

Practices of Dividend Policies Adopted by Energy and Utilities Companies Listed on the BSE

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Abstract: *This paper aims to highlight how dividend practices are implemented by major energy and utility companies listed on the Bucharest Stock Exchange. The analyzed sector is of particular importance due to the fact that the firms in this category are always in the attention of investors, knowing that the obtained profits are quite consistent. In addition, for three of the five surveyed companies, the state is the majority shareholder and for the fourth, SNP, it still has a significant package. Therefore, it is interesting to see to what extent the majority and minority shareholders' interests are harmonized, given that the dividend decision is also a means of selecting the shareholder.*

Keywords: shareholders, profit, rate, output, investment, financing.

JEL Classification: G32

1. Introduction

It is a noticeable fact that the share of the net profit that is distributed as dividends vary considerably from firm to firm. The ability of firms to pay dividends is closely related to both its profitability and the available liquidities.

Also the problem of dividends distribution is imposed by both shareholders and by the need to maintain a favorable position in the financial market.

Therefore, the distribution of dividends is primarily a liquidity problem because it sometimes involves the payment of substantial sums in a short period of time. Especially in the current situation of large Romanian companies that were partially privatized in one form or another and for which there is an obvious disproportion between their return status, sometimes very good and the severe shortage of cash which creates problems even for the regular payment of salaries and related obligations, the payment of dividends depends on the creation of the necessary cash.

Secondly, the proportion of dividend distribution depends on the ability of leaders – interested in capitalizing profit for development - to persuade shareholders that it is useful to reinvest profits in firms' investment projects. For this, they need to ensure a correct and convincing information in terms of both the expected profitability of internal development projects and the profitability of considered investments for company's external development.

Thirdly, for the design and implementation of a dividend decisions which would conduct the mediation between the interests of managers and those of shareholders, the dividend income tax requirements imposed by the state must be harnessed compared to the proportion of income tax or other facilities that are in connection with reinvestment of company's profit.

2. Methodology

Dividend decision practice is characterized by two elements: **the distribution rate and the amount distributed.**

To the extent that the dividend is an impairment of the net result for the year, it is appropriate to study the relationship between the net profit per share (NPS) and the dividend per share (D).

The distribution rate that characterizes some practices dividend decision is:

$$R_d = \frac{D}{NPS} \cdot 100 \quad (1)$$

The decision to distribute a larger or a smaller net profit to shareholders - in the form of dividends - determines the amount of the capitalized net profit. Therefore, **determining the allocation of the profit rate** is a fundamental problem for the company because, logically, the net profit compensates shareholders for the bearing risk.

The decision to distribute dividends is considered low if the distribution rate is below 20%, and strong when it exceeds 60%.

An optimal dividend decision involves ensuring a balance between the net profit distributed as dividends and the remaining cash flow that will ensure future growth of the company, and therefore assumptions for the share price growth.

When the general meeting decides to not fully distribute the net profit, a part of the private ownership will not be able to gain an immediate income but to hope to achieve a future income. This is the basis for selecting business ownership.

Therefore, creditors are directly interested in the distribution rate, in particular its bondholders in order not to have a transfer of wealth from them to shareholders. As their remuneration is often, fixed (the interest rate being fixed), if the level of risk taken into account in determining the actual interest is lower than the real risk, their bonds will decrease, resulting the remembered transfer.

Recalling the *interest of company managers* to benefit from a direct source of cash flow with a cost equal to the cost of equity but which improves the financial structure of the firm, it is obvious the interest of the company to implement optimal dividend decisions that would reconcile the conflicting of interests of the key actors.

From the beginning, we must note that the special interest of the dividend issue has been the subject of numerous theoretical developments and empirical studies testing these theories and theses without, however, reaching common views, and therefore not one can speak of a unitary dividend decision but rather *methods and practices underlying the decision of dividend distribution.*

The scientific literature has outlined four main types of dividend decision practices:

- direct participation or constant payout ratio;
- residual dividend or opportunity policy;
- stable and increasing dividend policy;
- stable dividends per share policy.

A. Direct participation policy or constant payout ratio

According to the constant payout ratio, the dividends follow closely the fluctuation of the net profits. This can be mathematically transposed by the equation:

$$D_t = R_d \cdot NPS_t \quad (2)$$

where:

D_t = dividend in year "t";

R_d = constant distribution rate;

NPS_t = net profit in the year "t";

This type of policy is characterized by a high turnover of dividends (the dividend directly follows the evolution of the net profit per share). This causes negative effect on the exchange rate in the years when profits are down compared to previous years, and thus on maximizing the market value of the company.

