

Analysis of SAIC Motor's High Cash Dividend Distribution Policy

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ABSTRACT

Firstly, this paper summarizes the theoretical basis of dividend distribution and selects SAIC Motor, a listed company in China's automobile industry, to introduce and analyse its dividend distribution policy. Specifically, this paper summarizes the characteristics of SAIC's dividend distribution policy from the data of 2015-2020, compared with the policies of other automobile enterprises in the same industry, and determines that SAIC adopts a high cash dividend policy. Then, this paper will make a cause analysis and comprehensive evaluation of the enterprise's dividend distribution policy combined with the indicators of the enterprise's profitability, operating capacity, solvency, and equity concentration. Finally, this paper puts forward optimization suggestions for SAIC's high cash dividend distribution policy. Moreover, combined with the current background of COVID-19 and the new energy vehicle transformation trend, this paper will make a development outlook for SAIC.

Keywords: Dividend policy, Cash dividend, Automobile industry

1. INTRODUCTION

1.1. Research Background

Foreign research on dividend theory began with the MM share theory proposed by Miller and Modigliani (1961) [1]. The central idea of this theory is that there is no correlation between the formulation of the dividend policy of listed companies and enterprise value, but later theories gradually overturned the idea of MM theory. For example, Gordon (1959) believed that investors would prefer actual dividends rather than potential capital gains. Therefore, how enterprises distribute dividends will affect the stock price and thus the value of enterprises. This is the famous "one bird in hand" dividend-related theory [2]. Easterbrook's research (1984) also showed that the amount of dividend payment is related to the level of corporate debt [3]. As for dividend distribution policy, most foreign studies focus on internal factors, and the research on the phenomenon of high cash dividends does not consider an extended period. However, China's capital market was established relatively late; coupled with China's unique national conditions and market environment, most of the research on dividend policy is based on the research of foreign scholars. Therefore, a

few relevant research cases need to be improved by future generations.

After the implementation of the semi mandatory dividend policy, on the whole, the number of cash dividend-paying companies and cash dividend level of Chinese listed companies have significantly increased and are gradually approaching the mature foreign market (An Qingsong, 2012) [4]. There have been more cases of a high cash dividends in China's securities market in recent years. As the largest A-share listed automobile company in China, SAIC Motor is a typical high cash dividend enterprise. According to the currently available data, the enterprise has distributed cash dividends 20 times, with a total cash distribution of more than 10 billion yuan, far higher than the industry average. In addition, the ownership structure of the enterprise is highly concentrated. Therefore, SAIC Motor's high cash dividend motivation and economic impact are worthy of further study.

1.2. Research Objective

Scholars are constantly studying cash dividends at home and abroad, but their research methods and starting points are different. There are few case studies on high cash dividends in China compared with foreign

countries. With the increase of high cash dividends in China's securities market, it is necessary to enrich the relevant research.

This paper uses the case study method and event study method to study the high cash dividend policy of SAIC Motor. The research period is six years and explores the reasons for adopting this policy and its impact on the company's operation and enterprise value. It not only enriches the case study of a sustained high cash dividend in China but also hopes to provide optimization suggestions for the formulation of the dividend policy of small and medium-sized listed companies in China.

2. CONCEPT DEFINITION AND COMPANY INTRODUCTION

2.1. Cash Dividend Policy

A cash dividend policy is a standard dividend distribution policy whose premise is that the enterprise has sufficient cash flow. In recent years, more and more investors and enterprises have favoured the use of cash dividends. Although such a policy will reduce retained earnings and dilute profits, the cash dividend distribution policy can significantly optimize and enhance the public image of the enterprise but also make external investors understand the development trend of the enterprise and obtain more good investment signals clearly and directly. In addition, this dividend distribution method can also reduce the irrational investment decision-making within the enterprise and reduce the agency cost.

