

# Research on Dividend Policy of Country Garden

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## ABSTRACT

This paper adopts the method of case study to study the dividend policy of Country Garden since its listing, and draws the conclusion that although Country Garden can keep paying dividends to investors every year, the dividend payment rate gradually decreases, which makes the market have pessimistic expectations for the company. In addition, Country Garden mainly pays dividends in cash, and the form of dividend policy is relatively simple. Starting from the potential problems of Country Garden's dividend policy, this paper puts forward targeted suggestions for the company from the perspectives of rationally formulating cash dividend distribution plans and enriching dividend policy forms, and at the same time provides some references for other real estate companies in China to formulate dividend policies.

**Keywords:** Dividend policy, Cash dividends, Dividend payout ratio, Real estate enterprise, Country Garden.

## 1. INTRODUCTION

Dividend policy is an important part of corporate management. This is a tradeoff between the company's future growth and the current return to investors. In China's capital market, many companies, even with strong profitability and stable cash flow, still choose not to pay dividends [1]. Obviously, this will damage the interests of shareholders, especially minority shareholders, and have a negative impact on the company's future development. It is necessary to conduct more and more in-depth research on corporate dividend policy to deal with the problem and help relevant departments formulate guidelines that are closer to reality and can play a normative role, standardize the order of China's capital market, and protect the interests of all parties.

At the same time, the real estate industry is characterized by high initial investment cost, high capital withdrawal cost, and many risk factors and uncertainties in the investment process. Against the background of China's deleveraging policy, real estate enterprises will be subject to more restrictions on external debt financing, so they need to rely more on internal financing to meet their capital needs in the future. This means that in the future, whether to pay dividends will become an increasingly important issue in the financial

decisions of real estate enterprises. Taking Country Garden, one of the largest real estate development enterprises in China, as a case, this paper analyzes the dividend policy of real estate enterprises.

## 2. COUNTRY GARDEN BASIC SITUATION AND DIVIDEND POLICY ANALYSIS

### 2.1 Overview of Country Garden

Country Garden is an investment holding company and its subsidiaries are principally engaged in the property development, property investment, property management, property construction and other property development related services in the People's Republic of China (PRC). While it operates in four segments: property development, property investment, property management and other businesses [2]. Its other businesses include property construction and other property development related services. Country Garden is also engaged in other new industries in China including spring water, grain and oil, dairy and health. On April 20, 2007, Country Garden issued 2,760,000,000 shares at HK \$5.38 per share. Currently, Country Garden has 22,479,971,966 shares outstanding.

## 2.2 Dividend Policy Analysis of Country Garden

### 2.2.1 Dividends of Country Garden from 2007 to 2020

Country Garden went public in 2007 and has paid dividends every year since its listing. By the end of 2020, Country Garden has implemented cash

dividends for 15 times, with a cumulative net profit of 215,855.89 million yuan and a cumulative cash dividend of 68,073.27 million yuan, as well as a dividend rate of 31.54%. The dividend payment of Country Garden is shown in the following "Table 1".

Table 1. Cash dividend payment of Country Garden since 2006

Report period	Net profit (million yuan)	Total cash Dividend (million yuan)	Payout ratio (%)	Dividend per share (yuan)	Annual growth rate of dividends per share (yuan)
2020	35,022.00	10,058.18	28.72	0.45	-19.38
2019	39,550.00	12,342.93	31.21	0.56	14.84
2018	34,618.00	10,646.48	30.75	0.49	20.55
2017	26,063.52	8,530.75	32.73	0.40	130.83
2016	11,516.82	3,772.01	32.75	0.18	34.56
2015	9,276.49	2,927.31	31.56	0.13	-11.63
2014	10,229.16	3,003.23	29.36	0.15	-11.29
2013	8,514.10	3,099.05	36.40	0.17	18.34
2012	6,852.65	2,515.32	36.71	0.14	8.47
2011	5,813.18	2,170.66	37.34	0.13	32.85
2010	4,290.58	1,602.26	37.34	0.10	115.47
2009	2,079.80	741.03	35.63	0.05	50.93
2008	1,378.21	490.46	35.59	0.03	-69.79
2007	4,135.91	1,555.51	37.61	0.10	--
2006	1,519.47	--	--	--	--

As can be seen from "Table 1", Country Garden's cash dividend increased 3.5 times from 0.1 yuan per share in 2007 to 0.45 yuan per share in 2020. At the same time, Country Garden's dividend payout ratio has almost always remained above 30% since 2006 except in 2014 and 2020, which could also reach the level of above 28%. In Country Garden's early days, its dividend rate even reached nearly 38%. However, Country Garden's dividend payout ratio has an obvious downward trend. The dividend payout ratio of Country Garden showed an obvious downward trend of nearly 10%.