B. Residual dividend policy or opportunity policy

According to this policy, dividends fluctuate depending on the investment opportunities of the firm. This can be mathematically transposed by the equation:

$$D_t = f (I_t) \quad (3)$$

where:

I_t = proposed investments in "t".

In this case, the dividend depends on the profit available after financing the needs for investment projects. In this respect, it chooses the most profitable projects, proving reinvestment in higher yield compared to other market investments or investments in products and services.

The essence of this decision is that new investment projects will increase the value of the company and shareholders will be paid by capital gain. This type of policy is adequate, particularly for small companies with rapid growth.

C. Stable and Increasing Dividend Policy

This type of policy is characterized by the fact that dividends evolve regularly and meet for a slight profit growth regardless of profit fluctuations. This can be translated mathematically by the equation:

$$D_t = f (D_{t-1}) \quad (4)$$

Even though in some years the profit falls, the stability of the dividend decision and even a slight increase in shareholders' dividends makes them not to sell their shares. On a long term this decision succeeds in recording an upward trend of the dividend per share which will result in increasing business value, to the extent that the cost of equity rate will be lower due to the fact that the company offers regularity in this sense.

D. Stable dividends per share policy

According to this practice, the company seeks to maintain a stable amount of the dividend per share for a long time and can be mathematically transposed as follows:

$$D_t = D_{t-1} = D_{t-2} = \dots \quad (5)$$

In general, this policy is suitable for companies which do not have significant fluctuations in net income per share from year to year.

3. Case study regarding dividend policies adopted by energy and utilities companies listed on the BSE

A particularly important sector index is BET-NG which shows the price movement of the companies traded on the BSE's regulated market and whose main business activity is associated with the energy sector and its related utilities.

Of the eleven companies, components of the index, we have chosen the most important and who constantly granted dividend in recent years: OMV Petrom SA (SNP), SNTGN TRANSGAZ S.A. (TGN), C.N.T.E.E. Transelectrica S.A. (TEL) Oil Terminal S.A. (OIL) and Rompetrol Well Services S.A. (PTR).

For each of these companies, we analyzed the evolution of the dividend per share, the dividend distribution rate and the gross dividend yield.

The main activity of **OMV Petrom S.A** is crude oil. The main shareholders (given the available information at 06/30/2013) are: OMV Aktiengesellschaft Vienna (51.0105%), The Ministry of Economy (20.6389%) and the Property Fund (18,9934%)¹.

Table .1. The evolution of the dividend per share, the dividend distribution rate and the gross dividend yield at OMV Petrom

Company name	Years	Total net profit (RON)	Total dividends (RON)	Dividend per share (RON)	Dividend Type	Dividend distribution rate	Gross dividend yield
OMV PETROM S.A.	2007	1.778.042.301	1.081.900.000	0,0191	gross	60,83%	3,90%
	2008	1.022.387.463	-	-	-	-	-
	2009	1.368.127.631	-	-	-	-	-
	2010	1.799.154.602	1.002.600.717	0,0177	gross	55,66%	4,13%
	2011	3.685.607.226	1.755.960.000	0,0310	gross	47,64%	7,66%
	2012	3.850.620.876	1.586.035.033	0,0280	gross	41,18%	6,50%

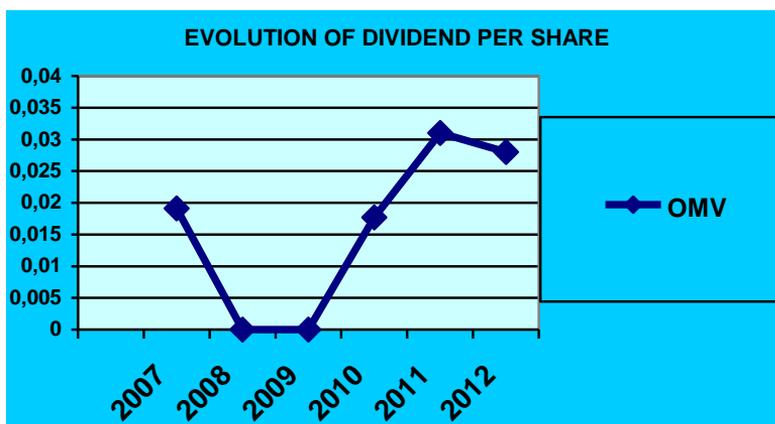


Fig. 1

We can see that the dividend distribution rate is strong in 2007 and normal to strong in 2010, when it was decided to ensure a balance between the share of the net profit which was distributed as dividends and the remaining funding share which will ensure the future growth of the company.

