The Effect of Dividend Policy on Stock Prices with Debt Policy as a Moderating Variable

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Abstract. This research aims to investigate the effect of dividend policy on stock prices with debt policy as a moderating variable in the property and real estate sector. Historical data on property and real estate companies listed on the Indonesia Stock Exchange during the 2017-2022 period is used as a sample. The research results show that there is a positive influence between dividend policy (DPR) and stock prices (Price). This means that when a company implements a larger dividend policy or increases dividend payments, this tends to have a positive impact on the company's share price. However, this research also finds that debt policy (DER) does not moderate the effect of dividend policy on stock prices, which means that DER does not influence the relationship between DPR and Price. The limitations of this research are the use of a limited sample, the possible inability of the analytical model to observe moderation effects correctly, and the lack of measurement of external factors that could influence this relationship. Therefore, suggestions for further research include expanding the sample, using a more comprehensive analysis model, and cross-time research. Research across time can provide deeper insight into the evolution of the relationship between dividend policy, debt policy and stock prices in the property and real estate sector, as well as the impact of external factors on this relationship.

Keywords: Operational Efficiency Ratio, Non-Performing Loans, Net Interest Margin.

1 Introduction

Property and real estate sector shares are one of the most interesting and important investment instruments in the financial world. Stock performance in this sector has a significant impact on the economy and financial markets as a whole [1]. In a rapidly changing business environment, dividend policies and debt policies of property and real estate companies have an important role in influencing share prices and company value [2]. This research aims to investigate the effect of dividend policy on stock prices with debt policy as a moderating variable in the context of the property and real estate sector. Along with the dynamics of the property market which is often influenced by the economic cycle, companies in this sector are often faced with unique challenges in making financial decisions, especially related to funding large projects and redistributing profits to shareholders through dividend policy [3].

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The property and real estate sector frequently attract attention due to its fluctuating cash flows, particularly when dealing with changing market conditions, which makes dividend policy a prominent concern. The decision to pay dividends or retain profits for reinvestment in property assets is an important consideration for company management [4].

On the other hand, debt policy also plays a crucial role in this sector. In an effort to expand their asset portfolio, property and real estate companies often rely on funding through debt. Therefore, the level of debt a company takes on can affect its capital structure and, ultimately, its share price [5].

This research will be carried out using historical data from property and real estate companies listed on the stock market. The aim of this research is to offer a more profound understanding of the impact of dividend and debt policies on the value of companies and their stock prices within the property and real estate sectors. This research is also expected to provide benefits to stakeholders, such as investors, property company financial managers, financial analysts and regulators. By better understanding the relationship between dividend policy, debt policy and stock prices in the sector, they can make more informed and strategic investment decisions to optimize their investment returns in an often-fluctuating environment. Signal theory is used to explain the relationship between a company's dividend policy and its share price [6]. Signal theory assumes that dividend policy is a signal or message sent by company management to shareholders and investors [7]. Signal theory assumes that shareholders and investors look for quality information to make investment decisions [8]. One source of information that is considered quality is the actions and policies taken by company management [9]. In this context, dividend policy is one action that can provide important information to the market.

The relationship between dividend policy and share prices indicates that when a company pays dividends to shareholders, this tends to have a positive impact on the company's stock price [10]. When a company pays dividends or increases the amounts of dividends paid, this is often considered a positive sign by investors. This can indicate that the company has strong performance and is liquid enough to distribute profits to its shareholders [11]. Stable and consistent dividends can increase investor confidence in the company. Investors may be more inclined to buy shares of companies that have a good record of paying dividends, as this provides predictability and additional income [12]. Dividends provide a cash income stream to shareholders, which can attract investors looking for regular income from their investments. This can make the company's shares more attractive to investors who are primarily interested in dividend income. Consistent dividend payments can also create the perception that the company is relatively stable in facing economic and industrial changes [13]. This can minimize investment risk in the eyes of investors. Dividends paid by a company may result in a more positive assessment by financial analysts, which in turn may lead to a recommendation to purchase the company's shares. This can increase the interest of institutional and individual investors to hold shares of a company, which can ultimately affect its share price. Previous research conducted by Istanti [14], Fitri & Purnamasari [15], and Ermiati et al [16] state that dividend policy has a positive effect on stock prices. Based on this description, the hypothesis proposed is:

H1: Dividend Policy has a positive effect on Stock Prices.

