

THE OIL PRICE SLIDE AND DIVIDEND PAYOUT RATIO: AN ASSESSMENT FROM PUBLIC LISTED PLANTATION COMPANIES

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Abstract: *The slide in global oil price issue can affects various sectors including plantation sector. Since the plantation companies have to survive with the objective of maximizing the wealth of the shareholder and therefore dividend decision is really crucial. Hence, this study tries to assess the price of oil effect on dividend payout ratio of public listed plantation companies in Malaysia. Using a panel data spanning from 2007 to 2016, 14 public listed plantation companies are chosen for analysis. A panel static method of Random Effect Model is applied. Finding reveals the oil price has the expected magnitude but unfortunately is insignificant in influencing dividend payout ratio. Nonetheless, other variables chosen as controlling variables such as return on asset, debt to equity and current ratio are significant at 1% and 10% significance level. In conclusion, the price of oil does not affect directly on the dividend payout ratio of public listed plantation companies. Therefore, it explains the phenomenon of despite the continuous slide in oil price, most of the plantation companies in Malaysia persistently cutting the dividend.*

Keywords: *Dividend Payout Ratio, Oil Price, Panel Data, Public Listed Plantation Companies*

Introduction

The increasing challenges of economic environment have given effects to the companies. In order for the companies to survive, the investment decision, financing decision and dividend decision play important roles to achieve the objective to maximize the wealth of the shareholder. Thus, in order to have dividend stability, regular payment of dividend is needed by the companies no matter on the amount paid. Usually the companies resist in reducing the dividend as it would hurt share prices and it would also against with the expectation of the investor. According to Litner (1956), the dividend payout ratio only been adjusted by the company when they have confidence to sustain the change made.

Malaysian companies are stable in paying dividends across all sectors (Pandey, 2003). This view however has been given before the issue of world oil price declines. In Malaysia the drop of oil price has started in the end of 2014 due to the issue of oversupply of crude oil. This eventually saw crude prices fall to a six-year low of \$45.13 per barrel in January 2015, following seven consecutive months of decline (Market Insight, 2017). It continues to drop until 2017 the Malaysian government loss in revenue RM30 billion due to this problem (Fong, 2016). The slide of oil price can affect varies across the sectors including the plantation industry. Plantation is one of the contributors to the economics of Malaysia. The revenue generated from this sector diversified from production in the country and export of the commodities to the other countries. With heavy reliance on the transportation and machineries, the plantation sector is expected to be affected due to the changes of the cost if there are changes in oil price.

Since the dramatically drop in oil prices in year 2015, it is expected that the company should be able to reduce their cost of production as the plantation companies. The reduction in cost of production due to the machineries and transportations is expected to boost the revenue of the plantation companies. The increase in earnings increases the ability of the company in paying dividend. Nonetheless, this is against the reality. Despite the continuous slide in oil price, most of the public listed plantation companies persistently cutting the dividend. For example, Kok (2016) reported many plantation companies have slashing dividends to shareholders. Plantation major public listed companies such as Batu Kawan Bhd, IOI Corp Bhd and Felda Global Ventures Holdings Bhd (FGV) announced lower dividends for their shareholders. According to Kok (2016) Batu Kawan Bhd for example cut its dividend per share to 50 cent from 60 cent in year 2015 because their net profit fell by 17% from previous year. On the other hand, IOI Corporation Bhd has proposed a lower dividend per share of 3.5 cent compared with 4.5 cent in the preceding period after reporting a 90% decline in net profit for the year 2015.

Against this background, this study is aimed to assess the oil price effect on the dividend payout ratio in the case of public listed plantation companies. Nonetheless, it departs from previous studies such as Gencer and Demiralay (2013), Jafarian and Safari (2015) and Thomas (2016) who focused on the oil and gas companies which are directly related to the price of oil. This study however will focus on plantation companies which heavily reliance on the oil price that will affect their cost of transportation and machineries and consequently their profit.

The remaining of the paper is organized as follows. Section 2 highlights the literature review. Section provides the data measurement and methodology under consideration. Section 4 discusses result and discussion. Lastly, section 4 offers conclusion.

