Research.

Analysis on net profit earned by a company to dividend shared to investors

(Case study of PT. Gudang Garam from 2014-2019)

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Abstract. *Dividend is profits generated by the company distributed to shareholders. Dividend sharing depends not only on company profits but also on the working capital it obtains. Many companies survive and develop, but the distribution of dividends is fixed and not in line with the development of corporate profits. Thus, this study was aimed to determining the effect of the amount of capital and dividends distribution and the effect of company profits on the number of dividends. The indicator is the type of working capital used, company profits and dividends distributed to the company during the observation period. Research results show that there is no effect of working capital on dividends distributed.*

Keywords: Capital, Company Profit, Dividend Introduction

BACKGROUND

One of the objectives of a company foundation is to gain profit. Competition in the manufacturing industry makes each company increasingly improve its performance so that its objectives can still be achieved. Companies which are oriented to obtain profits, generally will focus their activities to increase the value of the company to the maximize profit. Maximizing the value of the company means maximizing the present value of all profits to be received by shareholders in the future. In buying shares, there are two considerations which become interest for shareholders, the profit which will be shared by management to shareholders and the second is capital gain which is the price difference between selling and buying shares in the stock market. Investors will invest in the stock market by conducting first analysis of the company to be invested. There are two approaches to analyze stocks, i.e. technical and fundamental analysis. Technical analysis is an effort to observe stocks according to their movements from time to time while fundamental one observes stock prices by observing and studying company finances as a step valuation of company shares. Based on previous research which analyzed the company's finances, one of which is by looking at several ratios, i.e. the profitability of the company. According to Brigham (2014: 146), profitability indicates the amount of return on investment for shareholders. Profitability is the company's ability to benefit in relation to total assets, own capital and sales. It is a tool used as an assessment of company performance; company performance can be said to be good if it has high level of profitability. The shareholders expect to earn a return on their money, the profitability ratio will show the magnitude of the return. High profile will give an indication of a good company prospect so that it can trigger investors to increase stock demand, increasing stock demand will cause the company's value to also increase.

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PT Gudang Garam is a cigarette manufacturing company which is able to rank number 10 biggest sales with profit ranked 11th biggest in Indonesia (Imoney, 2018), as it is shown in the table below.

Table 1. 15 Largest companies in Indonesia based on profit and sales (updated 2019)

No	Based on sales	Based on net profit
1	Pertamina Rp 826,30 triliun	Pertamina Laba : Rp 35,99 triliun
2	Bank Rakyat Indonesia (BRI) Rp 808,9 triliun (penyaluran kredit)	Bank Rakyat Indonesia (BRI) Laba Rp 32,4 triliun
3	Bank Central Asia (BCA) Rp 678,8 triliun (penyaluran kredit)	Bank Central Asia (BCA) Laba Rp 25,9 triliun
4	Bank Negara Indonesia (BNI) Rp 512,71 triliun (penyaluran kredit)	Bank Mandiri Laba : Rp 25 triliun
5	Astra International Rp 239,21 triliun	Astra International Laba : Rp 21,67 triliun
6	Bank Tabungan Negara Rp 220,07 triliun (penyaluran kredit)	Telkom Indonesia Laba : Rp 18,56 triliun
7	Bank Danamon Rp 178,2 triliun (penyaluran kredit)	Bank Negara Indonesia (BNI) Laba Rp 15 triliun
8	Telkom Indonesia Rp 130,78 triliun	PT Hanjaya Mandala Sampoerna Tbk (Sampoerna) Laba : Rp 13,63 triliun
9	PT Hanjaya Mandala Sampoerna Tbk (Sampoerna) Rp 106,74 triliun	PT Hero Supermarket Tbk Laba : Rp 9,8 triliun
10	Gudang Garam Rp 95,71 triliun	Unilever Laba : Rp 9,1 triliun
11	PT Bank Mandiri (Persero) Tbk. Rp 83,06 triliun	Gudang Garam Laba : Rp 7,79 triliun
12	Bank Tabungan Pensiunan Nasional (BTPN) Rp 60,86 triliun (pendapatan bunga)	PT Adaro Energy Tbk Laba : Rp 5,8 triliun

