

## Liquidity, Profitability and Asset Growth towards The Dividend Payout Ratio

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### Abstract

The purpose of this study is to determine the factors that influence the distribution of dividends in Indonesia. The objects of this research are 51 manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The method used is balanced panel data with random effects model. The results of this study are return on equity, cash flow, growth, and market to book value have a significant effect on the dividend payout ratio. While the variables of tax, current ratio, and institutional holding have no effect on the dividend payout ratio. The combination of financial ratios, cash flow, taxes, and institutional holding gives a new combination to this research. The contribution of this research is showed the fact that cash flow has a bigger role than profitability, while the sales will increase growth and stock prices will also increase thereby increasing dividend payments.

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### Abstraks

Tujuan dari penelitian ini adalah untuk menentukan faktor-faktor yang mempengaruhi pembagian dividen di Indonesia. Objek penelitian ini adalah 51 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode 2015-2019. Metode yang digunakan adalah balanced panel data dengan random effect model. Hasil dari penelitian ini adalah return on equity, cash flow, growth, dan market to book value berpengaruh signifikan terhadap dividend payout ratio. Sedangkan variabel tax, current ratio, dan institutional holding tidak berpengaruh terhadap dividend payout ratio. Adanya kombinasi antara rasio keuangan, arus kas, pajak, serta kepemilikan institusional memberikan warna baru pada penelitian ini. Kontribusi penelitian ini adalah memberikan fakta bahwa arus kas memiliki peran lebih besar dari pada profitabilitas, sedangkan penjualan secara linier akan meningkatkan pertumbuhan dan harga saham juga akan meningkat sehingga meningkatkan pembayaran dividen

JEL Classification: G30, G32, G35

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## 1. Introduction

The Infrastructure, Utilities and Transportation sector is one of the sectors listed on the Indonesia Stock Exchange (IDX) which consists of several sub-sectors, airports, energy, toll roads, non-building construction, telecommunications, transportation, and others. This sector has always been the target of investors to invest because it

always experiences strengthening movements in the Composite Stock Price Index (JCI), although at the end of 2020 it experienced weak movements. As quoted from Investor.id, stocks in this sector are always considered attractive, coupled with the Sovereign Wealth Fund (SWF) program and infrastructure policies related to 5G networks. Investors who invest certainly want a high rate of return in the form of dividends or capital gains.

Dividend is the distribution of profits to shareholders (investors) by the company that comes from the profits generated by the company (Pattiruhu & Paais, 2020; Yuniningsih *et al.*, 2019; Ishaq *et al.*, 2018; dan Ismawati, 2019).. Shareholders generally choose dividend returns compared to capital gains, because dividends are more promising and relatively stable (Herdianta & Ardiati, 2020). The main reason is that people believe that dividends provide greater clarity than capital gains. In addition, because this capital gain is very dependent on the movement of stock prices in the capital market. The percentage of dividend distribution to investors is based on the Dividend Payout Ratio (DPR).

The dividend payout ratio is the percentage of the company's net income which will be distributed to investors in the form of dividends (Sudana, 2015). The higher the percentage of dividend payout ratio, the higher the percentage of net profit distributed by the company to investors. This is a good signal for the company's management (dividend signaling theory). The net profit that is not distributed in the form of dividends will be reused by the company for reinvestment. If the company does not use its funds to invest, the company will distribute the profits in the form of dividends and the distribution is seen from the residual theory of cash dividends. The elements that influence the dividend policy are the company's liquidity and the company's growth rate (asset growth) (Horne and Wachowicz, 2012).

Company liquidity is an important element that must be considered before deciding the amount of dividends to be paid to investors. The stronger the level of liquidity, the better the company's ability to pay dividends. The company's liquidity situation is increasingly likely to meet future funding needs. In addition, based on the pecking order theory, companies prefer internal funding to external funding. This is because the company does not need to seek loans from external parties. In this study, liquidity is measured using the current ratio (current ratio).

Current ratio is a ratio used to measure the level of the company's ability to pay off short-term obligations or debts (soon to be due) when they are fully collected. When the current ratio is low, the company lacks capital to pay off debt, but when the current ratio is high, the company's condition is not necessarily good. This can happen when cash is not used efficiently (Kasmir, 2018).

Profitability is a factor that affects dividend policy (Wahjudi, 2020). Profitability used to see how efficient the management is in carrying out their operations in order to earn a profit during a certain period (Lismana, 2020). Return On Assets (ROA) is a ratio to measure the company's ability to generate profits from the assets used (Banamtuan *et al.*, 2020; Haryanto, 2020; and Sartono, 2012). Lismana (2020) argues that the higher the level of profitability owned by the company, the higher the dividend. In order for a company to be able to distribute dividends to investors, the company must be able to generate profits. The size of the company reflects whether the company has been established or not. Companies that have large sizes are expected to generate large profits, so they can distribute dividends and vice versa.