2.2. High Cash Dividend Distribution Policy

Different scholars hold different views on the definition of high cash dividend: Wu Lina (2003) proposed that as long as the cash dividend per share is greater than 0.1 yuan, it can be regarded as a high cash dividend [5]. Wu Ping, Fu Jie, and others (2011) believed that the high cash dividend behaviour is that the cash dividend per share is higher than or equal to 0.3 yuan [6]. According to academic research analysis and conventional experience at home and abroad, in most cases, we generally define a high cash dividend distribution as the dividend pay-out of more than or equal to 3 yuan per 10 shares or a dividend payment rate exceeding the average level of this industry. As an excellent enterprise representative in the industry, the

research object of this paper, SAIC Motor, chooses the dividend distribution policy of high cash dividends.

2.3.A Brief Introduction of SAIC Motor

SAIC Motor, listed on the Shanghai Stock Exchange in 1997, is a leading automobile listed company in China. In August 2021, SAIC Motor's consolidated sales revenue of US \$107.555.2 billion in the previous year ranked 60th among the Fortune 500. SAIC Motor's main business includes the R & D, production and sales of complete vehicles (including passenger cars and commercial vehicles), actively promoting the commercialization of new energy vehicles and Internet vehicles, and carrying out research on intelligent driving other technologies. In addition, there are logistics, auto e-commerce, travel services, energy conservation and charging services, automobile-related finance, insurance, and investment business. In recent years, SAIC has firmly grasped the general direction of scientific and technological progress. The company continued to promote further the "new four modernizations" strategy of "electrification, intelligent networking, sharing and internationalization." What's more, SAIC made in-depth deployment and promotion of the construction of innovation chain while striving to improve its performance.

Since 1997, the company's production and sales scale have maintained an industry-leading position. However, due to the impact of COVID-19 in 2019, China's auto industry suffered from the economic downturn and related industrial policies. SAIC's cash flow and sales volume also declined significantly. However, at the same time, SAIC Motor complied with technological changes, vigorously developed new energy passenger vehicles and financial services, realized the contrarian growth of output and operating income, and greatly improved the industry's competitiveness.

2.4. Current Situation of Dividend Distribution

Since its listing in 1997, SAIC Motor has pleasingly implemented the cash dividend policy, with a cumulative dividend amount of 728.378 billion yuan, except for the combination of share conversion and share increase in 1998, 2000, 2003, and 2009. In the early dividend scheme, SAIC mostly adopted the combination of share conversion and cash dividend, but after 2010, the company ultimately adopted the single way of the cash dividend.

Table 1. SAIC Motor's dividend distribution policy and industry average comparison

SAIC Motor					Industry Average	
Year	Dividend policy (10 shares /	Net profit attributable to common	Total dividends (100 million yuan)	Dividend payment rate (%)	Dividend per share	Dividend payment rate (%)

	yuan)	shareholders of listed companies				
2015	13.6	297.94	149.95	50.33	0.31	38.98
2016	16.5	320.06	192.78	56.84	0.27	26.17
2017	18.3	344.1	213.81	61.85	0.27	28.49
2018	12.6	360.09	147.21	40.88	0.17	16.27
2019	8.8	256.03	102.81	40.16	0.15	20.17
2020	6.2	204.31	71.77	35.13	0.13	14.12