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No	Based on sales	Based on net profit
13	PT Adaro Energy Tbk Rp 55,9 triliun	Indofood Laba : Rp 4,58 triliun
14	Perusahaan Gas Negara (PGN) Rp 55,24 triliun	Perusahaan Gas Negara (PGN) Laba : Rp 4,34 triliun
15	PT Unilever Indonesia Tbk. Rp 41,80 triliun	Bank Danamon Laba : Rp 3,9 triliun

Data : Audit.co.imoney June, 19, 2019

From this data, PT Gudang Garam Tbk. ranked 10th in cigarette sales and 11th in net income, and just below the rank of PT Hanjaya Mandala Sampoerna Tbk. In spite of the fact, PT Gudang Garam has more advantages since it hires more employees than PT Hanjaya Mandala Sampoerna, and this is a the highest human resource welfare contribution, so the author determined the object of research is the company PT Gudang Garam Tbk.

After observation the data of 2014-2019, PT Gudang Garam experienced fluctuating profits as well as dividend distribution. Based on the theory that dividend distribution from companies to investors ranged from 30 – 40% of the company's net profit, between net income and profit sharing would affect positive. This theory is in line with the results of research Wenas.DD et al., 2017; ED Maulidiana, N Rizal 2019; that net income partially and simultaneously has a positive effect on cash dividends (Wenas.D.D et.al, 2017); ED Maulidiana, N Rizal (2019) also Rawiyatul Hasana (2018), stated that profitability / ROI (return on investment) has positive influence on dividend / DPR policies in studies conducted by (Parica, et al. 2013) and Arilaha (2009). These studies differ from the distribution of dividends carried out by PT Gudang Garam. Tbk as the following data.

Table 2. Total net profit and dividend during 2014 – 2019 PT Gudang Garam Tbk.

Year	Net profit	Total dividend payment	% dividend
2019	10.800.102.000.000	Rp. 5.002.629.000.000	46.3
2018	7.968.008.000.000	Rp. 5.002.628.800.000	63.0
2017	7.755.347.000.000	Rp. 5.002.628.800.000	64.5
2016	6.672.682.000.000	Rp. 5.002.628.800.000	74.97
2015	6.458.516.000.000	Rp. 5.002.628.800.000	77.46
2014	5.325.317.000.000	Rp. 1.539.270.400.000	28.9

Data: Annual Report GGM.Investor, 2019

From the data in the table above, net profit distributed as dividends to investors is not in line with the opinion that there is a positive relationship between net income and profit sharing. In other words, the value of net income increases but the dividend distribution actually decreases. This company policy is interesting to analyze that the increase in profit does not necessarily increase the level of dividend distribution.

LITERATURE REVIEW

Net profit

According to Muhardi (2013), net income is the final portion of the income statement which reflects the company's performance in providing results for shareholders. According to Kasmir (2012) net income is profit that has been reduced costs which are borne by the company for a specified period including tax. Likewise, Hery (2013) stated that net income is derived from transaction expenses, profits, and losses. These transactions are calculated in the profitability statement of profitability to calculate the company's ability to earn profits. In this research the net profit value is used from annual report investor from PT Gudang Garam Tbk. from 2015 – 2019.

Liabilities

Jensen et al. (1992), stated that debt policy has a negative influence on dividend policy because the use of debt that is too high will cause a decrease in dividends in which most of the profits will be allocated as reserves for debt repayment. Conversely, at a low debt level, the company distributes high dividends so that most of the profits are used for the welfare of shareholders. Megginson (1997) and Chen and Stainer (1999) stated that debt policy negatively affects dividend policy. Debt reduction can be done by financing the investment with internal funding sources so that shareholders will give up their dividends to finance the investment. A study of Bansaleng et al. (2014) which is supported by the research of Siregar and Yudianta (2018) in their research stated that debt policy simultaneously influences dividend policy. In this study, total liabilities are based on annual investor report of PT Gudang Garam Tbk. in observation period of 2015 – 2019.

