State firms urged to do more dividend spread

State-owned enterprises (SOEs) under the central government level have been urged to give minority shareholders a fair deal through more dividend payouts and thereby set an example for other listed companies.

For years, publicly-traded companies, most of which are majority owned by the State, have always been chary about paying dividends, chiefly because the management's major concern was to conserve capital to finance growth.

This has become a hotly debated issue as the Chinese stock market is drawing in more and more funds from institutional investors, especially pension funds that count dividend income as an important source of regular income.

Noting that SOEs have been more generous in payouts, Li Rongrong, minister of State-owned Assets Supervision and Administration Commission (SASAC), however, said that was not enough. "We will try to encourage more listed SOEs to pay cash dividends," said Li.

It is quite common for listed companies to skip dividends, denying minority shareholders a share of the profit.

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Only 249 listed companies posted a loss in 2008, yet 726 firms, or nearly 45 percent of the total, did not pay any dividends to shareholders, according to financial data provider Wind Info.

Shenyang Jinbei Automotive Co Ltd, which has not paid any dividend for 15 years, has become the butt of jokes on the Internet. It's nicknamed "the miser" by investors and scoffed at by analysts and bloggers.

According to global risk management consultancy Protiviti, only about one-10th of the listed Chinese companies pay dividends regularly. The ratio of cash dividend to net profit of companies listed on the mainland has remained much lower than those in mature markets.

"The ratio of cash dividend to net profit of Chinese listed companies was 29 percent in recent years, while the ratio was about 50 percent for the mature markets, such as Japan and Britain. There is still much room for Chinese listed companies to improve," said Christopher Low, president, Protiviti Greater China.

The listed companies should take responsibility to offer stable investment returns to shareholders, which will benefit the long-term development of the companies and help build a healthy capital market, Low said.

China's policymakers have tried to roll out policies to encourage long-term investment and reduce market volatility.

In October 2008, the China Securities Regulatory Commission (CSRC) required those listed firms that applied for refinancing to pay dividends in cash totaling no less than 30 percent of its distributed profits over the past three years.

The CSRC also tried to abolish the stock dividend tax since February 2004. However, various parties haven't reached a consensus. The current tax rate for dividends remains at 20 percent.

"Once the stock dividend tax is abolished, the key shareholders of listed companies may have less disputes over the cash dividend payout. So, more cash dividend payment plans are likely to get passed at board meetings," said Zhao Xijun, a professor at Renmin University of China.

"The dividend payment status also reflected the growing process of a capital market. The proportion of listed companies that paid cash dividend is increasing year after year," said Li Daxiao, director of the research department at Yingda Securities.

According to statistics, in 2005, about 38 percent of the companies that were listed on the domestic market paid cash dividends. In 2006, this proportion improved to 45 percent. It touched 50 percent in 2007.

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