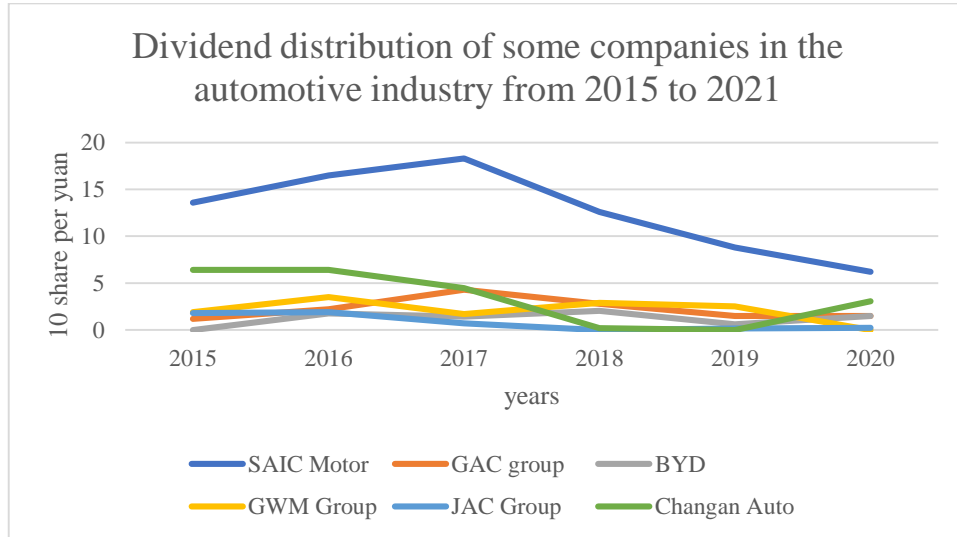


Figure 1. Dividend distribution of some companies in the automotive industry from 2015 to 2020

According to official statistics, only 500 A-share listed companies have continued to pay dividends in the past ten years. As can be seen from the table, SAIC's annual cash dividend policy has never been interrupted. In addition to adhering to the policy of cash dividends, the company's cash distribution amount and dividend payment rate are rising. In 2017, it even reached 18.3 yuan for every ten shares. Despite the impact of COVID-19 in the past two years, the auto industry's economic downturn, net profit growth slowed down, and the cash dividend has declined, SAIC's dividend policy after 2010 still belongs to the high cash dividend area. In the whole automobile manufacturing industry, most enterprises still maintain the range of less than 1 yuan per 10 shares, and the cash distribution level of SAIC Motor has been far ahead in the same industry. To sum up, we can summarize SAIC's dividend policy as its continuity and high cash payment characteristics.

3. FINANCIAL ANALYSIS

3.1. Profitability Analysis

Generally, through the profitability index, we can infer that the enterprise is in good operating condition and has sufficient cash retention, which lays the foundation for a high dividend. The table 2 below selects

several profitability indicators of SAIC Motor from 2015 to 2020.

SAIC and the whole automobile industry showed a downward trend during this period. Especially under the epidemic's impact in 2019, and the ROE fell below 10%. Nevertheless, its ROE was still far higher than the industry's average level and still has obvious profit advantages.

In addition, SAIC's net profit from sales has been maintained at about 5%. In contrast, the overall average level of the industry fluctuated wildly and was always negative. This provides a robust financial guarantee for the company to continue implementing the incentive policy of high cash dividends.

As for the profitability of shareholders, the earnings per share of enterprises show a trend of rising at first and then declining slightly, while the undistributed profit per share shows a trend of continuous rise. During this period, the whole automobile industry was weak due to the weak core technology and the impact of foreign competitive pressure. However, SAIC's profitability remained stable and healthy in the overall fluctuating environment, which shows that SAIC's shareholder profitability was solid, far higher than the industry average, and gradually took the lead.

Table 2. SAIC Motor’s profitability data

Entry name		Year	2015	2016	2017	2018	2019	2020
Product profitability	Net profit margin(%)	SAIC Motor	6.06	5.89	5.49	5.45	4.27	4.04
		Industry average	-22.64	-57.18	-4.78	-0.20	-	-
	Gross Profit Margin(%)	SAIC Motor	11.42	12.87	13.47	13.25	12.15	10.76
		Industry average	16.04	16.24	13.52	11.02	10.19	10.02
Capital profitability	ROE	SAIC Motor	17.91	17.53	16.87	15.67	10.53	8.02
		Industry average	9.28	8.83	-6.81	5.78	5.51	5.36
Shareholder profitability	Earnings per share(yuan)	SAIC Motor	2.70	2.90	2.96	3.08	2.19	1.75
		Industry average	0.69	0.78	0.66	0.40	0.12	0.08
	Undistributed profit per share(yuan)	SAIC Motor	7.84	8.78	8.96	9.85	10.72	11.55
		Industry average	2.84	2.77	2.93	2.92	2.60	2.56

3.2.Solvency Analysis

Solvency is one of the decisive factors for enterprises to adopt a high cash dividend policy. This paper selects the asset-liability ratio from the long-term solvency index. In the short-term solvency, the current and quick ratios are used to measure the solvency of enterprises. If an enterprise adopts a high cash dividend policy, it must consider the stock of repayment funds to avoid that cash flow cannot meet the debt repayment.

