



# Proposed Model of the Dividends Policy of REITs Listed at Kuwait Stock Exchange

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## Abstract

The research aims to study the factors that affect the dividends policy at the REITs, which listed at Kuwait Stock Exchange, using 41 observation of one year, included all 41 REITs, multi linear multi regression model technique was applied. The explanatory variables are, pay-out ratio, cash flow from finance activities, earning per share, assets size, revenues. The study reached to a statistically high significance and positive relationship between dividends per share and all explanatory variables except assets size had no significant effect, also revenue variable had negative relationship with dividends per share.

**Keywords:** Dividend policy; REITs; Multiple regression analysis.



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## 1. Introduction

The dividends Policy in the closed Real Estate Investment Funds is identical to any Firm or Financial institution. The theories of Dividends Policy: Neutrality theory of Dividend Policy for [Miller and Modigliani \(1961\)](#), Tax preference theory, the theory of bird in the hand, Agency cost theory, Transaction cost theory, signal theory is applied in REITs. The Lintner 's model 1956 is the most important dividend's model, the core of Lintner 's model is that the firm which maintains its target pay-out ratio, the dividend payment in the following year (Div1) will equal a constant part of an earnings per share (EPS1), or  $(Div1) = \text{target ratio} * EPS1$ . The structure of the study is divided into six parts 1: The Introduction, 2: The literature review, 3: The applied studies, 4: The Hypotheses, 5: The Findings, 6: The Conclusion.

## 2. The Literature Review

### 2.1. Theory of Dividend Policy

#### 2.1.1. Neutrality Theory of Dividend Policy

[Miller and Modigliani \(1961\)](#): One of the most important proponents of this theory are Modigliani and Miller in 1961, who made it clear that the value of the institution depended Over the optimal use of the various resources available and not How profits are dealt with The efficiency of investments is the main asset of the shareholders' wealth Value of the organization) .Modigliani and Miller argued that the value of the firm was determined by the strength of its profit Basic and risking its business only.

#### 2.1.2. The Theory of Bird in the Hand

The traditional argument in earnings per share is that it reduces risk, because it supplies future cash flows and information to shareholders, all shareholders can access liquidity through. They sell a portion of their shares, but this carries them with the costs of exchanging that It can be avoided if the Corporation distributes dividends. Reduce the risk or the sparrow's argument in which the hand pop-up her touched both Graham and Dodd. As well as Jordon and others 1959 and 1951, only the directors distributed the stock to reduce liquidity to shareholders, allowing Uncertainty about future flows, but on the one hand other these dividends are a reduction in market value.

#### 2.1.3. Tax Preference Theory

According to this theory, investors prefer to invest in such investments Organizations that distribute a lower percentage of profits as a result higher taxes on dividends compared to dividends Capitalism, only Weston and Brigham 1993, p. 688. That in the case of a tax, the investor prefers to reinvest the profits rather than get them Consequently, institutions prefer to distribute the lowest percentage of the total To reduce the value of taxes, a lower percentage is paid .This means that a large proportion of them are reinvested in Enterprise leading to increased profit growth rate, according to the model Gordon this leads to the rise of the investor's wealth.Taxes on capital gains are paid only once When selling a stock, take the time value of money Which decreases in value over time ,the value of the current money greater than the value of the same money in the future this makes profits Capitalism is less expensive than the share price, as in the case of capital Retention of the stock until the death of the shareholder The heirs do not pay A tax on capitalism in the event that they sell This is because the market price of stock at the death of the shareholder is a cost Buy it thus there is no value difference) . They retain profits rather than distribute them and are willing to pay a higher price to buy shares of those non-dividend institutions.

### 2.1.4. Agency Theory

Agency theory arises as a result of separation between ownership and management of this institution and reached by all of Jensen and Meckling (1976), It is known that by increasing the size and breadth of institutions the property has separated from Management, and then the so-called management class emerged here Agency relations began. The Agency is a contract owner with personal authorization or others in conducting the organization on their behalf. The most important condition of the Agency's contract is your own by performing the responsibilities of the agent to achieve and maximize the interest of the owner this is in return for the agent to receive the appropriate remuneration for payment His responsibilities. Of course, managers have information more than the shareholders about the status of the institution, it is possible for managers to take care of achieving their personal goals rather than achieving goals Shareholders. In this case, some cost is required Borne by shareholders to ensure their goals, hence no one comes basic sources of agency cost to shareholders to ensure that managers are monitored to allow them to achieve their goals.