Literature Review

Dividend refers to the profits of a company to be distributed to the shareholders as the reward for investments made by them towards the company. Investment opportunities should be considered by the company before the dividend decisions is made. The company however should be distributed the earning to shareholder if the investment opportunity is not available. There are many views defining on dividend policy. For example, Al-Kuwari (2009) stated dividend policy entails how much of an earning of the organization should be distributed out to shareholders, in the form of dividends as return to their investment in the firm and what percentage should be retained or to finance the organization's plans for future investment. Fitri, Hosen and Muhari (2016) stated that dividend policy is reflected in dividend payout ratio which

the portion of profits that has to be distributed in form of dividend. While, Amidu and Abor (2006) pointed out that companies generally have two options to utilize their profit either to retain it or distribute it in the form of dividends to their shareholders.

Dividend policy has been discussed by many researchers but yet there is no universally explanation for companies regarding dividend behaviour have been accepted. Many studies have highlighted on the impact of macroeconomics and microeconomics or internal factors on dividend behaviour. Study by Fitri, Hosen and Muhari (2016) for example have found that profitability is the main factors influencing dividend policy. Franklin and Muthusamy (2010) and Leon and Putra (2014) however, argue that profit of the company is insignificant factor influencing dividend.

Leverage is the company's ability to meet all obligations. Rafique (2012) highlighted that firms that have high leverage tend to retain the cash to fulfil the obligation, rather than pay dividends. The high transaction cost of the highly leverage company will make the company pay low dividend. Nonetheless, the results obtained are contrary with Fitri et. al. (2016) that leverage is insignificant in influence dividend payout ratio. Besides that, Musiega et. al. (2013) pointed out that dividend payment is influenced by liquidity of the companies itself. Companies will pay dividend when they have strong liquidity position. The company with liquidity problem decrease ability to pay the dividend because the company have shortage in cash. Investment opportunity is another factor that influencing the dividend payment. Musiega et. al (2013) stated that the company that have less investment opportunities will pay high dividend to avoid the manager from investing the excess cash overly. Dividend is not only been influenced by internal characteristics of firms but it can be influenced by the macroeconomic factors such as inflation and GDP (i.e Jablonski & Kuczowi, 2015).

Focusing on the main issue of the study, Gencer and Demiralay (2013), Jafarian and Safari (2015) and Thomas (2016) have focused on the impact of oil price on the dividend payout ratio. The impact of oil prices vary across sector and will react to dividend payout ratio differently. For example, Thomas (2016) stated slumping oil prices has led the dividend policies to be slashed or fully scrutinized. This report has been done in oil and gas companies, thus the lower the lower price of oil will shrink the income of the company and lower their dividend payout ratio.

Another study which has investigated the impact of oil prices on sectoral return is Gencer and Demiralay (2013). Using 18 sub-indices from Borsa Istanbul in January 2002 and April 2013 this study has been done in Turkey. The Vector Autoregressive (VAR) and VECM (Vector Error Correction Model) are adopted to analyze the data. While, impulse response and Granger causality methods are applied to determine the structural relationship between variables. The finding shows that a long run equilibrium relation of oil prices to chemical-petroleum-plastic sub index as oil prices directly affect the revenues of the sector. The empirical results reveal no long run equilibrium relation for the other sub-indices. Study by Jafarian and Safari (2015) also examine the impact of oil price fluctuations on returns of different sectors of Malaysian stock market over the period from January 2000 to March 2014. The effect of oil prices on the return is measured by using multifactor regression. The result reveals oil price has positive impact to the changes on consumer staples and energy sector index returns.

Data Measurement and Methodology

A panel data set is used for this study. Data is collected based on annual financial statements of listed companies which are obtained from the DataStream database and World Bank. 14 of public listed plantation companies are selected with yearly data spanning from 2007 to 2016. The selection of the companies also considered based on uniformness and the availability of the financial statement for each public listed plantation companies in Malaysia.

In assessing the effect of oil price and the dividend payout ratio, other internal characteristics of plantation public listed companies such as return on asset, leverage, current ratio, and market price to book value are also selected as controlling variables. The profitability is presented by return on asset. Investment opportunity is indicated by the Market to book value. On the hand, the current ratio represents the liquidity of the companies. Thus, the estimation model is constructed as follows;

$$\text{DPR}_{i,t} = \alpha + \beta_1 \text{ROA}_{i,t} + \beta_2 \text{DER}_{i,t} + \beta_3 \text{CR}_{i,t} + \beta_4 \text{PBVALUE}_{i,t} + \beta_5 \text{OP} + \epsilon_{i,t} \quad (1)$$

Where;