### 2.2.2 Contrastive Analysis

In order to compare the dividend policies of Country Garden and other competitors in the industry, this paper selects several leading real estate development companies in China with similar strength as Country Garden, namely Vanke,

Evergrande, Longfor and Poly. This paper studies the dividend policy of Country Garden by comparing the continuity of dividend payment and dividend payment rate.

In the aspect of the continuity of dividend payment, several enterprises have shown the ability of continuous dividend payment. Vanke has paid cash dividends to investors every year since 1991 and Poly began to pay dividends in 2006, while Evergrande and Longfor did not pay dividends at the beginning of their listing but both began to pay dividends in 2009. Except for Evergrande, which did not pay dividends in 2016, several companies have kept paying dividends every year after paying dividends for the first time. According to the signal theory, the company's management can deliver the optimistic information of the company to the market through continuous dividend payment, so that the market can bring higher expectations for

the company's value. Obviously, as an industry with better development in recent years, companies in the real estate industry, especially the leading companies in the industry, have strong profitability and development space, with healthy cash flow, and can convey positive signals to the outside world without pressure.

In the dividend payout rate, there are some differences among enterprises. Poly has the lowest average dividend payout ratio, which is only 25%, while Evergrande has the highest dividend payout ratio, which is more than 1.5 times of Poly, reaching 40%. Country Garden's dividend payout ratio since listing is 31.54%, slightly higher than Longfor's 30.51% and Vanke's 30.5%. It can be seen from the data that the average dividend payout ratio of China's leading real estate enterprises is slightly higher than 30%. Therefore, Country Garden has adopted a relatively moderate dividend policy, rather than being too aggressive or conservative. The moderate dividend policy for the future of the Country Garden development has brought more choice because if the Country Garden adopts radical policy and pay dividends too much, although the policy can satisfy investors, it will reduce the company's internal retained earnings. Therefore, the company may not be able to do more initial capital requirements are higher quality

investment even on leveraged investment and the policy finally limits the company's future development. On the other hand, if the company pays little dividend, or even no dividend, investors will be dissatisfied and the market will have a pessimistic expectation of the company's future performance, thus reducing the value of the company.

In terms of the trend of dividend payout ratio, Country Garden is obviously different from other companies. The dividend payout ratio of Country Garden has an obvious downward trend, decreasing by nearly 10% from 37.6% in 2006 to 28.7% in 2020, while other companies have more or less an upward trend. This shows that in recent years, Country Garden prefers to profit retention than dividend distribution. It can be seen that since 2015 the operating expenses of Country Garden have increased significantly every year, from 98,278 million yuan in 2015 to 392,311 million yuan in 2020, with a compound annual growth rate of more than 30%, which reflects the internal financing needs brought by the diversification and expansion of enterprise scale of Country Garden in recent years. The other companies started diversified businesses earlier or had lower dividend policies in the early stage, so the expansion of business scale did not affect dividend payment.

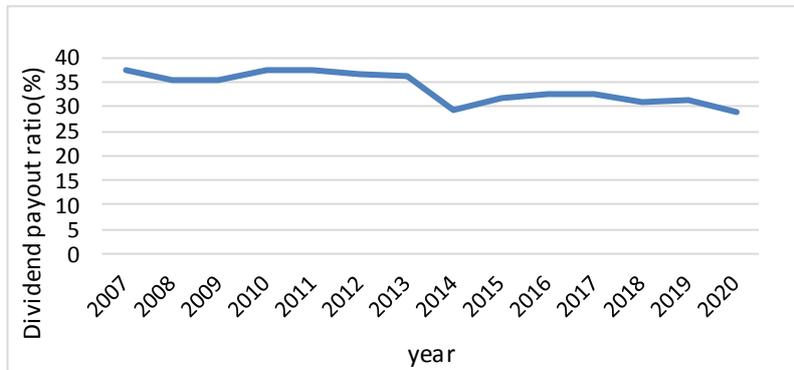


Figure 1 Trend of dividend payout ratio of Country Garden from 2007 to 2020.