### 2.1.5. Transaction Cost Theory

Theory Jensen and Meckling (1976) which on it that capital markets perfect, by the non-existence of transaction costs in raising external financing. Transaction costs, also referred to as flotation costs or issuance costs, encompass among others the application fee, the underwriting fee, the underwriting spread, the rating fee, the prospectus cost, the legal fee, and the advisory fee. Fama (1974) theorized that with transaction costs, firms recognize the cost effectiveness of retained earnings and therefore, prefer to finance investment through retention of earnings. According to the so-called residual dividend theory, firms would only distribute dividend when their internal funds are not completely used up for investment purposes.

### 2.1.6. Signaling Theory

Miller and Rock (1985), developed the Classical theoretical models, showing that in the world of asymmetric information, better Insiders use the dividend policy as a costly signal to convey the company's future Less likely the knowledge of strangers .Therefore, increased profits indicate improvement the company's performance, while the decline indicates a worsening of its future profitability.Thus, the increase in profit (decrease) should be improved (Reduction) in company profitability, profits and growth .Moreover, there must be Positive correlation between changes in dividends and subsequent stock price reactions.

## 2.2. Factors Affecting Dividend Policy

### 2.2.1. Legal Rules

The Company's ability to distribute profits is largely influenced by the and restrictions, which govern In the dividend policy, the legal rules that affect the dividend policy are different From time to time, many laws state that profits from sale should not be distributed .This law aims to protect shareholders because the distribution of dividends in this form is not merely meaningful Dividend distribution, but distribution of funds invested in the Company, as provided for in other laws Dividends may not be distributed in cases of financial hardship Contractual restrictions (restrictions on debt contracts)

### 2.2.2. Profitability

The level of expected profit cannot be determined, which encourages the Company to retain a significant portion Current dividends in order to maintain a certain level of cash Stock profitability, Myers and Majluf (1984) asserted that profitable firms increased their demand for debt since firms use internal funds to invest. They explained this idea through the pecking order hypothesis

### 2.2.3. Company Size

The large stable company, which has achieved high profitability and stability has capability to access to funds from financial markets, and therefore can distribute a new small business that carry investors have greater risk. Mozes (1995), showed that about 87% of large companies paid dividends compared to 49% of small firms.

### 2.2.4. The Company Age

The dividend policy adopted by the Company is influenced by the company age, they usually need a lot of money to finance their expansion, and they face difficulties in getting funds .It is therefore clear that the company has a distribution policy of keeping a significant amount of money. These profits are reinvested, but the olded and experienced company pay-out high dividends (Tamimi, 2014) that This may be due to a high dividend distribution policy due to the fact that the funds are invested or expanded The company has collected during its previous operations sufficient to finance the financial needs, in addition to the liquidity Access to the financial market and these factors will increase the funds distributed to shareholders.

### 2.2.5. Tax position of Shareholders

The tax holders' equity position affects the desire to distribute dividends, if any owned by a relatively small number of stocks and these owners are subject to high tax rates. And Usually an investment rather than dividends These owners may prefer to book profits Companies in which a large number of stockholders are subject to high tax

rate and a number of others Subject to low tax rate , there is often a conflict of interest leads a firm to compromise that fulfills both wishes.

### 2.2.6. The Financial Leveraged

Companies that want to raise the ratio of external debt, or make debt part In the financing structure, they tend to withhold a large part of their profits in order to meet debt repayments, (Tamimi, 2014). When the company finances the expansion from the loan, it faces debt, either repaying the loan on maturity By obtaining a new loan or making arrangements to repay the loan from private funds. This should be taken into account in the distribution of dividends according to the financing structure of a company.

### 2.1.7. Investment Opportunities for Shareholder

This requires the Company not to retain profits for reinvestment sthem in opportunities (capital projects) yields less than the returns that owners can achieve from Private equity investments are of an equal risk.