In line with the economic changes during the COVID-19 pandemic, companies need sources of funds for their operations. Investment in a company becomes an important thing for companies to operate their business activities. The purpose of investing is to make a profit from the company. Investors expect dividends when investing. Quoted from Kontan Investment, in mid-May 2019 the infrastructure, utilities, and transportation sectors experienced a decrease in the index by 0.62%. This decline can still be supported by several issuers, namely 1) TLKM decreased 6.4% to Rp3,510. 2) ISAT increased 1.78% to Rp1,715. 3) EXCL increased by 28.28% to Rp2,540. 4) JSMR increased 17.41% to Rp5,025, and 5) PGAS decreased 12.03% to Rp1,865. Furthermore, in 2020 the infrastructure, utilities, and transportation experienced a sharp decline in the index of -12%. Despite the decline, the infrastructure, utilities, and transportation sectors managed to rebound (back to a positive direction) in April 2021 on a year to date basis. The return to the positive direction was reinforced by leading stocks and positive sentiment in the infrastructure, utilities, and transportation sectors (Investor.id). According to data compiled by researchers, during the 2018-2020 period, most of the companies listed on the Indonesia Stock Exchange in the infrastructure, utilities, and transportation sectors did not pay dividends. The return to the positive direction was reinforced by leading stocks and positive sentiment in the infrastructure, utilities, and transportation sectors (Investor.id). According to data compiled by researchers, during the 2018-2020 period, most of the companies listed on the Indonesia Stock Exchange in the infrastructure, utilities, and transportation sectors did not pay di-

vidends. The return to the positive direction was reinforced by leading stocks and positive sentiment in the infrastructure, utilities, and transportation sectors (Investor.Id). According to data compiled by researchers, during the 2018-2020 period, most of the companies listed on the Indonesia Stock Exchange in the infrastructure, utilities, and transportation sectors did not pay dividends.

Based on the above phenomenon, dividend policy in the infrastructure, utilities, and transportation sectors in recent years has had a fairly large risk of problems. This study suspects that the dividend payout ratio is influenced by liquidity, profitability and asset growth factors. This is supported by research conducted by Lismana (2020). These results contradict the previous research conducted by Harun & Jeandry (2018). Starting from the phenomena and statements presented above, the research aims to prove the Effect of Liquidity, Profitability and Asset Growth on Dividend Payout Ratio in Infrastructure, Utilities, and Transportation Sector Companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2010 period.

## 2. Hypothesis Development

### Liquidity affects the dividend payout ratio

Dividends are the distribution of industry profits to investors, and the amount is proportional to the shares owned. Dividend distribution is generally periodic, but sometimes dividends are distributed at unusual times. Dividends will be distributed to investors after obtaining investor approval at the GMS (General Meeting of Shareholders). Thus, dividends are the distribution of profits received by the company to investors, and the distribution is proportional to the total shares owned. When a company in business is able to generate enough money to pay dividends, and the board of directors deems it appropriate to distribute dividends to the company, investors will receive dividends.

While the percentage of dividend distribution divided by net profit obtained by the company is called the dividend payout ratio (DPR). When the dividend payout ratio is large, the company's funds will be small, otherwise the dividend payout ratio is small, the company's retained earnings will be large. That is, the proportion of net profit after tax is distributed to investors as dividends. The ratio is large, so the portion of prevented profit allocated for industrial investment will be small. (Sudana, 2015).

The liquidity ratio is the ability of a company's assets to convert their assets into cash in completing their obligations (Fachrudin, 2021; Hasanuddin *et al.*, 2021; Pham *et al.*, 2020; Husna & Satria, 2019; Kozlovskiy *et al.*, 2019; Brigham & Ehshardt, 2017). This study uses the Current Ratio (CR) as an indicator of the liquidity ratio. Current Ratio (CR) shows the balance of current assets and current liabilities. This ratio is used to determine the company's ability to pay off the company's current debt.

In the context of dividend signal theory, companies that have higher cash availability will tend to pay dividends compared to companies that have lower cash availability. A high current ratio is able to provide good guarantees for short-term creditors, meaning that shareholders will receive high dividends every time the company is able to pay off short-term financial debts. This is supported by the research of Faradisi & Ulpah (2021); Nurcahiqi & Suryarini (2018); Epaphra & Nyantori (2018), dan Sawitri & Sulistyowati (2018) which proves that the liquidity ratio is one of the determinants of the company's dividend policy.