### 3. PROBLEMS AND COUNTERMEASURES OF DIVIDEND POLICY OF COUNTRY GARDEN

#### 3.1 Dividend Payment Method Is Single

Since 2006, Country Garden has paid dividends in cash rather than stock. Meanwhile, Country Garden has only conducted share buybacks since 2016. Generally speaking, Country Garden's

dividend payment method is relatively simple. Compared with stock dividend, the advantage of cash dividend is that investors can get certain income from it without taking the risk of stock fluctuation. However, some investors who receive cash dividends will face tax problems, which will reduce their returns. Stock dividends tend to avoid this problem. At the same time, stock dividend can increase the number of shares circulating in the market of the company, which is conducive to improving the liquidity of the company's stock to a

certain extent and facilitating investors to conduct stock trading. Therefore, Country Garden can consider properly issuing stock dividends and diversifying dividend policy payment forms, which can not only protect the interests of some investors, but also have a positive impact on the value of the company. A possible problem with reducing cash dividends is that the proportion of long-term investors among all Country Garden shareholders may be relatively reduced. Under China's tax system, dividends from stocks held for more than a year are exempt from income tax [3]. This means that when Country Garden reduces its cash dividend, long-term investors have a lower tax shield advantage, making them more likely to invest in other companies with similar fundamentals and a higher tax shield advantage [4]. Meanwhile, short-term speculators are more willing to buy Country Garden shares because they are less likely to pay taxes on dividends during the holding period.

### **3.2 Making a Reasonable Amount of Cash Dividends**

Although Country Garden has been paying annual dividends to investors, it is clear that dividend payout rates are declining. This shows that Country Garden currently prefers to keep profits in-house rather than return them to investors. Although it can be seen from the company's annual report that Country Garden has been increasing its expenditure to diversify its businesses in recent years, the decreasing dividend payout ratio will obviously bring a pessimistic expectation to the market, thus affecting the company's value. In addition, Country Garden's debt-to-asset ratio is as high as 86%, compared with around 82% for Vanke and Evergrande, and less than 80% for Longfor and Poly. It also shows that Country Garden will no longer be able to finance itself with a large amount of external debt. As a result, Country Garden should formulate a more reasonable dividend policy, reduce the payment of cash dividends in the early stage, make a good capital reserve for the subsequent development, and appropriately increase the dividend payment rate with the gradual stability of the company scale and the growth of performance [5]. In the future, when formulating dividend policies, Country Garden should fully analyze its future business plan and estimate its future external financing capacity. Then Country Garden can make a rough judgment on the internal capital demand of the enterprise and finally use the discretionary capital as the base for dividend

payment in a certain proportion [6]. To a certain extent, this method can help Country Garden avoid having to reduce the dividend payment ratio due to funds in the future.

## **4. CONCLUSION**

From the analysis of this paper, Country Garden, as a high-quality real estate company, can continue to pay a relatively high level of dividends. However, the dividend growth rate of Country Garden cannot fully match the growth of its business scale, resulting in a lower dividend payout rate. Although this is due to the company's diversification strategy, it will still bring some negative sentiment to the market performance of the company's stock [7]. Therefore, when formulating dividend policy, companies should consider the current cash flow and the future development of the enterprise, and find a balance between the two, so as to ensure the continuity of dividend policy.

In this paper, the dividend policy of Country Garden is only taken as the research object, so conclusions and inspirations that are applicable to the whole industry or even the whole market cannot be completely obtained, because in the process of formulating dividend policy [8]. Country Garden will not only take dividend policy as a way to communicate with the market, but also for its own business considerations. In other words, additional research is needed to discover more general patterns of corporate dividend policies.

## **AUTHORS' CONTRIBUTIONS**

This paper is independently completed by Yucheng Ma.

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