Table 3. Total liabilities and dividends of PT Gudang Garam Tbk from 2015 – 2019

Year	Total Liabilities	Dividend shared
2019	27.716.516.000.000	Rp. 5.002.629.000.000
2018	23.963.934.000.000	Rp. 5.002.628.800.000
2017	24.572.266.000.000	Rp. 5.002.628.800.000
2016	23.387.406.000.000	Rp. 5.002.628.800.000
2015	25.497.504.000.000	Rp. 5.002.628.800.000
2014	24.991.880.000.000	Rp. 1.539.270.400.000

Dividend

Wicaksono (2014) defined dividend as part of the net profit generated by the company; therefore, dividends will be distributed if the company generates a profit. A company which can generate profits may choose either to hold profits or distribute as dividends. If the company distributes dividends, the company's internal funding will be reduced. This opinion has long been socialized from the results of Modigliani and Miller's (2007) research that the value of a company is not determined by the size of the dividend payout ratio (DPR). Rather, it is determined by net income before taxes (EBIT) and business risk. In this study dividend distribution data obtained from annual report investor PT Gudang Garam Tbk. in 2014 – 2019, as depicted in the following table.

Table 4. PT Gudang Garam Tbk. dividend distribution report 2014-2019

Year	Deividend
2019	Rp. 5.002.629.000.000

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Year	Devidend
2018	Rp. 5.002.628.800.000
2017	Rp. 5.002.628.800.000
2016	Rp. 5.002.628.800.000
2015	Rp. 5.002.628.800.000
2014	Rp. 1.539.270.400.000

From the table, it can be seen that the distribution of dividends does not affect the profits received by the company. From 2015 to 2019, the amount of dividend distribution is constant even though the net income can be different. Only in 2014, the distribution of dividends is low compared to the receipt of net income obtained by the company.

RESEARCH METHODOLOGY

The study used secondary data since the object of this study is a company which is obliged to report its performance to shareholders and outside parties. The data source is annual reports from the cigarette manufacturing industry sector, namely PT Gudang Garam, Tbk, which is listed on the Indonesia Stock Exchange (BEI), data record from 2014 to 2019. The study is a simple regression study using one dependent variable and one independent variable, i.e. net income (X) and the dependent variable is dividend variable (Y). In this study, it is hypothesized that there is a positive effect between net income and dividend distribution. The hypothesis is tested using the calculation of simple regression statistical analysis with the aid of the statistical tool SPSS 20.0.

The data were collected using documentation method technique. The data were gathered from annual reports from the 2014 Financial Performance Summary to 2019. Subsequently, the data were then processed in the form of documents.

For the research purpose, the secondary data were taken from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Secondary data are research data obtained indirectly, through intermediary media (obtained and recorded by other parties).

Theoretical Framework

Framework The framework of thought in this study is:

Figure 1. Theoretical framework

To test the hypothesis, the following steps are used:

1. The classical assumption test

Data normality test

- Correlation coefficient value between net income and dividend;
- Test of significance;

$$H_0: \rho = 0$$

H_0 : There is no relationship between the variables of net profit variable and dividend;

$$H_1: \rho \neq 0$$

H_1 : There is a relationship between the variable of net profit and dividends.

The proposed hypothesis is tested two-direction

c. Significant α level of 5% or 0.05

2. Hypotheses testing

a. Simple linear equation $Y = a + \beta X$

b. The proposed hypothesis (H_0) and the alternative hypothesis (H_1) for the two-tailed test are:

$H_0: \beta = 0$ - There is no effect of the variable of net profit on dividends;

$H_1: \beta \neq 0$ - There is an effect of the net profit variable with dividend. H_0 is rejected if the opportunity value in the SPSS sig output < significance level and it is concluded that there is a significant change and the net income variable on the dividend. H_0 is accepted if the probability value in the SPSS Sig output $\geq$ significance level and it is stated that the available data is not enough evidence to reject H_0 .