When a company uses high levels of debt to fund its operations and growth, most of the cash generated can be used to pay interest and principal on debt. This can reduce the availability of cash funds that can be used to pay dividends to shareholders. As a result, dividend payments may be lower, or the company may choose not to pay dividends at all [7]. This may weaken the expected positive influence of dividend policy on share prices. Companies with high levels of debt may face the risk of more volatile dividend payments. This is caused by financial fluctuations that may require the company to allocate its cash to paying interest and principal on debt rather than dividends. This uncertainty can reduce its appeal to investors seeking stable dividend income and can affect a company's share price. High debt levels increase a company's risk of bankruptcy if revenues fall or the cost of debt increases. Investors may be more cautious and less confident in holding shares of companies with a higher risk of bankruptcy. This can affect share prices negatively [9]. A high debt policy can also change a company's capital structure, with debt contributing significantly to total capital. This may influence the market's perception of a company's risk and value, and some investors may prefer companies with a more balanced capital structure. Debt policy refers to changes in a company's net profit that are greater than changes in operating income due to the use of debt. Although debt policy can increase company profits, it can also increase net income volatility [13]. If this volatility in net income interferes with the company's ability to pay consistent dividends, then it can weaken the positive influence of dividend policy on share prices. Previous research that shows debt policy is able to moderate the influence of dividend policy on share prices is research conducted by Ainun [1]. Based on this description, the hypothesis proposed is:

H2: Debt Policy weakens the influence of Dividend Policy on Share Prices.

2 Methodology

The research population is all property and real estate companies listed on the Indonesia Stock Exchange in 2017-2022. The sample was determined using a purposive sampling method with criteria namely 1) Property and real estate companies listed on the Indonesia Stock Exchange (BEI) during 2017-2022; 2) Property and real estate companies that present consecutive annual financial reports during 2017-2022; 3) Property and real estate companies that distribute dividends during 2017-2022. Based on these criteria, there were 6 companies used as samples. There are 36 data for six years of observation. This research uses secondary data originating from company annual reports.

The closing share price at the end of the year is a simple and commonly used measuring tool to measure the share price performance of a company during a certain annual period. This measuring tool is based on the closing price of the company's shares at the end of the calendar year or relevant reporting period. In this context, this measuring tool provides an overview of how a company's share price has moved over the past year. Furthermore, the Dividend Payout Ratio is a measuring tool used to measure the extent to which a company distributes its net profits to shareholders in the form of dividends. It measures the percentage of profit given to shareholders compared to the net profit generated by the company. The formula for the Dividend Payout Ratio is as follows: DPR = (Dividends Paid/Net Profit) x 100%. Then the Debt-to-Equity

Ratio (DER) is a financial measurement tool used to measure the extent to which a company relies on debt in its capital structure compared to equity or its own funds. DER measures the ratio between the company's debt and its equity. The formula for Debt-to-Equity Ratio is as follows: DER = (Total Debt/Equity). This research uses moderated regression analysis to explain the relationship between variables. The SmartPLS analysis tool was used to analyze research data.

3 Results and Discussion

This research used 36 observation data over six years of observation. Minimum, maximum, mean and standard deviation values are presented in Table 1.

Table 1 Descriptive Statistics

Variables	Mean	Min	Max	Std. Deviation
Price	777.359	24.925	9275	1462.764
DPR	31.747	5.96	99.7	22.347
DER	0.713	0.08	3.76	0.883

Source: Data Processed by Researchers, 2023

The results of these descriptive statistics can help analysts and stakeholders understand the characteristics and variations of the stock price, DPR and DER variables in the data samples investigated. This data can be used for further analysis and decision making in the appropriate context

Table 2. Testing The Direct Effect and The Role of Moderating Variables

Model	Original Sample	P-Values	Hypothesis Decision
DPR → Price	0.321	0.045	H1 Accepted
DPR x DER → Price	-0.29	0.436	H2 Rejected

Source: Data Processed by Researchers, 2023

These results indicate that there is a positive and significant influence of 0.321 from the DPR variable on Price. This means that when the DPR increases, the Price tends to increase as well. The p-value (0.045) is less than the predetermined significance level, namely $\alpha = 0.05$, so (H1) is accepted. This means that there is a significant positive relationship between DPR and Price. In this context, the DPR has a direct positive influence on Price. Furthermore, the interaction between DPR and DER (DPR x DER) has a negative influence (-0.29) on Price. Although the value is negative, this result is not statistically significant. The p-value (0.436) exceeds the predetermined significance level, namely $\alpha = 0.05$, so H2 is rejected. This means that there is no significant relationship between the interaction of DPR with DER and Price. In this context, DER as a moderating variable does not affect the influence of DPR on Price.