As shown in the table 3, the current ratio of SAIC Motor has remained around 1 in recent years, which was not far from the industry average. In 2018, it was even lower than the industry average, indicating that the enterprise's current assets were insufficient, the risk of short-term debt repayment was high, and the liquidity was weak. In recent years, the company has been in the stage of reform: the scale of enterprises has been

expanding, foreign investment has increased, and the demand for funds is significant. In this context, the dividend policy of high cash dividends may not be reasonable.

In terms of the asset-liability ratio, it increased from 58.78% in 2015 to 66.29% in 2020. It is generally believed that 40% - 60% is an excellent asset-liability ratio, while SAIC belongs to a relatively high level. What is more, although the company's equity ratio is at a low level, it has constantly been rising, which indicates that the stability of the company's financial structure has decreased. The main reason is that the rising capital demand accompanied by the expansion of enterprise business scale leads to the weakening of solvency. Currently, the company is also facing the delisting policy of subsidy for new energy vehicles. Therefore, the company should appropriately adjust the high cash dividend policy and reduce the cash dividend to prevent the company from falling into financial risk

Table 3. SAIC Motor’s solvency data

Entry name		Year	2015	2016	2017	2018	2019	2020
Short-term Liquidity	Quick ratio	SAIC Motor	0.57	0.60	0.52	0.55	0.99	0.97
		Industry average	0.82	0.79	0.80	0.73	0.74	0.74
	Current ratio	SAIC Motor	1.05	1.11	1.00	1.09	1.10	1.11
		Industry average	1.25	1.23	1.20	1.03	1.01	1.02
Long-term Liquidity	Asset liability ratio(%)	SAIC Motor	58.78	60.20	62.39	63.63	64.58	66.29
		Industry average	57.49	57.94	60.66	61.97	60.80	60.67

	Equity ratio	SAIC Motor	1.72	1.85	2.00	2.13	1.82	1.96
		Industry average	1.81	1.74	7.97	5.27	5.16	5.14

3.3. Operation ability analysis

Table 4. SAIC Motor's operation ability data

Entry name		Year	2015	2016	2017	2018	2019	2020
Total assets operating capacity	Total asset turnover	SAIC Motor	1.45	1.37	1.32	1.2	1.01	0.82
		Industry average	1.14	1.12	1.05	0.94	0.83	0.67
Operating capacity of itemized assets	Inventory turnover ratio	SAIC Motor	15.41	17.51	17.05	14.13	12.81	10.43
		Industry average	9.06	9.49	10.32	12.24	9.77	8.65
	Turnover rate of fixed assets	SAIC Motor	19.05	17.64	16.54	14.16	10.86	8.71
		Industry average	7.58	7.88	7.67	6.8	5.57	5.13
	Turnover rate of accounts receivable	SAIC Motor	26.43	24.88	26.26	23.73	20.29	15.38
		Industry average	12.46	9.94	11.37	5.02	7.86	5.15
	Turnover rate of current assets	SAIC Motor	2.64	2.51	2.42	2.14	1.71	1.34
		Industry average	2.17	2.07	1.89	1.68	1.61	1.26

It can be seen from the data in the table 4 that the index of SAIC's inventory turnover rate has decreased, but it is still above the average level of the same industry. The reason is that the automobile industry has been impacted by the epidemic and foreign competition.

In terms of the turnover rate of accounts receivable, although SAIC was always higher than the average level of the same industry, the turnover rate decreased significantly and fluctuated wildly in the past five years, which showed that the flow of funds was relatively unstable.

The total asset turnover rate is also one of the essential indicators to measure the operating capacity of enterprises. If the total asset turnover rate is fast, the operation capacity is more vital. According to the

company's data analysis in recent five years, its total asset turnover rate has decreased significantly, even close to the industry average in 2020. So, we know that the company's operating capacity has not improved or even weakened.

To sum up, we infer that implementing a high cash dividend policy may increase the operational risk of the enterprise. It is speculated that SAIC's inventory accounts for a more significant proportion of current assets were caused by the business expansion strategy mentioned above. If SAIC continues to adopt the high cash dividend policy, it should seek the balance between enterprise development and inventory to improve the inventory turnover rate.

