

PROFESSIONAL FINANCES

DIVIDENDS

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Let us remember the basic objective of management and in individual of the financial function which is : to maximize the value of the action in the market, statement that forces to decide also thinking to us about so forgotten small shareholders.

In fact the only that she has a minority stockholder is the dividend, although theoretically they have many rights. Actually, they barely cancel a value to him with all the contingencies that appear depending on the company in particular (dates, sites of payment, forms, treatment, etc.). The situation of the great shareholders, who take a seat in the board of directors and control the administration of the company, is very different.

The policy of dividends must be oriented to the increase of the value of market of the action. This is obtained in the obtained in the way the stock have a high bestiality, and its price in the stock market is increased, consequence of the permanent generation of value.

In the way this objective is accomplished, the payment of the dividend becomes secondary and the shareholder that she requires money can obtain it by selling stock in the market.

1. BASIC CONSIDERATIONS

A. GENERAL ASPECTS: They have to do with the legislation of each country and are oriented to avoid decisions that deteriorate the capital, to protect the creditors. It defines the maximum top of distribution as proportionate of present and accumulated net profits, in cases of insolvency are oriented to avoid excesses, in the accumulation of profits. In Colombia, the decision on distribution of dividends is taken with base to 78% of the number of stock represented in the general assembly of Shareholders; if that majority is not obtained will have to distribute at least 50% of the liquid profits or the remainder of the same ones, if they must wipe out losses of previous exercises.

B. CONTRACTUAL RESTRICTIONS: They are preferential agreements of common occurrence that condition the payment of dividends to protectionist commitments towards credit organizations, shareholders, leasing contracts, etc.

C. PERSPECTIVE OF GROWTH: If the company, in its perspective of development has an alternative of investment with a yield superior to the rate of cut (expected minimum), it must consider as a high-priority option the retention of profits. The financing plan this decision becomes pre-requirement to ask for external financing, which is generally conditioned of the financial organizations. It is generally easier to obtain financing for a company totally developed that stops another one in the growth stage.

D. GENERAL ECONOMIC SITUATION: When the economy this buoyant, it is easy to go to external capital and vice versa. It is very important for the financial managers and executives to be permanently updated as far as lines of fiscal promotion, stimuli, monetary restrictions, and in general, to everything that has to do with the environment of the country and the world, which implies to keep an open the mind to the foreign investment or to investment abroad.

E. COMPOSITION SHAREHOLDER: It has to do with the group of shareholders and his percentage participation. If they are natural or legal people and in this last case, that type of companies are wheather, if they belong to a group, if they depend on important proportion or no, of the dividends that receive. Also it must consider as far as possible, the tax aspect of the shareholders, its opportunities of investment, their level of satisfaction, etc.

2. POLICIES OF DISTRIBUTION OF DIVIDENDS

For didactic purposes it is possible to be spoken of general policies of distribution of dividends but each company must make its own considerations to make its decision about the numbers to distribute. Among the

best known there are:

A. CONSTANT PROPORTION OF PROFITS: A percentage of the period is defined to distribute and to capitalize the rest.

B. MINIMUM YIELD: One is based on the definition of a fixed dividend that guarantees a yield on the investment of the shareholder. It is possible to follow this policy if the company permanently generates accumulation of profits that are sufficient to fulfill the commitments corresponding.

C. COMBINATION OF REGULAR AND EXTRA DIVIDEND: It consists on defining as regulating a periodic number by stock and complementing with additional dividends if the results allow it.

D. RESIDUAL DIVIDENDS: Dividends that are distributed after all the legal, labor commitments, and with third parties and by difference, the amount is defined to distribute.

E. ANOTHER ALTERNATIVE: In order to maintain finances healthy and to avoid possible mistakes by ignorance or illegal pressures of some shareholders or proprietors, the distribution of dividends must be completely bound in direct proportion, to the projection of the flow of bottoms as much to short as in the long term.

We know that the affluent flow of bottoms prepared is the arithmetical resultant of a plan of value generation which allows us to calculate EVACp.

The EVACp is characterized by being a projected indicator considering accountable expenses that have an investment character and which they contemplate the plan of long term development and, therefore, the adjustments to the patrimony and the figure of profit and the cost of capital.

Based on the projection of the flow of bottoms before detecting dividends, the company has sufficient elements of judgment to define the quantity, date of payment and form of dividends (in cash, stocks or a combination of both). Knowing the flow, a minimum amount of cash is defined to maintain (as a precaution); a figure to cancel

as dividend; dates of payment that allow to cancel it with comfort and without going into indebtedness although it is in the short term.

- If the plan of value generation is widely positive, but the company does not present/display a flow of bottoms with permanent comfort in the short term is recommended to decree dividends in actions, not forgetting the future commitment that it is acquired with the new stocks which get into circulation.
- If the company generated value in the previous period; the EVACp for the period at issue also is positive and, in addition, the projection of the flow of bottoms for the period presents/displays a situation of permanent comfort monthly dividends can be decreed calculating the yield that the shareholder will receive having added the dividends to declare and the increase that can be considered for the value of the action.
- If at the end of the projected comfort period in which flow of funds appears but with bumps through the monthly periods, it is recommended to pay dividends in the months which allow to do it without effort.

Example:

Let us suppose a company M with the following data:

Nº of stocks in circulation: 200.000

Monthly dividend per stocks: \$ 100

Value of market of the stocks: \$ 5.000

Intrinsic value of the stocks: 10.000

EVA: 1.45

EVACp: 1.85

FLOW OF FUNDS PROJECTED BEFORE DECREERING DIVIDENDS

(millions of \$)

	January	February	March	April	May
TOTAL INCOME	\$16.393.428	\$25.883.999	\$29.518.023	\$29.482.115	\$41.786.665
DEBITS					
Fiscal Subtotal	12.275.484	133.079	9.489.656	310.037	12.354.934
Subtotal List	6.004.284	8.026.207	5.457.529	6.218.743	5.838.136

TOTAL DEBITS	27.159.228	22.862.604	311.564.780	79,40
NET FLOW	12.305.279	16.669.258	80.810.900	20,60
ACCUMULATED NET FLOW	64.141.642	80.810.900		

Nota: con base en el saldo neto proyectado la junta tiene elementos de juicio para sugerir repartición de dividendos a la asamblea de accionistas. ■