

Analysis of High Dividend Policy of Gree Electric Appliances Based on the Influence Factors and the Improvement of Enterprise Value

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Abstract: Cash dividend is an important form for investors to realize the return on investment, which could also cultivate the long-term investment concept of the capital market and enhance the vitality and attraction of the capital market. In order to explore the factors for enterprises to choose high cash dividend policy and its impact on the value of the company, this paper takes Gree Electric, one of the best listed companies in China's A-share market, as the research object. From the three financial factors of profitability, solvency and cash flow, three non-financial factors of supervision of CSRC, growth cycle theory and investment opportunities, the paper explores the influencing factors for Gree to choose high dividend policy. In addition, it explores the reasons for Gree's no dividend event in 2017, which could be contributed to its diversified development strategy. Moreover, it analyses three ways for the high cash dividend policy to enhance the value of the company, which contains enhancing the brand premium, attracting long-term investors and avoiding blind diversification and promoting rational investment.

1. Introduction

After years of development, China's capital market has made remarkable achievements. However, the problem that some listed companies ignore the interests of minority shareholders has been difficult to eradicate. Although in recent years, regulators have guided listed companies to pay more dividends through various ways, the effect is not significant. The idea of investor returns and high dividends as an important corporate goal has not become the mainstream culture of domestic listed companies. In this context, there are a large amount of listed companies adhere to the high cash dividend for a long time. The typical representative is Gree Electric Appliances. Gree Electric Appliances' management culture, especially the culture of rewarding shareholders, is more typical and leading. For example, Dong Mingzhu, the current chairman of Gree Electric Appliances, has vigorously publicized on many occasions that listed companies must give shareholders high returns. Why does Gree maintain a high long-term cash dividend ratio? Are long-term high cash dividends really rewarding investors and really adding intrinsic value over the long term, as the executives say? Can Gree Electric Appliances be the guide and direction of dividend policy in China's capital market? These problems are worthy of consideration and attention for Chinese capital market and investors.

A large amount of research analyses the factors for firms to choose dividend policy. In terms of financial factors, Tang and Zou proves that dividends of listed companies in China are positively correlated with net profits of the year through empirical analysis [1]. Wu and Di add that the better the cash flow of a listed company is, the fatter the cash dividends will be paid in that year, showing a significant positive correlation [2]. Li finds that cash dividend payment of listed companies is affected by factors such as solvency ability and profitability. In the aspect of non-financial factors, some scholars study from the aspects of corporate shareholder structure and shareholder assets [3]. Wei and Zhou find that the preference of major shareholders would affect the choice of dividend policy [4]. Zhang shows that whether a company's equity is concentrated and the degree of checks and balances among shareholders affect dividend distribution [5]. Dong et al. concludes that the "dual" catering to

major shareholders and minority shareholders is common in state-owned enterprises [6]. From the perspective of law and policy, Li and Xu study the influencing factors at the legal level and find that when the legal protection for investors is more perfect, enterprise managers pay more attention to the legal requirements and the cash dividend distribution is more [7].

This paper takes Gree Electric, the domestic listed company that has maintained high cash dividends for a long time, as the research object. Firstly, it analyses the influencing factors of Gree Electric's dividends. Secondly, it demonstrates the reasons for the non-dividend event in 2017 under the background of long-term high cash dividends. Then it researches three ways to improve the value of the company by high cash dividends, and finally comes to the conclusion of this paper.

2. Gree Electric Appliances introduction

2.1. Company Introduction

Gree Electric Appliances, Inc, is a major manufacturer of home air conditioning, central air conditioning, air energy water heater, mobile phone, home appliances, refrigerators and other products in China. At the beginning of its establishment, the company mainly relied on the assembly and production of household air conditioners. Now it has developed into a diversified industrial group, covering air conditioners, high-end equipment, life products, communication equipment and other fields. Its products are exported to more than 160 countries and regions. Company, accelerate the transformation and upgrading of industry layout, beginning in 2013, one after another into the intelligent equipment, communications equipment and other fields, Gree has from a professional air-conditioning manufacturing enterprises into the diversified era of high technology industry now.