3.4. Equity Concentration Analysis

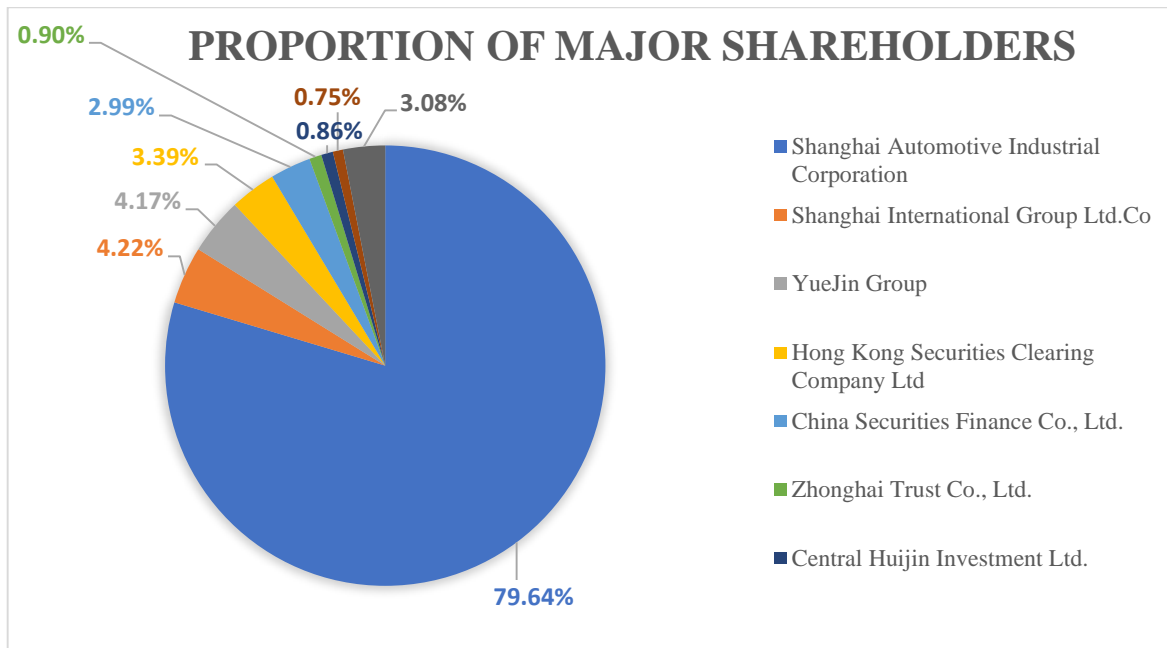


Figure 2. Proportion of SAIC’s major shareholders

The figure 2 shows the details of the shareholding of the top eight shareholders in 2021. One of the reasons for adopting the incentive policy of high cash dividends is also related to the right-safeguarding and interests of major shareholders. We can see that the shareholding ratio of the largest shareholder has exceeded 60%, and the total number of shares held by the three major shareholders has exceeded 80%. SAIC's equity concentration is very high, and small and medium-sized shareholders almost have no discursive power and cannot compete with them.

Therefore, under the background of the high equity concentration of SAIC Motor, the implementation of a high cash dividend policy is a good choice for SAIC Motor's major shareholders in order to safeguard their rights and interests.

4. CONCLUSION

4.1. Key Findings

First of all, according to the analysis of the above financial data, we can see that excellent profitability is the most critical internal reason for SAIC Motor to adopt a high cash dividend policy. The net cash flow from SAIC's operating activities far exceeds the industry average. What is more, SAIC Motor is actively exploring the business field of new energy vehicles. The government has given sufficient financial subsidies for technology development projects in this field, which is also conducive to implementing the high cash dividend policy.

