Tech Stocks and Dividend Policy in Malaysia

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(Received: 8 April 2023; Accepted: 29 April 2023)

Abstract— Malaysia is a developing country, and the capital market is evolving here more than in other emerging markets. Literature on dividend policy has generated extensive theoretical and empirical research, but no broad consensus has emerged after decades of research. The sole determination of this study is to determine the factors affecting the dividend policy of technology stocks listed in Bursa Malaysia. The paper attempts to present the primary studies on dividend policy to provide a thorough understanding of technology corporations' payout practices in Malaysia and reaches inconclusive evidence.

Keywords: *Dividend policy, Technological corporation, Malaysia*

1. INTRODUCTION

The stock market can be considered a useful foundation for corporations to increase cash. Besides, the stock market provides a channel for technology stocks to expand their business through capital raising and makes the business go public. Several internal and external factors are there that effects dividend policy in Malaysia. Porta et al. (1998) state that several internal factors include economic stability, liquidity, profitability, and investment opportunities. In contrast, technological advancement, market growth, change in consumer taste and legal settings are some external factors. They have a great concern with dividend payments which increase the confidence among shareholders. Dividend policies correlate to other financial and investment decisions (Lahiri and Chakraborty, 2014), especially for technological corporations.

2. REVIEW OF EMPIRICAL LITERATURE

One of the considerable research subjects of technological corporations is dividend policy. Most of the studies attempted to locate "how" corporations pay a dividend that denotes back to the 'drivers' of dividend policy. Each element affecting dividend policy is analyzed quantitatively (Banerjee et al., 2007) and qualitatively (Khan et al., 2017; Dhanani, 2005; Lintner, 1956). But the riddle of dividends remains unresolved. Mokaya (2013) examines the measures of the outcome of dividend policy available in the value of the market share in the Kenyan banking industry by using country-wide financial institutions in Kenya. The authors used the main data pattern of hundred shareholders pinched from the target population of forty-seven thousand shareholders of the countrywide financial institution of Kenya. This study examined the operation of the hypothetical model using ANOVA, where multiple regressions measured the statistics to check the technique that explains the association between market share value and dividend payout.

The result indicates a sturdy and effective correspondence between market share value and dividend payout, which is 0.85. It is also obvious that the growth in the price of shares has resulted in a boom in dividend payouts. The majority of respondents indicated that they considered the payment of dividends as a vital element within the value of shares, which means that growth in a dividend payout grounds an increase in stock price. The observation additionally discovered that the private information of dividends disclosed well signal than different sorts of broadcasting, thereby improving the value of the share. Additionally, comparable results were found by Murekefu and Ouma (n.d.), primarily among 41 organizations quoted from the Securities Trade of Nairobi. Over the while of 2002 to 2010, a statistical regression analysis was pinched from the financial statements. The study determined that the connection between dividend payout and the company's performance was strongly effective. In different

DOI: https://doi.org/10.69955/ajoeee.2023.v3i1.45

phrases, a company's performance additionally represents shareholders' wealth. At a 1% significant level, the relationship was proven to have a strong positive correlation. This shows that dividend is a considerable component in impelling a company's performance while dividend policy corresponds. Moreover, analysis of regression was used in determining the relationship between a company's performance and dividend payout. Primarily based on their research, dividend pay was measured by the usage of the effective dividend received. The company's overall performance was measured through the net earnings after tax which denotes profitability.

In a study by Zakaria et al. (2012), it is explained that there is a significant positive relationship between a company's dividend payout and stock price volatility, which led to a correlation of 0.0026 between them. This study analyses the effect of dividend policy on the stock price volatility of Malaysian indexed production and material organization registered at Bursa Malaysia and covers a duration of six years from the year 2004 to the year 2009. It was primarily based on a sample of 77 companies from Bursa Malaysia and utilizing the least square approach. The author determined that the stock prices turn riskier when the dividend payout is more significant. But this study discovered that only 43.43% of the stock price adjustment are explained by the dividend payout ratio.

On the other hand, in line with the study, Hashemijoo (2012) found a significant negative relationship between dividend payout and stock price adjustments. The result indicates a value of -0.382 and it is considered at a 1% significant level. It showed that a reduction within the dividend payout reasons for growth in the stock price volatility. A sample of 84 corporations from 142 consumer product organizations registered under the primary market of Bursa Malaysia was tested for this study and the usage of multiple regression for six years, from 2005 to 2010. Another study by Ilaboya and Aggreh (2013) was conducted primarily based on organizations indexed within the Nigerian stock market. A sample of 26 corporations throughout several sectors was chosen by a simple random sampling method from 2004 to 2011. Researchers used pooled OLS and panel EGLS methods for this study to test the hypotheses.

