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ANALYSIS OF THE IMPACT OF DIVIDEND POLICY ON THE VALUE OF TNCs

***Annotation:** The article is dedicated to the basic theoretical aspects of dividend policies of multinational companies are considered. Dividend policy is one of the important factors in determining the investment attractiveness of securities of companies and, as a consequence, making the appropriate decision to buy or sell them. It is necessary to understand how the dividend policy affects the value of the company. For illustrative purposes, there is an example of the effect of PJSC «Severstal» dividend policy on the value of this company.*

***Keywords:** Dividend, dividend policy, company value, stock.*

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АНАЛИЗ ВЛИЯНИЯ ДИВИДЕНДНОЙ ПОЛИТИКИ НА СТОИМОСТЬ ТНК

Аннотация: В данной статье рассмотрены основные теоретические аспекты дивидендных политик транснациональных компаний. Дивидендная политика является одним из важных факторов определения инвестиционной привлекательности ценных бумаг компаний и, как следствие, принятия соответствующего решения об их покупке или продаже. Необходимо понимать, какое значение дивидендная политика оказывает на стоимость

компании. Для наглядной иллюстрации приведен пример влияния дивидендной политики ПАО «Северсталь» на стоимость этой компании.

***Ключевые слова:** Дивиденд, дивидендная политика, стоимость компании, акция.*

It should first be noted that the market value of a company is commonly understood as the price at which that company can be sold on the market under conditions of free competition. To a greater extent, these issues apply to joint-stock companies. The growth in the value of a company's assets today brings a major return to the owners of capital. Capital investors are also primarily interested in increasing the market price of shares. Maximizing the market value of a company's stock is based on the assumption that increasing the wealth of a firm's owners lies in increasing the market price of the stock, rather than in increasing income in the form of dividends. Therefore, recently there has been a steady interest and need in assessing the market value of the company and improving the practical tools of its management, as well as the management of the processes of increasing the market value of the company itself. Thus a new direction in the management theory has recently emerged - the concept of company value management.

The method of distributing the company's net profit is included in the value generating mechanism. The board of directors makes the decision on profit distribution, which is then approved by the shareholders in a public meeting. Justification of ideal proportions between funds allocated for production growth, establishment of the reserve fund, and payment of income on securities: dividends on shares and interest on bonds are all part of the profit distribution process. In reality, dividend policy guides managerial decisions in this area. Dividends are not always the same magnitude and are determined by the quantity of earnings and its distribution among shareholders. As a result, one of the most essential responsibilities of a financial manager is to establish and implement an effective

dividend policy, which necessitates a thorough grasp of the elements that influence it, as well as the interrelationships with other management choices.

Dividend policy

It is worth explaining more precisely what the dividend policy is. For a company, the dividend policy is an opportunity to find a balance in the distribution of profits between distributions to shareholders and development. In addition, the issuer's clear dividend policy increases its investment attractiveness, which positively affects market capitalization and helps attract new capital.

It is also a part of the financial policy of a company that specifies how its profits will be distributed: what part will go to shareholders in the form of dividends and what part will be used for business development. For example, American real estate funds REITs undertake to give not less than 90% of proceeds to shareholders. And young technology companies prefer not to pay dividends at all - these are so-called growth shares.

Such companies work for the future, directing all their cash flow to research, product improvement and further market expansion. In general, such an allocation of funds is more effective: all profits remain inside the company, and in the case of dividends, up to 30% of them go to the state in the form of taxes.

But since Russian economy has strongly pronounced raw material character, and technological companies are poorly represented, the domestic market is mainly represented by dividend companies, not growth shares. The latter include only a few issuers, including Yandex and Mail.ru.

There is a regulation on the current dividend policy, which is an internal document of the company, approved by the board of directors. It is a set of rules that defines:

1. The mechanism for deciding on dividend payments.
2. The amount of dividends for each type of stock - preferred and common.
3. The procedure and terms of payments to shareholders.

It is important to take into account that the provision on the dividend policy has a recommendatory nature. In other words, the company is only guided by it when making decisions, but may deviate from the document, if this is done within the limits of the law.

In Russia such practice of deviation from the dividend policy is not uncommon. For example, the dividend payments of Sistema JSFC in 2018 and 2019 turned out to be much lower than the dividend policy of the organization in effect at that time. After all, the company was facing large debt payments, so the management chose to break the dividend policy in order to preserve the financial stability of the holding.

If we talk about what the size of the recommended dividends depends on, it is worth saying that there are several factors that determine the ratio between the part of profit that goes to dividends and the part that is reinvested in the development of the company.

First, the size of the recommended dividends is influenced by the regulatory documents that regulate the dividend payout procedure. First of all, these are the federal law "On Joint-Stock Companies" and the charter of the issuer - the founding document which records the basic information about the company and regulates its activities. In addition, for companies with state participation, the amount of dividends may be regulated by a special government decree.