H<sub>1</sub>: Liquidity affects the dividend payout ratio

### Profitability affects the dividend payout ratio

The ability of a company to seek profit is called profitability (Saleh & Winarso, 2021; Jihadi *et al.*, 202; Istiowati & Muslichah, 2021 Chandrarini & Cahyaningsih, 2018; Haryanto, 2016; dan Kasmir, 2018). The ratio used in estimating the level of profitability is Return On Assets which represents the ability of capital to be invested in the value of assets in order to make a profit. The relative choice of dividends to investors or the use of these profits in the industry is determined by the expected rate of return on assets (Weston and Copeland, 2010). Profitability can increase dividends (Mauris & Rizal, 2021; Pattiruhu & Paais, 2020; Baker *et al.*, 2019; and Sukmawardani & Ardiansari, 2018).

This profitability analysis is able to attract the attention of stock investors. Because, if the company makes a profit, dividends will be distributed to investors. This is supported by the cash dividend residual theory which states that organizations will pay dividends only if they have excess funds (Akhyar *et al.*, 2014). Ahmad & Khan (2017) research proves that profitability has a positive and significant effect on dividend policy.

H<sub>2</sub>: Profitability has an effect on dividend payout ratio

### Asset Growth affects the dividend payout ratio

The company's growth will affect the amount of dividends paid by the company. This is because the company needs funds to finance all company activities. Companies will tend to hold on to their company profits, so that the dividends paid will be smaller (Wei et al., 2011 and Chen et al., 2012). This is in line with the pecking order theory, where companies prefer internal funding (retained earnings) compared to external funding.

H<sub>3</sub>: Asset growth has an effect on dividend payout ratio

### 3. Data and Methods

This research is a quantitative research that aims to examine the relationship between the independent variable and the dependent variable with statistical analysis using numbers. The independent variables are liquidity, profitability, and asset growth. Meanwhile, the dependent variable uses the dividend payout ratio. The data used in this study are secondary data derived from the annual financial statements of companies in the infrastructure, utilities, and transportation sectors for the period 2018-2020 which are listed on the Indonesia Stock Exchange (IDX) which are accessed from the [www.idx.co.id](http://www.idx.co.id) website. .

The population is companies in the infrastructure, utilities, and transportation sectors which are listed on the Indonesia Stock Exchange and disclose annual reports and financial reports for the 2018-2020 period. Purposive sampling method is used for data collection techniques. This technique is used to obtain samples that match the predetermined criteria, namely 1) Companies are included in the category of infrastructure, utilities, and transportation sectors that have been listed on the IDX from 2018 to December 31, 2020. 2) Companies in the infrastructure, utilities, and transportation sectors transportation listed on the IDX that does not issue an annual report or financial report as of December 31 that is not audited during the observation period from 2018 to December 31, 2020. The number of samples is 33 companies with a total of 84 observations.

### 4. Result

#### Description of Statistics

Based on the results of descriptive statistical analysis (Table 1), the research data shows the

average liquidity as measured using the current ratio in an unhealthy condition. This is indicated by the current ratio value of 30.235 or 3,023%. A healthy ratio is between 1.5 to 3 (150% to 300%). The ability of companies in the infrastructure, utilities, and transportation sectors to manage capital is reflected poorly, and companies do not use their assets effectively and efficiently. To fix this, companies need to maximize efficient financial management. The highest liquidity is 711.05 or 71.105%, this indicates that old inventories and receivables have a high value. This can cause inventory buildup, triggering bad debts.

Table 1. Statistical Description of Infrastructure, Utilities, and Transportation Data

	CR	ROA	Asset Growth	DPR
Average	30.235	2.972	0.178	1.560
Highest	711.050	104.130	3.410	27.820
Lowest	0.000	-8.840	-0.590	-2.910
St. Dev.	129.445	18.401	0.676	5.690

However, the average profitability as measured using the Return On Assets (ROA) of companies in the infrastructure, utilities, and transportation sectors is 2,972. The company's ability to use its assets to earn a profit of 297%. The higher the ROA value indicates a positive value. The highest profitability is 104.130 indicating that the company uses its assets to get very high profits. However, there are companies that experience losses, this is indicated by a negative ROA value.

The average asset growth (asset growth) of companies in the infrastructure, utilities, and transportation sectors is 0.178. The company experienced a growth of 17.8% during the period 2018 to 2020. The highest asset growth of 3.41 or 341% indicated that the company had operating results with a significant increase. However, there are companies that experience a decline in assets, this is indicated by the value of negative asset growth. The decrease could be caused by capital deficiencies, write-off of advances, foreign exchange differences, finance charges and operating losses from the previous period.

