database.

greater the possibility of transferring cash flows from listed companies through high-value distribution, as cash flow will flow more to controlling shareholders. As mentioned above, UF is a listed company controlled by a large shareholder. Wang Wenjing's control over the listed company reached 63.75% before 2007 and 53.15% after 2007, so it is possible to use the dividend policy to gain control of private interests.

3.2. Company Factors

Before 2010, the company's profitability was relatively stable, and there was a very low debt repayment pressure. This seems to be a reason for UF's high sentiment. In the last six years, the company's profit margin has fluctuated, so the ratio of distribution has also declined. Stable and sustained profitability and cash flow are the basis for UF's implementation of high cash dividends, and the stability of earnings has a significant impact on dividend policy. It can be seen from the above table that UF's six-year operating income growth and decline alternated, and the company's earnings per share continued to decline, and the dividend per share also decreased.

3.3. Other Factors

On the legal level, the developed capital markets of the United Kingdom and the

United States have certain regulations on capital preservation, capital accumulation and solvency. In order to ensure the normal operation of the company, it is not allowed to over-allocate profits to shareholders. In these aspects, the equity of UFIDA is relatively concentrated, and the proportion of shares held by minority shareholders is relatively dispersed. Adopting a high cash dividend policy can play a role in transferring funds. In addition, UFIDA receives a large amount of business traffic every year and has sufficient funds. In order to maintain the stability of China's capital market, the CSRC and the Ministry of Finance also regard the cash dividends of listed companies as one of the necessary conditions for obtaining refinancing qualifications. However, we found that UF has not carried out any refinancing since its listing in 2001. Therefore, the law is not the main reason that affects the use of UF [5] [6].

4. Summary of the Revelation

Although this high dividend policy is reasonable in the short term, in the long run, this policy is worrying for the company. Continued high cash dividends will inevitably reduce the company's cash reserves. When good investment opportunities come, or when the company conducts technology development research, it will inevitably require a lot of money. At this time, the company has to make up the capital gap by issuing stocks or borrowing. This will inevitably increase the company's cost of capital. Changing the form of dividends, that is, part of the cash dividend, part of the stock dividend will be a relatively better choice.

Under the current institutional framework, UFIDA's high-dividend dividend policy is the result of rational behavior of private-sector controlling shareholders with clear property rights seeking to maximize their profits according to market economic principles. However, the company's dividend policy choice should be comprehensively considered. The influence of factors includes not only the financial status of the company in different periods, but also the company's strategic planning, investment and financing policies, etc., in order to balance the interests of shareholders, investors, operators and other parties.

In addition, the shortcomings of this article are: First, the analysis of the data only covers part of the listing period; second, the lack of a similar type of company for comparative analysis.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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