The company decided not to distribute dividends for the profit of 2008 and 2009, in order to maintain a high level of liquidity which would support the investment needs of the company leading to its development, this scenario being confirmed by its future development as SNP is one of the most valuable companies in our country.

For 2011 and 2012 we can speak of a normal distribution rate.

In conclusion we can say that the company adopted the residual dividend or opportunity policy, the remaining profit for dividends depending on the level of profit

¹ Source: www.bvb.ro

allocated to meet the needs of investment project, which will lead in future to an increase in firm's value.

The main activity of **S.N.T.G.N. TRANSGAZ S.A. Mediaș** is the transport of gas through pipelines. The main shareholders (given the available information at 09/07/2013) are: the state through the Ministry of Public Finance (58.5097%), juridical persons (19.3826%) and the Property Fund (14.9876%)².

Table 2. The evolution of the dividend per share, the dividend distribution rate and the gross dividend yield at S.N.T.G.N. Transgaz

Company name	Years	Total net profit (RON)	Total dividends (RON)	Dividend per share (RON)	Dividend Type.	Dividend distribution rate	Gross dividend yield
S.N.T.G.N. TRANSGAZ S.A.	2007	224.006.454	113.735.333	9,6600	gross	50,77%	4,24%
	2008	239.007.090	123.272.147	10,4700	gross	51,58%	6,71%
	2009	298.631.541	153.295.449	13,0200	gross	51,33%	5,54%
	2010	376.352.986	338.733.492	28,7700	gross	90,00%	11,07%
	2011	379.571.465	350.389.597	29,7600	gross	92,31%	12,19%
	2012	329.305.243	250.665.138	21,2900	gross	76,11%	9,77%

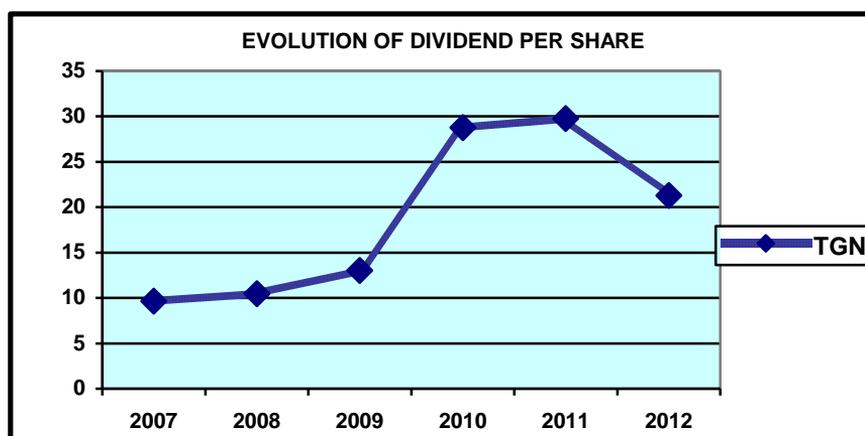


Fig. 2

At **S.N.T.G.N. TRANSGAZ S.A.** it is noted that the profit in the period under review (2007-2012) was used for both setting up their own sources of funding and also to pay the shareholders. In 2007-2009 the rate of dividend distribution was normal, hovering around 50%, and strong in the last three analyzed years when more than 75% of the net profit was allocated to dividends, the investors of the company benefiting from a gross dividend yield of around 10%.

² Source www.bvb.ro

Throughout the entire analyzed period, the dividend depended on the available profit after satisfying the financing needs, the company adopting the residual dividend or opportunity policy .

The main activity of **C.N.T.E.E. TRANSELECTRICA S.A. București** is the transmission of electricity. The main shareholders (given the available information at 06/30/2013) are: the Romanian state through the Ministry of Public Finance (58.6882%), other shareholders (20.7021%) and the Property Fund (13.4990%)³.