The average Dividend Payout Ratio (DPR) is 1.560, this indicates that the infrastructure, utility, and transportation sector companies pay dividends of 156% per share. The highest DPR is 27.82, which means that of the total earnings per share of the company, 2782% is part of the dividend per share. The higher the value of the DPR, the higher the share of dividends that will be paid to investors. However,

there are companies that do not distribute dividends. It is marked with a value of 0 or negative (dividend payable). Dividend debt occurs when the company does not have enough retained earnings to be distributed in the form of dividends, and the cash balance it has is also insufficient. The results of the regression analysis show that Current Ratio, ROA and Asset Growth have no effect on dividend policy (Table 2)

Table 2. Results of Data Analysis

	$\beta$	t	Sig.
Current Ratio	-0.002	-0.290	0.774
ROA	-0.170	-0.289	0.774
Asset Growth	0.302	0.189	0.851

## 5. Discussion

### Liquidity on the Dividend Payout Ratio (DPR)

Based on the results of the t test data analysis, liquidity is measured using the current ratio. This study succeeded in showing that liquidity has no effect on the dividend payout ratio in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange from 2018 to 2020.

These results are in line with research by Harun & Jeandry (2018) and Puspita (2017), which state that liquidity has no effect on the dividend payout ratio. This indicates that the increase or decrease in the level of liquidity does not affect the management's decision to distribute dividends. Basically, the level of liquidity describes the company's ability to pay its short-term obligations and the ability to fund the company's operations.

However, this study succeeded in revealing that high or low liquidity owned by the company does not mean that it will affect the amount of dividends distributed. Companies that have high liquidity does not mean that they will distribute high dividends as well. Companies take advantage of existing liquidity for investment purposes by buying assets or using them to fund company operations, instead of distributing them in the form of dividends. In line with the residual theory of cash dividends proposed that a new company will provide dividends, if in terms of company profits it is not used in investment payments (Hussain et al., 2019; and Hussain et al., 2018). This is done for the development of the company.

### Return on Assets Dividend Payout Ratio

Based on the results of the t test data analysis, profitability is measured using Return On Assets (ROA). This study succeeded in showing that profitability has no effect on the dividend payout ratio in

the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange from 2018 to 2020.

These results are in line with previous research conducted by Lismana (2020). This result is also not in line with the dividend signaling theory proposed by Atmaja (2008) which states that investors/shareholders view dividend changes as a good signal for management's forecasts of company profits. Because when the industry receives a profit, managers will assess the level of expenditure in the future will increase along with the development of the industry. While profitability increases, the industry will further advance industrial development compared to paying dividends to investors. Companies that have profits will not necessarily distribute dividends, especially to companies that have plans to invest in assets in the future.

This study succeeded in revealing that the higher the level of profit earned by the company, it is not necessarily that the level of dividend payments will also increase. And vice versa, companies that have a low level of profit are not necessarily unable to pay dividends (Damayanti & Achyani, 2006)

### Asset Growth on Dividend Payout Ratio

Based on the results of the t-test data analysis, asset growth has no effect on the divided payout ratio in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange from 2018 to 2020. These results are in line with previous research conducted by (Rejeki, 2011).

Companies that are growing up do not distribute dividends but use their assets for investment financing. This supports the statement of Hanafi and Halim (2016) that companies that have high growth rates tend to have low dividend payout ratios due to the high costs required for financing in the future. Vice versa, companies that have a low growth rate will have a high dividend payout ratio. In addition, the company does not only use internal funds for the purpose of financing business development, but also uses external funds in the form of debt. In line with the pecking order theory proposed by Jibrán et al.(2012) that if the company uses external funds, it will prefer in the form of debt rather than equity. This is because the cost of issuing bonds is cheaper than the cost of issuing new shares and the issuance of new shares will be interpreted as a negative signal by investors. The use of external funds causes a decrease in retained earnings, although in the end the company can still distribute dividends.

## 6. Conclusion and Suggestion

### Conclusion

The results of the study reveal that liquidity, profitability, asset growth have no effect on the Dividend Payout Ratio in infrastructure, utility, and transportation sector companies listed on the Indonesia Stock Exchange from 2018 to 2020.

### Suggestion

The researcher's suggestion to the company is that transportation sector companies always maintain a balance between maintaining adequate liquidity in their business, so that they can maintain harmony between paying obligations and paying dividends. The trick is to formulate a policy regarding the financial obligations of the industry either in a short time or continuously. In addition, companies engaged in the transportation sector should consider their financial situation before deciding to distribute dividends to investors. For further researchers, it is expected to use sectors other than infrastructure, utilities and transportation or companies from various sectors can be combined so that there is an increase in the number of samples.

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