2.2 Dividend Distribution

Since the China Securities Regulatory Commission (CSRC) issued the "Decision on revising Some Provisions on Cash Dividend of Listed Companies" in 2008, the dividend distribution method of cash dividend has been gradually adopted by listed companies, and with the continuous development of market economy, the cash dividend amount has been increasing year by year. Since 1996, Gree Electric Appliances has not paid dividends for only three years in the past 20 years, respectively 1997, 2006 and 2017. It could be found that Gree Electric Appliances' dividend distribution is mainly based on cash dividend distribution, supplemented by stock giving and conversion to rights issue.

According to the dividend distribution of Gree Electric Appliances from 1996 to 2020, the dividend payout rate of Gree Electric Appliances has reached more than 80% since 1996. Before 2005, the dividend payout ratio was basically above 50%, but in the following years, the dividend payout ratio declined, until 2014 and after, the dividend payout ratio recovered, even as high as 72%. Gree Electric Appliances has paid more than 3 yuan per 10 shares for 19 consecutive years, and even paid more than 10 yuan per 10 shares after 2012, which was as high as 30 yuan in 2014. Besides, since its listing in 1996, the average dividend paid per 10 shares in other years has reached 7.71 yuan excluding the two years in which no dividend was paid. Compared with other listed companies in Shanghai and Shenzhen, Gree Electric has a higher dividend payout. Gree Electric Appliances not only uses the way of cash distribution, but also adopts the way of stock dividend and dividend share. Since Gree electric appliance was listed, it has increased shares 6 times and sent bonus shares 1 time. Both the cash payout amount and the average dividend payout rate are high. However, Gree released the 2017 annual report, and the profit distribution plan showed that no cash dividend, no bonus shares, no accumulation fund into equity in 2017.

After 2018, the enterprise still carried out the high cash dividend strategy: 21 yuan per 10 shares in 2018; 12 yuan per 10 shares in 2019, 40 yuan for every 10 shares in 2020. With the implementation of the cash dividend plan for the three times, Gree Electric Appliances is also carrying out the dividend policy of high cash payout.

Table 1. Dividend distribution from 2007 to 2020

Year	Retained Profit (100 Million/ ¥)	Total Cash Dividend (100 Million/¥)	Dividend Payout Ratio (%)	Dividend Per Share (¥)
2020	221.75	226.74	102.25	4.00
2019	246.96	72.19	29.23	1.20
2018	262.03	126.33	48.21	2.10
2017	224.02	-	-	-
2016	154.21	108.28	70.22	1.80
2015	125.33	90.24	72.00	1.50
2014	141.55	90.24	63.75	3.00
2013	108.71	45.12	41.50	1.50
2012	73.80	30.08	40.76	3.00
2011	52.37	15.04	28.72	1.50
2010	42.76	8.45	19.77	1.00
2009	29.13	9.39	32.24	0.50
2008	19.66	3.76	19.11	0.30
2007	12.70	2.50	19.73	0.30

3. Influencing factors of high cash dividend

3.1. Financial factors

3.1.1. Profitability

According to the signal theory, an important premise of high cash dividend is that the enterprise has sustained and strong profitability. The stronger the profitability of an enterprise, the more net profits it can distribute, and its dividends tend to be high cash dividends.

The profitability indicators of an enterprise include sales profitability, asset profitability and equity profitability. Sales profitability is measured by sales gross profit margin and sales net profit margin. The sales gross profit margin of Gree Electric appliance is higher than the industry average level, both about 30%. The sales net profit margin of Gree Electric Appliance has increased rapidly in recent years, and the gap with the industry average level has widened year by year.

The asset profitability can be weighed by the return on net assets, which represents the profitability of the total assets of the enterprise. From 2006 to 2020, the return on net assets of Gree Electric Appliance was relatively stable and above 20%, higher than the industry average.

The equity profit margin reflects how much profit per share can be distributed. The higher the equity profit margin is, the greater the dividend space is. The return on equity of Gree Electric is significantly higher than the industry average and grows rapidly. This proves Gree's good profitability and provides favorable conditions for its high cash dividend.

3.1.2. Solvency

The solvency of enterprises has rigid constraints on dividend distribution and affects the scale of dividend distribution. When distributing dividends, enterprises must ensure strong solvency and avoid the financial risk caused by the outflow of a large amount of working capital. The solvency of enterprises can be divided into short-term and long-term solvency assessment.