Secondly, Lintner (1956) first proposed that dividend

has the function of signal transmission [7]. The most crucial external motivation is that cash dividends can send a good signal to investors. Lang and Litzemberger (1989) found that when the dividend payment rate of an enterprise decreases, it will send negative information to the market, resulting in the decline of enterprise value [8]. So, enterprises choose to distribute a large amount of cash to repay investors, which can improve the reputation of enterprises and send a positive dividend signal to the market. La ports and Rafael et al. (2000) found that the behaviour of enterprises issuing cash dividends is conducive to protecting the rights of minority shareholders through the study of cash dividend policy [9]. Due to information asymmetry, small and medium-sized investors cannot obtain timely and authentic market information. The high cash dividend distribution policy is just a positive signal for the investors that the enterprise operates well and has investment potential so that dividend investors can invest more. So, their investment will raise the company's share price and will also be highly beneficial to the realization of the maximum interests of the company. However, because of the high equity concentration of SAIC Motor, although SAIC Motor pays out tens of billions of cash every year, ostensibly to give back to the majority of investors, most of its interests flow into the pockets of significant shareholders. Therefore, the high cash dividend policy also greatly safeguarded the rights and interests of major shareholders.

Combined with the general environment of the automobile industry, it can be seen from the market share that the current concentration of the automobile industry is relatively high. The strong enterprises are getting more

competitive, while the small enterprises are getting weaker and weaker. Therefore, in such a fiercely competitive market, it is reasonable to convey the signal of the company's positive development to the public.

4.2. Policy Optimization Suggestions

4.2.1. Enhance Financial Strength and Reduce Business Risks

Shleifer and Vishny (1997) believed that a suitable management mechanism could provide strong support for protecting the interests of investors [10]. According to the above analysis, the main reason why SAIC Motor adopts a high cash dividend is its strong profitability. However, after implementing a high cash dividend, the growth rate of primary business income, net profit, and other indicators still have great space for improvement; Simultaneously, when the solvency is weakened, the high cash dividend policy will aggravate the financial risk of enterprises. Enterprises should focus on improving their operating capacity and inventory turnover rate, which is more conducive to the company's long-term development.

4.2.2. Consider Investor Preferences and Diversified Distribution Methods

SAIC Motor uses the dividend policy of high cash dividends to attract investors, but because of the different investment preferences of investors, some markets do not have an apparent positive response to the policy. SAIC only adopts the high cash dividend policy. However, some investors may think it is an act of deliberately transmitting the good news to the market. Li Lasheng and Li Qian (2009) believed that the information of cash distribution policy has no significant impact on the operation of stock price. It is not a popular distribution policy in the market. One of the reasons is that rational long-term investors do not welcome this kind of distribution policy due to the existence of cash dividend tax [11]. Besides that, other investors may reduce their purchase enthusiasm because the stock price is too high. Therefore, the company should also think about broadening dividend distribution methods to meet the preferences of more investors. Currently, there is a shortage of enterprise funds, the adoption of compound distribution can also reduce the capital pressure on enterprises.

4.2.3. Optimize the Ownership Structure

From the above analysis, it can be concluded that SAIC's ownership structure will significantly impact the way of dividend distribution. Nearly 70% of SAIC's shares belong to Shanghai Automotive Industry Group Corporation. The company should consider improving the ownership structure and developing diversified

shareholding subjects to restrict and balance each other. For example, SAIC can increase the number of significant shareholders to avoid the situation that major shareholders are dictating.

4.3. Challenges and Prospects in the Current Social Environment

The influence of COVID-19 has been an essential risk factor for the automobile industry in recent years. At present, the coronavirus prevention and control situation is grim. The epidemic is hitting the domestic economy and the auto industry seriously. Challenges increased. In 2020, the sales volume of complete vehicles was 5.6 million, a year-on-year decrease of 10.22%. The company should seize the market opportunity and pay attention to its advantages.

On March 1st of 2022, the company announced the establishment of "The SAIC Motor Innovation Research and Development Institute." Comprehensively integrated the resource advantages of its five information technology centres (software, artificial intelligence, big data, cloud computing, and network security), passenger car technology centre, and overseas innovation centre. SAIC Motor established an independent R & D talent team with more than 10000 people. We believe that the standardization of the R & D platform is expected to promote company's internal innovation. Besides, under the circumstance where the global chip shortage is severe, SAIC Motor can still achieve a rapid recovery, reflecting the excellent business ability of SAIC, which will further improve the company's overall sales volume. Under the dual environment of the severe impact of the current epidemic and new energy transformation, SAIC Motor should enhance its core competitiveness and technical level to guarantee stable profitability and dividend payment.

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