DIVIDEND POLICY

PREAMBLE

There are various factors that need to cater while developing the dividend policy. The Board of Directors' objective for the company's dividend policy is to maximize owner wealth while providing adequate financing for the company.

Company's Dividend History

The Al-Abbas Sugar Mills Limited was incorporated on May 2, 1991. The Company became profitable first time in year 1993-1994. The company declared first dividend in 1997-1998, the profit earn for the year was Rs. 34.469 million out of which dividend was declared at Re. 1 per share. The payout ratio of the first dividend was 50%.

The historical data are as follows showing net profit after tax, dividend amount, payout ratio and dividend %:

Year	Net profit After Tax	Dividend	Payout ratio	Dividend %
1993-1994	26,156,187	-	-	0%
1994-1995	40,295,264	-	-	0%
1995-1996	46,630,075	-	-	0%
1996-1997	18,314,978	-	-	0%
1997-1998	34,468,883	17,362,300	50.37	10%
1998-1999	59,045,864	26,043,450	44.11	15%
1999-2000	46,692,771	26,043,450	55.78	15%
2000-2001	81,132,000	34,724,600	42.80	20%
2001-2002	623,000	-	-	0%
2002-2003	69,815,000	31,252,140	44.76	18%
2003-2004	233,518,000	60,768,050	26.18	35%
2004-2005	63,431,000	52,087,000	82.12	30%
2005-2006	4,864,000	-	-	0%
2006-2007	149,521,000	-	-	0%
2007-2008	75,045,000	26,043,450	34.70	15%
2008-2009	282,432,000	69,449,200	24.59	40%
2009-2010	204,851,000	86,811,500	42.38	50%
2010-2011	226,863,000	86,811,500	38.27	50%

From the above table it is clear that since 1993-94, company declared and paid 11 final dividends with cumulative average paid out ratio of 31.1%. The highest payout ratio was 95.8% in 2004-05 while the lowest payout ratio was 13.38% in 2003-04.

FACTORS THAT INFLUENCE DIVIDEND POLICY

The Company dividend policy is a function of many factors some of which are as follows:

1. **Company growth rate**
   A company that is rapidly growing, even if profitable, may have to restrict its dividend payments in order to keep needed funds within the company for growth opportunities.
2. **Restrictive covenants**
   Sometimes there is a restriction in a credit agreement that will limit the amount of cash dividends that may be paid.
3. **Profitability**
   Dividend distribution is keyed to the profitability of the company.
4. **Earnings stability**
   A company with stable earnings is more likely to distribute a higher percentage of its earnings than one with unstable earnings.
5. **Degree of financial leverage**
   A company with a high debt-to-equity ratio is more likely to retain earnings so that it will have the needed funds to meet interest payments and debts at maturity.
6. **Ability to finance externally**
   A company that is capable of entering the capital markets easily can afford to have a higher dividend payout ratio. When there is a limitation to external sources of funds, more earnings will be retained for planned financial needs.
7. **Uncertainty**
   Payment of dividends reduces the chance of uncertainty in stockholders' minds about the company's financial health.
8. **Age and size.**
   The age and size of the company bear upon its ease of access to capital markets.

There are various types of dividend policies which are as follows:

1. **Stable dividend-per-share policy.**

   Many companies use a stable dividend-per-share policy since it is looked upon favorably by investors.
   Advantages:
   - Dividend stability implies a low-risk company. Even in a year that the company shows a loss rather than profit the dividend should be maintained to avoid negative connotations to current and prospective investors.

- By continuing to pay the dividend, the shareholders are more apt to view the loss as temporary.
- Stockholders rely on the receipt of stable dividends for income.
- A stable dividend policy is also necessary for a company to be placed on a list of securities in which financial institutions (pension funds, insurance companies) invest. Being on such a list provides greater marketability for corporate shares.

Disadvantages:

- Dividend needs to be distributed in case of loss for the period.
- As dividend needs to be stabilized therefore, usually low dividend is announced.

2. Constant dividend-payout-ratio (dividend per share/earnings per share) policy

With this policy a constant percentage of earnings are paid out in dividends.

Advantages:

- Every stakeholder knows that dividend will be paid only out of profit for the year.
- Because net income varies, dividends paid will also vary using this approach giving constant ration for both company to retain and shareholders to distribute.

Disadvantages

- The problem this policy' causes is that if a company's earnings drop drastically or there is a loss, the dividends paid will be sharply curtailed or nonexistent.
- This policy will not maximize market price per share since most stockholders do not want variability in their dividend receipts.

3. A compromise policy

A compromise between the policies of a stable amount and a percentage amount of dividends is for a company to pay a low amount per share plus a percentage increment in good years.

Advantages

- The policy may be appropriate when earnings vary considerably over the years.
- This policy affords flexibility.

Disadvantages

- It also creates uncertainty in the minds of investors as to the amount of dividends they are likely to receive. Stockholders generally do not like such uncertainty.
- The percentage or extra portion of the dividend could not be paid regularly.

4. Residual-dividend policy

When a company's investment opportunities are not stable, management may want to consider a fluctuating dividend policy. With this kind of policy the amount of earnings retained depends upon the availability of investment opportunities in a particular year. Dividends paid represent the residual amount from earnings after the company's investment needs are fulfilled.

Advantages

- Priority has been given to the company's investment need first.
- This will enhance the future profitability of the Company by retaining and investing the fund into future expansion.

Disadvantages

- Shareholders do not like to receive the residue amount after allocation it to future expansion as it would reduce their payout ratio.
- As the amount of dividend will not certain therefore it creates uncertainty about the timing and declaration of dividend.

AL-ABBAS SUGAR MILLS LIMITED'S DIVIDEND POLICY

Objective of the policy

The dividend policy will aim that Board of the Company try to ensure healthy return to shareholders on their investment. While keeping this goal the company will also cater and consider the future expansion and operational need of the company.

The dividend policy of Company is to distribute to its shareholder all funds surplus to the operating needs of the Company as determined by the Board of Directors. The company will declare minimum 30% of dividend annually if and only if the reserve of the company will exceed or equal to its' five times of paid up share capital.

The proposed policy of the company is based on different types of dividend polices by considering most important factors that are beneficial for the shareholders as a whole. In proposing company's policy due consideration is given stability, consistency and residual income.

Dividend policy

It is proposed that the dividend may be paid as interim and annual. The normal target dividend payout ratio in respect of each financial year shall not be more than 75% of net profit or 75% of free cash flows whichever is less.

While considering dividend declaration, it should be always subject to:

- Any banking or other funding covenants by which the company is bound from time to time;
- The operating and future requirements of the company; and
- Changes to target dividend payout ratio

The target dividend payout percentage/ratio set out above is not to be changed without the prior written approval of the Board of Directors of the Company.

Consistent dividend payment over time

In measuring the company's performance against the target dividend payout ratio in relation to a financial year, the Company’s Board of Directors shall seek to maintain consistency from year to year by smoothing the effect of any variation in free cash flows that may be due to one off gains or losses in individual years, while maintaining the target dividend payout ratio on average over a 5 year period.

Timing of dividend

The dividend will be paid biannually one as interim and another as final. The interim dividend will be paid in likely manner as to annual dividend by taking all the factors as enumerated above in objective of dividend policy.

Definition of Free Cash Flows (for the purpose of payment of dividend)

“Free cash flows” means net profit after taxation plus non-cash expenses less long term loan repayment and capital expenditure. All figures will be for the year for which dividend is considered.