Short term solvency reflects the liquidity of the company's current assets. Measured by current ratio and quick ratio. Gree's current ratio and quick ratio are also growing, and its short-term solvency is relatively stable.

Long term solvency is measured by the asset liability ratio. From the debt structure of Gree Electric Appliances, it can be seen that the asset liability ratio is at a high level, both above 60%, but its operation risk and bankruptcy risk are low. Firstly, due to the increasing concentration of the electrical

industry in recent years, Gree's independent brand is exported to more than 100 countries and regions around the world. Its oligopoly position in the air conditioning industry is becoming more and more stable, which greatly reduces the company's business risk. In addition, Gree Electric has few long-term and short-term borrowings, and its liabilities are basically zero interest liabilities. The zero interest liabilities are mainly caused by the sales mode of Gree Electric. Gree Electric has always insisted on paying first and then picking up goods for the sales company. This sales mode has accumulated a large number of advance receipts. Because these advance receipts do not need to pay any interest, Gree's capital structure has a large number of zero interest liabilities, which could strengthen cash liquidity, rising profits. From 2006 to 2020, the asset liability ratio of Gree Electric Appliances shows a downward trend, and the long-term solvency of Gree Electric Appliance continued to increase, which provided a guarantee for its implementation of the dividend policy of high cash dividend.

3.1.3. Cash flow analysis

Cash flow is mainly analysed from net cash flow per share. Through the analysis of Gree's cash flow from 2006 to 2020, it can be found that except for those whose operating cash flow per share was less than 1 yuan in 2008 and 2010, others have exceeded 1 yuan, and they have been relatively stable since 2011, which provides favorable conditions for Gree's high cash dividend. Gree's overall business model is also one of the reasons for its high cash flow. Gree Electric Appliance has diversified from selling air conditioners and various small household appliances to now. Its main sales objects are the public. For each commodity sold, the payment received will be reflected in the monetary capital of the balance sheet, and there is little problem of credit sales. Moreover, Gree's raw materials are purchased through direct negotiation with merchants. Therefore, the cash flow reflected in its financial statements has been at a relatively positive level, which promotes the realization of Gree's high cash distribution policy.

3.2. Non-financial factors

3.2.1. Supervision by CSRC

In order to protect the interests of investors and ensure the good and orderly development of the stock market, the CSRC has formulated a semi-mandatory dividend policy. It mainly includes two aspects: first, stock refinancing is affected by cash dividends issued in previous years. Second, the minimum dividend amount is stipulated for enterprises in different development stages.

Gree Electric has been under great transformation pressure in recent years. Therefore, it also has a large demand for external financing. In order to carry out stock refinancing smoothly, Gree Electric Appliance chooses to pay cash dividends every year. Moreover, Gree Electric Appliance pointed out in its annual report that the company is currently in a mature development stage. According to the provisions of the CSRC, in the case of major capital arrangements in the second year, the cash dividend shall reach at least 40% of the total distribution. Therefore, the supervision of the CSRC is also an important non-financial factor for Gree Electric to continue to pay dividends.

3.2.2. Growth cycle theory

Gree Electric Appliances belongs to the household appliance industry. Relying on the high-speed development of the real estate industry at the beginning of 21st century, the demand of Chinese residents for household appliances was expanding rapidly, and the scale of household appliance enterprises was also expanding. Since 2010, as people's demand for home appliances tends to stabilize, the home appliance market also tends to be saturated. As for Gree itself, Gree's sales revenue began to accelerate after entering the 21st century, but fluctuated around 2013, which also shows that Gree is in the mature stage of the enterprise [8]. At this stage, the enterprise has passed the stage of rapid development, and there are few investment opportunities. What's more, the enterprise has large scale, good performance and high profits. Gree Electric, which is in its mature stage, tends to pay dividends [9].

3.2.3. Lack of investment opportunities

From the product structure of Gree Electric Appliance, air conditioning has been the main product. It accounts for 60% - 80% of the revenue. The product structure of Gree Electric appliance is relatively single. In recent years, with the saturation of the home appliance market, especially the air conditioning market, and the narrowing of the product innovation space of air conditioning, the manufacturing companies are also constantly looking for strategic breakthroughs. In recent years, Gree Electric appliance is also looking for a new market. The acquisition of Zhuhai Yinlong plan is an attempt of Gree to diversify. However, the plan ended in shareholder opposition. Before that, Gree also tried to enter the market of small household appliances and mobile phones. However, the small household appliance business and mobile phone business have not improved. For a large-scale industry-leading enterprise that has long operated a single product, it seems not easy for enterprises to seek diversified transformation. Gree Electric has not made a breakthrough in other markets. The funds accumulated by years of good operation lack good investment opportunities. Gree chooses to use a huge amount of idle funds for cash dividends.