Table 3. The evolution of the dividend per share, the dividend distribution rate and the gross dividend yield at C.N.T.E.E. Transelectrica

Company name	Years	Total net profit (RON)	Total dividends (RON)	Dividend per share (RON)	Dividend Type.	Dividend distribution rate	Gross dividend yield
C.N.T.E.E. TRANSELECTRICA S.A.	2007	50.346.732	26.389.131	0,3600	gross	52,42%	1,49%
	2008	41.943.077	21.990.942	0,3000	gross	52,43%	2,40%
	2009	6.135.590	3.665.157	0,0500	gross	59,74%	0,28%
	2010	9.557.424	8.503.165	0,1160	gross	88,96%	0,55%
	2011	109.937.804	80.633.456	1,1000	gross	73,34%	6,32%
	2012	34.487.968	29.614.469	0,4040	gross	85,86%	3,20%

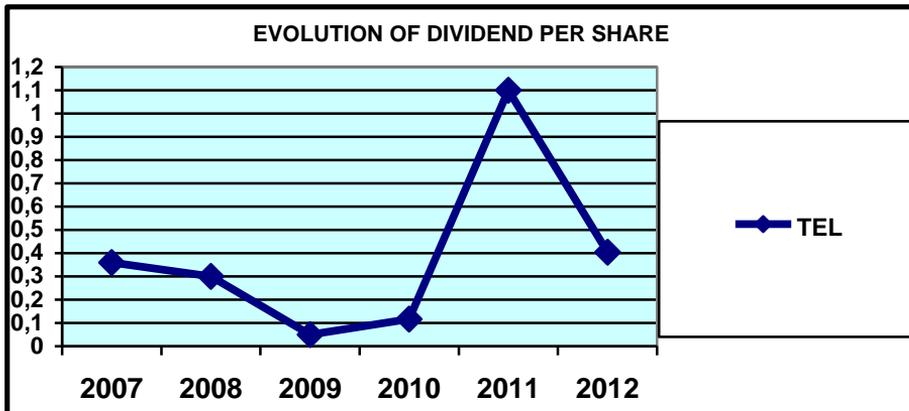


Fig. 3

At **C.N.T.E.E. Transelectrica S.A.** the dividend paid in the period 2007-2012 depended on the profit after the establishment of the legal reserves and other reserves created as own sources of funding and the amount for employees to participate in profit sharing.

So, the rate of dividend distribution is normal in the first three years and raised during the last three, with a low gross dividend yield.

³ Sursa www.bvb.ro

The amount of dividends given to shareholders depended to some extent on the profit evolution, except for the last three years when the rate of dividend distribution increased significantly, reaching more than 88.96% of profit in 2010.

At C.N.T.E.E. Transelectica S.A. it appears that we cannot speak of a specific dividend policy as they are known theory.

The main activity of **OIL TERMINAL S.A. Constanța București** is the conveying of crude oil, petroleum and petrochemical liquid products for import / export and the transit. The main shareholders (given the available information at 06/30/2013) are: the Romanian state through the Ministry of Economy (59.6222%), other shareholders (24.3017%) and the Property Fund (8.4502%)⁴.

Table 4. The evolution of the dividend per share, the dividend distribution rate and the gross dividend yield at Oil Terminal Constanta

Company name	Years	Total net profit (RON)	Total dividends (RON)	Dividend per share (RON)	Dividend Type.	Dividend distribution rate	Gross dividend yield
OIL TERMINAL S.A.	2007	7.496.110	4.660.636	0,0080	gross	62,17%	1,55%
	2008	1.025.680	541.474	0,0009	gross	52,79%	0,58%
	2009	738.545	373.906	0,0006	gross	50,63%	0,26%
	2010	2.008.441	1.772.904	0,0030	gross	88,27%	1,39%
	2011	545.419	1.956.397	0,0034	gross	377,78%	2,30%
	2012	540.105	496.313	0,0009	gross	91,89%	0,50%

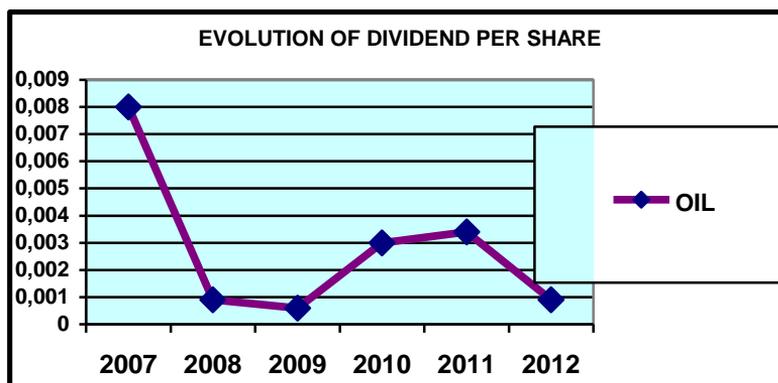


Fig. 4.

