Let’s Learn: Dividends

A dividend is the distribution of a company's earnings to its shareholders and is determined by the company's board of directors and approved by the shareholders as per the procedures of the company. Qualifying shareholders of dividend-paying listed companies (PLC) are eligible to receive a distribution as long as they own the shares before the ex-dividend date. PLCs with attractive Dividend payout policies are preferred by many investors as it provides Cash flow advantage and regular income.

Important Dates Relating to Dividends

Announcement date

- Dividends are announced by company management on the announcement date (or declaration date) and PLC must disclose the details via CSE web site.

Ex-dividend date

- An ex-dividend date is the day on which a share trades without the benefit of the scheduled dividend payment. The ex-dividend date is a date before the record date. An ex-dividend date is set by stock exchange rules.

Record date

- The record date finalizes the transfer of the share ownership. The new buyer is now the owner of share and is entitled to any dividends. The record date is set by the board of directors of a company and refers to the date by which investors must be on the company's books in order to receive a scrip dividend.

Payment date

- The company issues the payment of the dividend on the payment date, which is when the money gets credited to investors' accounts. The payment of dividends is decided and declared by the board of directors.

Types of Dividends

Cash Dividend

- A cash dividend is a payment made by a company to its stockholders in the form of periodic distributions of cash.

Scrip Dividend

- A scrip dividend is new shares of an issuer's share capital that are issued to shareholders instead of cash. New shares will be allocated based on the proportion of shares issued in scrip dividend. (E.g.: 01:10, 01 share to 10 existing shares). After the share allotment, these new shares can be tradable in CSE.

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Comparison of Cash Dividend vs Scrip Dividend

	Cash Dividend	Scrip Dividend
Share ownership	Ownership not diluted	Ownership diluted
Tax	Withholding Tax (WHT) is charged	No WHT is charged, however taken into personal income tax calculations.
Option	Does not give an option to the shareholders	Gives an option to sell the share
Investor Preference	Preferred by Short-term investors	Preferred by Long-term investors
Cash reserve	Reduce the cash reserve of the company	Does not reduce the cash reserve
No. of Shares	Does not increase the No. of Shares	Will increase the No. of Shares

Advantages of Scrip Dividend

Advantages	Disadvantages
The company does not require paying cash & company can use this cash for other purposes such as capital investments.	Some investors may consider the reason to issue script is due to not having adequate cash to pay dividends, hence creating a negative perception. (However, this could be due to other reasons such as regulator restricting cash dividend payments E.g.: Banks)
Shareholders can increase their shareholding without incurring any cash outflow.	Due to price fluctuations, it is difficult to determine the value shareholders will get on the date of crediting scrip dividends to CDS accounts.
It will increase the company's total share capital allowing the company to benefit with a strong equity position.	Due to increase in number of shares, financial indicators and ratios per share will be negatively impacted. E.g.: NAV, BV, EPS