4. No dividend distribution in 2017

On the evening of April 25, 2018, Gree Electric released its 2017 annual report. According to the financial report data, Gree had sufficient cash flow and record revenue and net profit growth, but it did not disclose the dividend plan. This was the first time that Gree has said that it will not pay dividends in 11 years. Affected by this, Gree's share price is close to the limit and its market value has shrunk by nearly 30 billion. This part analyzes the reasons for no dividend.

Based on the analysis of the net cash flow generated by Gree's operating activities, financing activities and investment activities in the past four years from 2014 to 2017, it can be seen from the table that the cash flow of Gree's operating activities are very stable except 2015, which has become a necessary condition for Gree to maintain high equity policy over the years. Meanwhile, the net cash flow generated by investment activities in the past five years has been negative, with a sudden increase of about 62.2 billion in 2017, which is closely related to Gree's transformation and diversification strategy, such as manufacturing chips, energy and Internet equipment. In 2017, a large part of the capital expenditure will be used for diversified development, which requires a certain capital scale effect. More profits will be used for enterprise investment in R & D, and there is no upper limit. Therefore, this is also a major reason why Gree Electric announced no dividend in 2017. Gree Electric finally realized dividends in the medium term, and its share price gradually rebounded and tended to be stable.

Table 2. Details of cash flow of Gree Electric Appliance from 2014 to 2017 (100 Million/¥)

Year	2014	2015	2016	2017
Cash Flow from Operating Activities	189.39	443.78	148.60	163.59
Cash Flow from Investing Activities	-28.62	-47.13	-192.47	-622.53
Cash Flow from Financial Activities	-18.64	-76.83	-57.52	-22.69
Net Profit	142.53	126.24	155.25	225.09

5. The Impact of high cash dividends on enterprise value

5.1. Enhancing the brand premium

The decision of high cash dividend plays an important role in forming Gree's high brand premium and improving its brand image. Gree Electric promises to maintain a high cash dividend ratio of more than 40% as far as possible. Dong Mingzhu, chairman of the company, also announces that the company must pay dividends every year and try to pay dividends as high as possible. In 2020, the company's cash dividend of 2,217,510.81 yuan, accounting for 102.25% of the net profit, reflects Gree's determination to repay investors and continuously strengthens the company's strong image as a world-

class brand. This has also brought considerable brand premium to the company, which has played a role in promoting the company's continuous expansion of scale, internationalization and improving the internal value of the enterprise.

5.2. Attracting long-term investors

Gree Electric Appliance Company pursues the policy of putting the interests of investors in the first place. For example, Dong Mingzhu, chairman of the company, said that he never cares about the stock price, but he must care about the return of investors. He must give investors high dividends every year. The stable and high return has attracted a large number of strategic investors and medium, small and long-term investors.

5.3. Avoiding blind diversification and promote rational investment

The strategic decision of long-term high cash dividend makes the company pay more attention to returning investors. Because the funds under control are more limited, it will better choose the best investment decision and avoid blind expansion or diversification, effectively reducing the irrational behaviours of the company's management. Furthermore, due to the increase of external financing, the company will also face stricter supervision, which will help the company act more rationally and better prevent risks, so as to contribute to the long-term and stable increase of the company's internal value [10].

6. Conclusion

Through the analysis of this paper, three financial factors of Gree Electric Appliance Company, including profitability, solvency and cash flow, as well as non-financial factors, supervision of CSRC, life cycle and investment opportunities, are important factors affecting the level of cash dividend. It is supplementary analysed that the dividend policy of no dividend in 2017 is determined by its diversified development policy, diversified investment demand is the main reason for no dividend. In addition, the decision of high cash dividend effectively promotes the improvement of the company's internal value and lays a solid foundation for the company's long-term development. It affects and improves the company's internal value through the following three ways: improving the corporate brand premium, attracting more long-term investors, avoiding blind diversification and promoting reasonable investment.

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