Secondly, whether or not the company has free cash is an important factor in setting the amount of recommended dividends. If the company is willing to pay, but has no money, dividends can be paid with its own shares or even with goods

produced. Today such examples are almost non-existent, but in the 90's it was quite common practice. Now, when the financial situation worsens, the company is more likely to reduce the amount of dividends or postpone the payment date. In 2020, many issuers took this route because of the deteriorating market conditions amid the spread of the COVID-19 epidemic.

The company's investment program is also an important factor. The availability of promising development projects and their cost, as well as the amount of money that should be used to restore the fixed assets of production.

Fixed assets are tangible business assets such as buildings, equipment, tools, instruments, vehicles. They are involved in the production process of the company and in the provision of services. Over time, these assets wear out, so the company is forced to spend money on their maintenance - so that the volume and quality of products do not decrease. At the same time, if a company's management wants to achieve growth in operating indicators, it has to make additional investments in upgrading production facilities and creating new infrastructure.

There is also such a factor as the financial stability of the company. Mainly it is the current level of debt, the availability of borrowing and the cost of servicing them. Sometimes it is safer for a company to reduce dividends or refuse to pay them for a while until the financial situation improves. The availability of refinancing can drop when the issuer's credit rating goes down. This is a signal to lenders that the risks of investing in such a company have increased. Therefore, a business with a low credit rating will find it more difficult to borrow money and the interest on the loan will be higher. In the worst case scenario, the company's debt can become so high that all of its profits will be used to service it - there will be no money left to develop itself and pay out dividends.

As for the basis for dividend calculation, it is worth saying that Russian companies usually use one of the following parameters as the basis for dividend payments.

The company's net profit for the corresponding period, most often for a year, six months or a quarter. As a rule, adjusted net profit is used for the calculation. This is when non-cash or one-time items are subtracted from the latter, such as profit from the sale of a major asset. It can also be a gain or loss resulting from exchange rate differences or the revaluation of subsidiaries whose shares are quoted on the market.

EBITDA indicator. It is defined as a company's earnings before taxes, interest payments on loans and bonds, and before depreciation and amortization, the cost to offset depreciation of assets. As in the case of net profit, various adjustments may be applied to EBITDA, which can affect the final result.

Free cash flow. This is calculated as the difference between a company's operating cash flow and its capital expenditures. In recent years, this indicator has become increasingly popular because it reflects a company's ability to pay dividends without building up debt.

Net debt to EBITDA ratio. Another criterion that reflects a company's debt level and is often used to calculate future dividend payments. Net debt is defined as the sum of all the company's loans, minus cash on its accounts, and quick assets.

Analysis of PJSC Severstal dividend policy

On April 16, 2018, the Board of Directors of PJSC Severstal, one of the world's largest vertically integrated steel and mining companies, approved a new version of PJSC Severstal's dividend policy.

The dividend policy stipulates transition to an average calendar year dividend equal to 100% of free cash flow of the Company and its subsidiaries, calculated in accordance with IFRS on a quarterly basis, provided net debt/EBITDA ratio does not exceed 1.0x and the Company may make seasonal adjustments for working capital fluctuations.

If the net debt/EBITDA ratio is below 0.5x, the Board of Directors has the right to recommend dividends in excess of 100% of free cash flow for the relevant reporting period.

With a net debt/EBITDA ratio above 1.0x, Severstal will switch to a dividend payout equal to 50% of free cash flow, calculated on a quarterly basis, until the ratio falls to 1.0x or below.

The new dividend policy reflects their ongoing total free cash flow payments and is aligned with Severstal's key principles of maximizing value for shareholders. Severstal's low leverage, prudent investment approach and one of the highest dividend yields in Russia allow the company to remain attractive to investors at any point in the steel industry cycle. Their internal target for net debt to EBITDA ratio is in the 0.5x to 1.0x range and management is currently expected to maintain this ratio at a comfortable level for stable dividend payments.

Last year, Severstal said it is not going to change its dividend policy due to export duties on ferrous and non-ferrous metals from Russia.

Payments to PJSC Severstal investors

Year	Dividend (rub.)	Change compared to prev. year
2021	253.42	+138.2%
2020	106.39	-12.58%
2019	121.7	-22.17%
2018	156.37	+42.08%
2017	110.06	+50.48%
2016	73.14	+37.33%
2015	53.26	-15.27%



Figure 1. The value of PJSC «Severstal»

The chart shows Severstal's value by the end of April 2018 was up 227.1 billion rubles from its lowest point this year (April 9). This speaks to the right policy. It is also worth noting that maintaining this policy in 2021 helped the company maintain a high enterprise value (about 2,100 billion rubles).

Conclusions

It can be concluded that at present corporations do not have a uniform dividend policy. The company's activity at different stages of formation and development and in different market situations is aimed at increasing accumulation or increasing dividend payments to shareholders, which contributes more to the investment attractiveness and financial and economic activity of the company as a whole than to the growth of its market value. In the near future we should expect a change in dividend policy, as the market is now in a new position, different from previous years. Severstal's value reflects the overall value of companies in this sector in our country at the moment. On February 24, their value declined sharply. Due to this and a number of new sanctions, we should expect changes in companies' policies, including the dividend policy.

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