3. The amount of influence of determination (R Square).

RESULTS AND DISCUSSION

1. Classical assumptions

a. Correlation coefficient value

Value of 0.566 on the Pearson correlation, is the value of the correlation coefficient between the variable net profit with dividend variable. The value of $r = 0.566$ indicates that the net profit variable with the dividend variable has a positive relationship.

Correlations			
		Lababersih	Deviden
Lababersih	Pearson Correlation	1	,566
	Sig. (2-tailed)		,242
	N	6	6
Deviden	Pearson Correlation	,566	1
	Sig. (2-tailed)	,242	
	N	6	6

At the value of the significance level (2-tailed) of $0.242 > 0.05$, H_0 is accepted, which means that between the variable of net profit and dividends, there is no a significant relationship.

2. Hypothesis testing

a. Linear equation

Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	31999020389407	1	31999020389407	1.883	,242 ^b
	16000000000.000		16000000000.000		
1 Residual	67958076976586	4	16989519244146		
	78000000000.000		69400000000.000		
Total	99957097365993	5			
	94000000000.000				

a. Dependent Variable: Total Dividend payment

b. Predictors: (Constant), net profit

Based on the ANOVA output, it can be seen that sig = 0.242 > 0.05; thus, it is concluded that H_1 is rejected while H_0 is accepted. It is also concluded that the linear regression line and subsequent analysis and testing cannot be done.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	1235493342897.2	2384478207470.5		.518	.632
(Constant) 1	41	57			
Net income	.426	.310	.566	1.372	.242

a. Dependent variable: total dividend payment

It is shown that output coefficient value can be found in variable X (net profit) or value of b in a simple linear equation $y = a + bx$. Thus, $b = 0.426$, meaning that that each increase in 1 net profit will increase dividends by 0.426. Value 1235493342897.241 in the coefficient table is a constant value or a value with a linear regression equation $y = a + bx$. Thus, so $y = 1235493342897.241 + 0.426X$

b. Significance value of 0.242 > 0.05, H_1 is rejected and H_0 is accepted. It can be concluded that the net profit variable has no effect on the total dividend payment variable.

c. Determination (R Square)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,566 ^a	,320	,150	13034385004343 97

a. Predictors: (constant), net profit

Determination of (R Square) is 0.320, which means the independent variable (net profit) has an effect on the dependent variable (total dividend payments) by 32%. The remaining 68% is affected by other factors which is not examined in this study.

CONCLUSIONS AND RECOMMENDATIONS

1. Conclusions

From the results of the discussion above, it can be concluded that:

- Variable of net income has no effect on the total payment of dividend variable ($0.242 > 0.05$);
- from the output of coefficient, it can be seen the value of the variable X (net profit) or the value of b in a simple linear equation $y = a + bx$, so $b = 0.426$; So that the linear equation $y = 1235493342897.241 + 0.426X$. It means that when net income increases by 1, the dividend distribution will increase by 0.426;
- The magnitude of the relationship between net profit and dividends is only 32% and the remaining 68% is more influenced by other factors;
- Based on the annual report data, PT Gudang Garam distributes its dividends to investors not based on the total amount of net profit received as shown in Table 1.2. Total liabilities and dividends of PT Gudang Garam Tbk. in 2015 – 2019. From 2015 to 2019 there was a significant fluctuation, but the number of dividends distributed from 2015 to 2019 was constant.

2. Recommendations

- For future research, it is expected that the variables should be added to see whether the distribution of dividends on factors other than net profit can affect the number of dividend distribution from the company to investors.
- The company (PT Gudang Garam Tbk.) should distribute dividends in accordance with the amount of net profit income, such as the calculation of the SPSS that there is a positive effect which means that if net income increases, the dividend to be distributed should also be increased.

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