DPR	= dividend payout ratio
ROA	= Return on asset
DER	= Debt to equity ratio
CR	= Current ratio
PBVALUE	= Market Price to Book Value
OP	= Oil price
ϵ	= error term
β	= coefficient
i	= sample
t	= year

Three models of panel static are tested in obtaining the final result. These include the Pooled Ordinary Least Square Model (POLS), the Random Effect Model (REM) and the Fixed Effect Model (FEM). The equation of Pooled Ordinary Least Square is shown as;

$$\text{Y}_{i,t} = \alpha + \beta_1 \text{X}_{i,t} + \epsilon_{i,t} \quad (2)$$

While, the Random Effect Model take the equation of;

$$\text{Y}_{i,t} = \alpha + \beta_1 \text{X}_{i,t} + (\epsilon_{i,t} + \mu_{i,t}) \quad (3)$$

When testing to determine whether to choose Pooled Ordinary Least Square Model or Random Effect Model the test Breusch Pagan Lagrangian multiplier test has been applied. The hypothesis is been set as follows;

- H₀: Choose Pooled Ordinary Least Square Model
H₁: Choose Random Effect model

If the probability of Chi² is less than 0.05, therefore the H₀ is been rejected and the random effect model is used.

The study can be further developed using the Fixed Effect Model as follow;

$$Y_{i,t} = \alpha_i + \beta_1 X_{i,t} + \epsilon_{i,t} \quad (4)$$

If the analysis is proceeded to decide the model of Random Effect Model or Fixed Effect Model another test of Hausman Fixed Test is applied. The hypothesis of Hausman Fixed Test is;

H₀: Choose Random Effect Model

H₁: Choose Fixed Effect Model

In determining to choose the Fixed Effect Model the Hausman Fixed Test, the Chi² should be less than 0.05. This indicates that H₁ is accepted and the analysis can proceed to Fixed Effect Model.

Finding Analysis

Table 1 shows the descriptive statistics which comprises of mean, max, min and standard deviation. Overall results from the summarization reveal that there are small differences between mean and standard deviation and indicates data is well scattered.

Table 1: Descriptive Statistic

Statistic	DPR	ROA	DER	CR	PBVALUE	OP
Mean	-1.0459	-2.7839	2.1645	0.7466	0.1987	4.3253
Max	2.4159	-1.4748	5.2106	4.1790	1.1952	4.6018
Min	-4.7878	-5.6492	-7.5239	-2.1695	-0.9390	3.7679
Std. Dev.	0.9904	0.8557	2.7830	1.12562	0.5428	0.2901

Result of correlation between the variables is presented in Table 2. The value of correlation is range between -1.0 and +1.0 in order to determine the degrees of movement of two variables are associated. Based on the result, it shows that current ratio, price to book value and oil prices have positive correlation with dividend payout ratio. Variables that have a positive correlation indicate that degree of movement of the variable is parallel. If one variable increases the other variable increases and vice versa. However, the return on asset and debt to equity ratio shows a negative correlation to dividend payout ratio. This indicates that when two variables are negatively correlated it indicates that if one variable increases the other variable decreases and vice versa. Meanwhile, return on asset has positive correlation with current ratio and price to book value, but negative correlation with debt to equity ratio and oil prices. The debt to equity ratio has positive association with oil prices and negative association with current ratio and price to book value. Furthermore, current ratio has positive correlation with both price to book value and oil prices. While, market price to book value and oil price shows a direct correlation.

In addition, correlation statistics is also used to detect the existing of multicollinearity problem. From the result, it can be concluded there is no high multicollinearity problem exists between the variables since there is no variable is found correlated more than 0.8.

Table 2: Correlation of Coefficient Analysis

Correlation	DPR	ROA	DER	CR	PBVALUE	OP
DPR	1.0000					
ROA	-0.1401	1.0000				
DER	-0.2662	-0.2376	1.0000			
CR	0.4684	0.0390	-0.6587	1.0000		
PBVALUE	0.2485	0.4016	-0.0911	0.2327	1.0000	

OP	0.0498	-0.2368	0.0980	0.1167	0.0875	1.0000
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In order to confirm the existence of multicollinearity problem, the Variation Inflation Factor (VIF) is carried out. As recorded in Table 3, Mean VIF also indicates that there is no multicollinearity problem. The result reveals the mean VIF 1.62 is less than 5 thresholds.