Oil Terminal Constanta S.A. practiced a normal dividend distribution rate in 2008 and 2009 and a strong dividend distribution rate for the rest of the analyzed years, in 2011 the amount of the dividends distributed reaching to nearly four times the profit for this year. However, the gross dividend yield is, at present, lower compared to the average rate of return on financial market.

The amount of dividends distributed by the company depended to some extent on the evolution of the net profit but also on the investment opportunities for the firm.

⁴ Source www.bvb.ro

The profit for each financial year was allocated to the following destinations: the establishment of legal reserves, employees' participation in profit, own sources of funding and dividends.

The main activity of **ROMPETROL WELL SERVICES S.A.** are the services related to the extraction of crude petroleum and natural gas. The main shareholders (given the available information at 06/30/2013) are: The Rompetrol Group NV Amsterdam (71.7391%) and other shareholders (20.9386%)⁵.

Table 5. The evolution of the dividend per share, the dividend distribution rate and the gross dividend yield at Rompetrol Well Service

Company name	Years	Total net profit (RON)	Total dividends (RON)	Dividend per share (RON)	Dividend Type.	Dividend distribution rate	Gross dividend yield
ROMPETROL WELL SERVICES S.A.	2007	17.257.705	-	-	-	-	-
	2008	24.169.609	6.617.582	0,0240	brut	27,62%	6,08%
	2009	13.672.796	4.172.864	0,0150	brut	30,55%	3,80%
	2010	14.553.986	4.250.000	0,0150	brut	28,68%	4,36%
	2011	15.813.330	8.067.536	0,0290	brut	51,02%	10,18%
	2012	22.053.148	8.067.536	0,0290	brut	36,58%	8,90%

Rompertrol Well Services S.A.

In the period 2008-2012 the profit was distributed as follows: for the establishment of legal reserves, for their own sources of funding and other reserves and also for dividend distribution. As it can be seen from the table, the rate had a normal distribution, the dividend depending on the profit available after satisfying the financing needs of the company.

For the profit obtained in 2007, the company decided to not pay dividends, those being fully incorporated into legal reserves and other reserves, following to be used in the next year for capital increase.

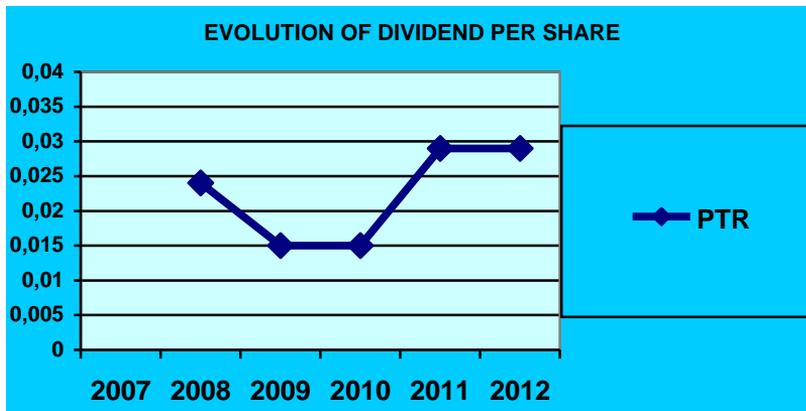


Fig. 5

⁵ Source www.bvb.ro

4. Conclusions

The dividend decision is the most controversial financial decision as the "thorny point" for both the investment decision and the financing decision is actually the dividend.

However, theoretical efforts and practical observations regarding the dividend issue have revealed the several aspects of which, the most important are:

- the way investors assess companies according to a higher or lower rate of distribution;
- the signal sent to investors by companies which, although profitable, do not distribute dividends on investment opportunities. Do future investments bring more wealth than the dividend distributed at present?;
- if the distributed dividends are a signal to investors regarding the anticipation of company's future profitability;
- the way dividends regulate conflicts of interest between the active participants in the life of the company.

All this aspects highlight the role of dividend's informational content on the capital market.

We believe that, in our country, we cannot speak yet, of the application by companies of certain practices of dividend decision. This is because as long as the economic situation does not prove stability, the obtained results are in most cases conjectural. We will talk about dividend decision practices only when the economic situation is relatively stable.

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