Moreover, the researchers performed numerous tests consisting of Multicollinearity, Heteroscedasticity, Autocorrelation, and model specification tests using E-views 7.0. The findings showed that dividend payout imposes a poor and insignificant impact on stock price volatility with a poor coefficient of -0.092 and insignificant at 5% and 10%. Subsequently, this indicated that higher payout ratios could signal lesser stock volatility.

3. TRENDS, PERSPECTIVES, AND CHALLENGES

Investors are attracted to technological securities due to their higher growth potential. Dividend policy is crucial for corporations and shareholders (Chauhan et al., 2019). Investors use it as a gauge to see the future performance and stream of income (Kim and Seo, 2014). Dividend policy in Malaysia is at a diverse level. Corporations modify and determine the dividend policy keeping in view the income generated by them (Lintner, 1956). All the sectors pay dividends, even a small quantity (Pandey, 2003). The reason for this low dividend payment is the lower stream of income. It is observed that the plantation sector pays a higher dividend than technological corporations and the service sector, which pays low dividends compared to other industries listed on Bursa Malaysia. In recent years, Malaysia has been logged as Asia's second-largest dividend payout country. From 1973 to 1977, corporations paid dividends of 0.33%, which increased to 3.7% in 1999. In addition, corporations are delisting and merging with other corporations and stopping paying dividends.

Moreover, Zameer et al. (2013) stated that distressed firms are experiencing negative income termination to pay dividends. The growth organizations also do not pay dividends due to lower income compared to dividend-payer organizations. Technological corporations, with their massive progress and funding possibilities, will pay their dividend and, at the same time, will generate poor income. Further investment will be made to expand their business as well. Large corporations generally pay higher dividends because they are transparent in their operations and have better earnings ability.

Malaysian government imposed the tax on dividend income and the imposition of tax on cash dividends is an extra burden to the shareholders than the tax on capital gains. Traders choose to earn returns on capital gain instead of dividend income. In line with Al-Malkawi et al. (2010), shareholders focus on after-tax returns, increasing the call for dividends. Tax imposition consequently affects the dividend distributions where the management board tends to increase the retained earnings to increase the shareholders' wealth. Given this, the choice of dividends is vital for technological corporations, which affects the dividend policy of the firms listed on Bursa Malaysia and in attaining the imaginative and prescient of Malaysia ended up with high profits in 2020. The capital market is predicted to boom to RM5.8 trillion (US$1.93 trillion) with an equity marketplace of RM2.4 trillion (US$800 billion) via 2020 (Security Commission Malaysia, 2013). Under these conditions, dividend choice is a fundamental issue for technology corporations, significantly impacting financing and funding options. Corporations that pay fewer dividends have greater retained earnings. However, a more significant dividend payment results in low retained earnings. Under these conditions, growing corporations meet their financing needs through external funding. Ultimately, dividend policy impacts a firm's capital structure, affecting not only their funding decision but also their cost of capital.

The dividend is considered a primary concern for shareholders and is more likely to increase the value of the firms. But in Malaysia, it is a significant issue that is also being faced by the technology corporations listed on Bursa Malaysia. Besides, firms listed on Bursa Malaysia face severe conditions and are not profitable due to poor performance. Moreover, firms listed on Bursa Malaysia are over-leveraged and bear a high cost of capital. They are paying high-interest expenses and do not have enough funds to meet their financial obligations. Most of the firms fail to pay the debt due to a decrease in their cash flows which results due to dividend payments. In addition, these firms do not have enough funds available to distribute as dividends. Most of the firms listed on Bursa Malaysia are at a loss and earnings per share also decreased. The operating cash flows are also dropping extensively, and firms are not compensating the shareholders properly. Regarding the standard of dividend policy, Malaysia has no precise policies (Sinnadurai et al., 2021). In accumulation to challenging theoretical bearings among dividend coverage, earlier research has stated that dividend decisions might suffer from different factors, including profits, investment opportunities, firm size, lagged dividends and cash flows.

4. CONCLUSION

The impact of various variables on the dividend payout ratio of firms listed in Bursa Malaysia is significantly important in directing the performance of the markets not only for policymakers but also in terms of investors, portfolio managers and researchers. It is observed that the dividend policy of technology corporations in Malaysia does not follow a particular trend. Future research is suggested to expand to countries other else than Malaysia. Evaluation can be done in terms of the outcome attained from altered nations. Furthermore, dividend policy behaviour can be derived after the endurance of the research among different nations. Moreover, there is a difference in sample size among various sectors of countries. A company's decision to pay dividends should not be based solely on the company's liquidity and leverage level. Corporate managers should allow the dividend to be paid and either accumulate liquidity for this persistence or borrow market funds to pay dividends. Borrowing from the market has the added benefit of signalling to the shareholders that the company's strength has not been harmed otherwise the borrowing would not have been feasible.

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