Table 3: The Vector Inflation(VIF) Test

Variables	VIF	1/VIF
ROA	1.44	0.694637
DER	2.06	0.484386
CR	2.08	0.481185
PBVALUE	1.36	0.734774
OP	1.14	0.879297
Mean VIF	1.62	

After the series of test in determining which model should be used, the Breusch Pagan Lagrangian multiplier test has shown the p-value of χ^2 is significant. The value of χ^2 is 0.0016 which is lower than 0.05 which show null hypothesis can be rejected. Thus, Random Effect Model instead of Pooled Ordinary Least Square Model will be used. Nonetheless, this study unable to proceed for Fixed Effect Model as Hausman Fixed Test shows insignificant p-value of χ^2 . Null hypothesis of choosing Random Effect Model is accepted. Therefore, panel data analysis of Random Effect Model is applied to be the final analysis.

Table 4: Random Effect Model

R Squared	0.3018	F stat (prob) =
0.000		
Variables	Coefficient	P-Value
ROA	-0.3615336	0.005
DER	-0.008074	0.901
CR	0.4293955	0.005
PBVALUE	0.4238621	0.098
OP	-0.3208795	0.353
Constant	-1.092012	0.440

Judging from the result recorded in Table 4, the R-squared of the regression model is 0.3018 which indicates that 30.18% of the dividend payout ratio can be explained by all the independent variables which are return on asset, debt to equity ratio, current ratio, price to book value ratio and oil prices. The probability of F statistics (0.00) shows all the independent variables as whole is significant in explaining the dividend payout ratio.

The finding reveals return on asset (ROA) has a negative significant relationship with dividend payout ratio at the level of significance of 0.01. It indicates that 1% increase in return on asset will decrease dividend payout ratio by 0.3615%. The negative relationship between return on asset and dividend payout ratio is contradicted with Abor and Amidu (2006) and Fitri, Hosen and Muhari (2016) findings. However, the negative relationship can be explained by the reliance of the company on the profits to finance the continuous expansion. The company tend

to keep surplus cash in order to finance their operation rather than distribute the cash to the shareholders.

On the other hand, the debt to equity ratio and dividend payout ratio indicates that 1% increase in debt to equity ratio will decrease dividend payout ratio by 0.0081%. It can be concluded that debt to equity ratio is negatively insignificant related to dividend payout ratio which p-value is 0.901 respectively.

In this study, the liquidity is represented by using current ratio. The positive sign indicates that higher current ratio will lead to higher dividend payout ratio. In addition, p-value of current ratio and dividend payout ratio is 0.005. The coefficient estimates that 1% increase in current ratio will increase the dividend payout ratio by 0.4294%. The finding is consistent with Musiega et. al. (2013). The good liquidity position increases the ability of the firms to pay dividends. Thus, the company with good and stable cash flow are able to pay dividends easily compared with companies with unstable cash-flow position.

Market to book value is used to represent the investment opportunity of the company. The investment opportunity and dividend payout ratio reveal a significant positive relationship. The p-value of 0.098 shows the variable is significant at 10% level of significance. The coefficient estimates that 1% increase in price to book value will increase dividend payout ratio by 0.4239%. The finding suggests that the companies with positive investment opportunity preferred to pay dividends. The positive relationship between investment opportunity and dividend payout explained that more investment opportunity will increase the ability of the company in paying the dividend. This is however contradicts with agency theory which explained that excess cash is better paid to shareholders when the company have a low investment opportunity as also been found by Musiega et. al (2013) and Mui and Mustapha (2016).

The main focus of the study is the effect price of oil to dividend payout ratio. The relationship between oil price and dividend payout ratio is found to follow the expected sign of negative relationship. Nonetheless, the finding shows the price of oil is insignificant influencing dividend payout ratio in Malaysia which p-value is 0.440. The result of coefficient in the random effect test state the 1 dollar increase in oil price will reduce dividend payout ratio by 0.3209%. Eventhough, the impact of oil price fluctuation is varying across the different sectors and industries nonetheless it does not give effect on dividend payout ratio in plantation sector.

Conclusion

This study is aimed to assess the oil price effect on the dividend payout ratio in the case of public listed plantation companies. Using a random effect model in panel static, the finding reveals there is negative relationship between oil price and dividend payout ratio however the relationship is insignificant. The price of oil does not affect directly on the dividend payout ratio of on public listed plantation companies. Thus, it explains the phenomenon of despite the continuous slide in oil price, most of the plantation companies in Malaysia persistently cutting the dividend. The findings also reveals only internal and common factors are significant factors in influencing dividend payout ratio in the case of Malaysia.

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