## 3. Applied Studies

The Lintner (1956), provides a logical explanation of dividend payments. Lintner's dividend model is based on the interpretation of dividends in the target payout ratio. Dividend payments in the following year are equal to a fixed percentage of earnings per share. However, corporate managers believe that shareholders prefer a steady increase in profits. According to Lintner (1956), the historical dividend is determined by current profits by many companies. In addition, current dividends are always the starting point in thinking about the change in dividend policy. Therefore, dividend distribution is a function of current net profit after tax and dividends paid in the previous year (overdue dividends). This can be expressed as follows:

$$D_t = a + b_1 P_t + b_2 D_{t-1} + u_t$$

Where,

$D_t$  = total equity dividend in period t

$D_{t-1}$  = total equity dividend in period t-1

$P_t$  = net current earnings after tax in period t

$u_t$  = error term

Al-Malkawi (2007), aimed to know the determinants of the dividend policy for Jordanian companies and adopted them Panel data included data combining cross-sectional and time series values -Study all companies listed on the Amman Stock Exchange during the period 1989 - 2000 .The study used the transition from the general to the special model to choose between the hypotheses , Competing, to study the determinants of the amount or level of dividend distributed using the Tobit model .The results showed that factors such as the proportion of management ownership and the presence of the government in the ownership structure, (Tobit) .The Company as well as the size, age and profitability of the Company play an important role in determining the dividend policy in Jordanian companies. The study concluded that the agency theory is supported and generally consistent with the theory of priorities of funding, while the results of the study did not support the theory of the existence of information content in dividends.

Al-Najjar (2009), found that the dividend policy in Jordan, as a developing country, is influenced by factors similar to those related to developed countries such as: leverage ratio, institutional ownership, profitability, business risk, asset structure, growth rate and firm size. Furthermore, the factors affecting the likelihood of paying dividends are similar to those affecting the dividend policy. Finally, the results show that the Lintner model is valid for Jordanian data, and that Jordanian firms have target payout ratios and that they adjust to their target relatively faster than firms in more developed countries.

While, Zurigat and Gharaibeh (2011), their study results indicated that Jordanian companies have target dividend with low target settlement rate. However, the target ratio adjustment is not Symmetric; it's an uneven adjustment process, depending on whether it's higher than the target or under that goal. Moreover, adjusting earnings is not only asymmetric up and down , but also inconsistent for below-goal dividends adjustment with positive and negative profits as well as to adjust profits above the target dividends with Positive and negative profits. These results suggest that the partial modification model is asymmetrical Based on Lintner (1956) idea of the target dividends , it also supported the agency's interpretation of asymmetric information to smooth profits.

Mehri *et al.* (2013), investigated the impact of investment opportunities and the financial position of a company on dividends for industrial companies listed on Malaysia Stock Exchange. The study relied on the descriptive approach and used the multiple linear regression model .The sample of the study consisted of 62 industrial companies listed on the Malaysia Stock Exchange for a period between 2006 and 2008.

Al-Amarneh and Yaseen (2014), tested the relationship between corporate governance and dividend policy in Jordan using a sample of 47 industrial companies listed on the Amman Stock Exchange (Amman Stock Exchange) during the period 2005-2011. The results show that large companies with high investment opportunities (growth) and high return on stocks become large pay dividends, but companies with a high degree of leverage make less profit. Regression is used to test the relationship between corporate governance factors (corporate holdings, holdings of financial institutions, holdings of insiders and foreigners) and dividends. Holdings of financial institutions have a non-linear relationship to dividend yields, as holdings increase dividend yields to a certain level of holdings that support free cash flow theory, such as insiders and foreign holdings increase dividend yields which support signal theory.

According to study of Tsuji (2010), the results showed an inverse relationship between the size of the company and the amount of cash dividends. This difference may be due to the fact that the company has future investment opportunities that are collectively held Profits rather than distributions, or the existence of high taxes on dividends to the company's shareholders.

The Kasozi, Jason and Ngwenya (2015) study sought to Investigate factors affecting the formulation of dividend policy and practices of South African banks, evaluate the application of previous literature to the theory of dividend distribution to these companies. The study followed approach Design mixed methods of position analysis with behavioral attitude to obtain responses from banking experts through the survey. The results indicated that the factors related to financial performance, investor needs, preferences and regulatory considerations are necessary for making dividend decisions between banks.