3.1 Dividend Policy and Stock Prices

The regression coefficient value between DPR and Price is 0.321, indicating that every one unit increase in DPR will result in an increase of around 0.321 units in Price. The positive relationship between dividend policy and stock prices indicates that when a company implements a larger dividend policy, its stock prices tend to increase. The results of this research are supported by research conducted by Istanti [12], Fitri & Purnamasari [8], Ermiati et al. [5], Narayanti & Gayatri [14], Husein & Kharisma [10], Ainun [1], Anggeraini & Triana [2], Ardiansyah et al. [3], Erri & Dwi [6], Selpiana & Badjra [16], Samosir et al. [15], Aten & Nurdiniah [4], Irawan et al. [11], Mardhiyah et al. [13]. When a company pays large dividends or consistently increases dividend payments, this can be considered a positive signal by investors. This can give the impression that the company has strong performance and can share part of its profits with shareholders [16]. Stable and consistent dividends can increase investor confidence in the company. Investors may have more confidence in companies that pay reliable dividends, as this provides additional income predictability from their investments [13]. Dividends provide a cash income stream to shareholders. This appeals to investors looking for regular income from their investments, such as retired investors who depend on dividends to make ends meet. Dividends can reduce excess cash in a company. This can reduce the pressure on companies to look for profitable investments in a short time [4]. In some cases, companies may choose to pay dividends to avoid accumulating too much cash. Stable dividend payments also create the perception that the company is relatively stable in the face of economic and industry changes. This can reduce investment risk in the view of investors [10]. Consistent and positive dividend payments can also result in positive evaluations by financial analysts. Analysts providing purchase recommendations for company shares may include dividend stability as a factor influencing the recommendation.

3.2 The Moderating Role of Debt Policy on the Effect of Dividend Policy on Stock Prices

Debt policy (DER) does not strengthen or weaken the influence of dividend policy (DPR) on share prices. This result could also indicate that the analytical model used is not able to capture the moderation effect correctly. This could be caused by other factors not considered in the model or research setting. In real situations, the influence of dividend policy and the role of moderating variables such as DER may vary depending on factors such as industry, economic conditions, company size, and financial strategy. A focus on debt policy and dividend policy may not always interact in investment decision making. Company management may decide on debt policies based on different financial considerations, such as capital requirements for specific projects or financial risk management. In this context, debt policy can be viewed as a decision based on different business considerations than dividend policy. External factors such as market conditions, interest rates, financial regulations, and economic changes can have a significant impact on a company's stock price. The influence of these external factors may be more dominant than the direct influence of debt policy or dividend policy. Factors that moderate the relationship between dividend policy and stock prices may vary between industries and sectors. Some industries may be more sensitive to changes in dividend policy, while others may be more affected by a company's debt levels. The results showing that debt policy does not moderate the effect of dividend policy on stock prices can also depend on the analytical model used. The statistical model used in the study may not be able to properly capture the moderation effect.

4 Conclusion

Based on the research results, several important conclusions can be drawn, namely 1) There is a positive and significant influence between dividend policy (DPR) and stock prices (Price) in property and real estate sector companies. These results indicate that when companies implement a larger dividend policy or increase dividend payments, this tends to have a positive impact on the company's stock price. 2) The research results also show that debt policy (DER) does not moderate the effect of dividend policy on stock prices. This means that in the context of this research, the DER variable does not significantly influence the relationship between DPR and Price. This research has several limitations that need to be considered, namely: 1) This research uses a limited sample of property and real estate sector companies listed on the Indonesia Stock Exchange during the 2017-2022 period. These limitations may impact the generalizability of the study results to a broader population; 2) The results of this study note that the analytical model used may not be able to capture the moderation effect correctly. Other factors not considered in the analytical model can influence the relationship between dividend policy, debt policy and stock prices; 3) The research results note that external factors such as market conditions, interest rates, financial regulations, and economic changes can have a significant impact on a company's stock price. A limitation of this study is the lack of measurement or modeling of these external factors.

Based on the limitations above, several suggestions for further research are: 1) Sample Expansion: Future research could consider using a larger sample and covering various industrial sectors to increase the generalization of research results; 2) Future research can use a more comprehensive analytical model to consider broader external factors and understand their impact on the relationship between dividend policy, debt policy and stock prices; 3) In addition to quantitative analysis, future research could consider qualitative approaches, such as interviews or case studies, to gain a deeper understanding of dividend and debt policies in the property and real estate sectors; 4) Research Across Time: Longitudinal research that tracks changes in dividend policy, debt policy, and stock prices over time can provide deeper insight into the evolution of these relationships. By continuing research in this direction, we can better understand the role of dividend and debt policies in the property and real estate sector and how external factors influence this relationship, which in turn can provide better guidance for stakeholders in making smart investment decisions.

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