The goal of Salman (2019) research is Identify and analyze the impact of shareholder preference and profit signals about the dividend policy for companies in Pakistan. Submit the study concerned Analyze senior financial management beliefs by taking eighty listed companies In Pakistani stock exchanges during 2017-2018. Pearson correlation and multiple regressions are applied to responses to explore whether there is an effect with respect to Shareholder preferences and mechanism of reference over dividend policy Companies listed in Pakistan. Through statistical techniques the results proved Shareholder preferences and dividend signals have significant positive results Relationship with dividend policy for listed companies. Dividend policy is in response to investor preferences and reference to dividends.

#### 4. Hypothesis

There is no significance relationship between assets size, cashflow from financial activities, Revenues, Dividends per share, Earning per Share' growth of 5 years.

There is no correlanarity between independents variables.

Variance is constant.

##### The statistical model:

$$DPS = \beta_0 + \beta_1 \text{ PayoutR} + \beta_2 \text{ CF} + \beta_3 \text{ EPS} + \beta_4 \text{ LNNTA} + \beta_5 \text{ REV}$$

Where ;

DPS : Dividends per share

Payout R: Dividends Pay-out Ratio

EPS: Earning per share

LNNTA: assets size (natural logarithm of total assets)

REV: Revenues

#### 5. Findings

Reject the null hypotheses is and accept the alternative hypotheses. The test result of hypotheses is one proved that, all explanatory variables are significant except the assets size (LNNTA), and all independents variables are positive correlated with the dependent variable (DPS), the revenue variable is negative correlated with DPS. The adj R<sup>2</sup> (83%), that is mean our model interpreted 83% and the rest is due to another factors a table .1, showed the coefficients significance of al the independents variables, which are ranged between (0.00 -0.09) at P significance level of most between 1% and 5%.

Accept the null hypotheses is, that there is no correlation between the independent variables. Table.2 illustrated the mean of variance inflation factor equals (2.07), which is statically desirable.

Accept the third hypotheses is, that a variance is constant. Breusch-Pagan / Cook-Weisberg test for heteroskedasticity test result showed that the probability of chi2 value is (0.048) is less than 5% and that is statistically desirable.

Table-1. AOVA test and regression coefficients

Source	SS	df	MS	Number of obs	=	34
				F(5, 28)	=	33.97
Model	0.000648	5	0.00013	Prob > F	=	0
Residual	0.000107	28	3.81E-06	R-squared	=	0.8585
				Adj R-squared	=	0.8332
Total	0.000754	33	2.29E-05	Root MSE	=	0.00195
DPS	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Payout R	0.006	0.0010	5.81	0.00***	0.004	0.008
CF	0.000	-0.0000	3.69	0.00***	0.0001	0.000
EPS	0.162	0.037	4.43	0.00***	0.087	0.237
LNNTA	0.0003	0.001	0.65	0.52**	-0.001	0.001
REV	-0.0000	0.000	1.75	0.09*	-0.0001	0.001
_cons	-0.0013	0.002	-0.65	0.524	-0.0052	0.003

\*\*\*P < 0.01,\*\*P < 0.05,\*P < 0.10

**Table-2.** Variance Inflation Factor test

Variable	VIF	1/VIF
REV	2.97	0.337
LNTA	2.59	0.385
EPS	2.18	0.459
CF	1.46	0.686
Payout R	1.15	0.872
Mean VIF	2.07	

**Table-3.** The Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

<b>Breusch-Pagan / Cook-Weisberg test for heteroskedasticity</b>	
Ho: Constant variance	
Variables: fitted values of DPS	
chi2(1)	= 6.02
Prob of chi2 = 0.048	

## 6. Conclusion

According to the findings, the study result confirmed that, all explanatory variables correlated positively with dividends per share, also statistically significant (Dividends Pay-out Ratio, Earning per share, assets size (natural logarithm of total assets), and the study results contrasted with a study of (Tsuji, 2010), also our results supported a Al-Najjar (2009), and Al-Malkawi (2007), Zurigat and Gharaibeh (2011) results, only revenue variable negatively correlated and statistically significant with the dependent variable (dividends per share). Our results also supported the Lintner (1956) findings.

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