

Approaches to the Formation of the Dividend Policy by Russian Oil and Gas Companies

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Abstract: Nowadays the tendency of taking over private companies by Russian state oil and gas companies is more and more obvious. Private oil and gas companies have active dividend policy increasing their attractiveness for investors in such a way. This article presents the analysis of the company's dividend policy with various levels of participation of the state in their capital.

Key words: Dividend policy • Dividend payments • Dividend yield • Public companies • Private companies • Oil and gas sector

RESULTS

Today the question of distribution of company's net profit is quite acute for Russian companies. On the one hand, there is an opportunity to expand the production via the reinvestment of net profit, but on the other hand, the growth of the company's value depends on the payment of dividends. There are different approaches to choose dividend policy in practice. The selected type of dividend policy often depends on the owners.

Dividend policy as the element of corporate governance is aimed at optimizing the proportions between consumed and capitalized profits to maximize the market value of the company [1]. The term "dividend policy" came in Russia in the first half of the 90s. XX century with the fundamental elements of the theory of financial management of the USA economic science. If dividend policy is clearly defined and implemented, it will emphasize the reputation of the company, improve its image and increase its investment attractiveness [2].

Dividends are paid from the net profit after taxation. The size of the profit is determined according to the financial accounting of the Company. The dates and procedure of dividends payment are determined by the statute or decision of the general assembly. The term of payment must not exceed 60 days from the date of the decision to pay dividends according to the law if this is not mentioned in the statute. For example, the payment of dividends is usually realized every quarter in the USA. In Russia the payment of dividends is realized at the end of the financial year [1].

There is a special index "dividend aristocrats" as a part of best practices of corporate management in the United States. This index involves companies which steadily increase payments to shareholders for 25 years. If the company skips the higher dividend payments even once, it will be expelled from the elite list. The companies with the index S&P 500 are Coca-Cola, ExxonMobil, Johnson & Johnson, McDonald's, PepsiCo and others. American "dividend aristocrats" are widely differentiated. They represent 10 different sectors of the economy. The consumer sector is the most represented. In Europe "dividend aristocrats" are companies with index S&P Europe 350. For instance, this is British American Tobacco, Danone, L'Oreal, Nestle, Royal Dutch Shell, Unilever, Vinci and etc. [1]. The practice of corporate governance shows that generous dividend payments to shareholders of the company provides better dynamics of their shares.

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Western companies consider dividend policy as the element of successful work of the corporation. As for Russian companies, the tradition of the elaborating dividend policy has not been developed yet. A significant number of Russian public companies pay dividends irregularly as the payments to the shareholders of the company depend on the presence of free funds in the corporation. Russian companies do not attach any significance to the formation of corporate dividend policy. That is wrong. For example, most companies limit the payment of dividends in a crisis. However, Russian corporations have a small payout ratio. That is why they have chance to increase its investment attractiveness by careful dividend policy. They have to act like this because if dividend payments have a constant level, payback investments in shares of Russian companies may be considerably diminished [2].

The number of Russian companies which increase dividend payments yearly is less in comparison with the USA and European countries. The highest dividend share paid by companies in the metallurgical and oil sectors as well as telecommunications companies. Due to this fact and to the experience of Russian companies, we will consider the dividend policy in oil and gas sector. All companies of the industry will be divided into two groups: public and private. The first group includes the companies in which the share of state participation in the authorized capital is more than 50%, the second is less than 50%.

To analyze the company's dividend policy we will use two coefficients [3]:

- *The dividend payout ratio* shows management's readiness to distribute the net profit for dividend payments. The dividend payout ratio is calculated as follows:

$$DPR = Div/Net\ profit,$$

DPR is the dividend payout ratio, %.

Div is cost valuation paid dividends.

Net profit is profit after taxation.

- *The dividend yield ratio* is the indicator of the profitability of investing to the authorized capital of a particular corporation for a potential investor. The calculation of this ratio by the formula:

$$DYR = Div/P,$$

DYR is the dividend yield ratio.

Div is cost valuation paid dividends per one share.

P is the market value of one share.

Consider the dynamics of the first indicator for 2006-2013 years for state companies in Table 1.

As can be seen from Table 1 the mean value of dividend payout ratio for public companies varies between 9.5 -21% throughout the study period.

We can say that state-owned companies did not consider the question of dividend policy is important enough during 2006 - 2010 years. That is why they paid more attention to investing of profits in various investment projects [4].

Situation began to change in 2011 year. The average value of the dividend payout ratio on state-owned companies increased significantly and amounted to 21%. It was connected with a change in government policy in the relation to the size of the dividend payout ratio of companies controlled by the state. According to this changes, joint-stock companies must pay dividends at least 25% of its net profit. Primarily, such government actions are aimed to refill incomes of the Federal budget of the Russian Federation.

Consider the dynamics of dividend yield shares of state oil and gas companies of Russia for 2006-2013 years. It is reflected in Table 2.

Table 1: The dividend payout ratio of state oil and gas sector for 2006-2013 years, %

Company	2006	2007	2008	2009	2010	2011	2012	2013
JSC "GazpromNeft"	37,99	24,29	20,39	18,84	20,20	22,00	23,94	23,82
JSC "Oil company "Rosneft"	14,48	11,03	6,79	12,55	9,26	25,00	24,92	24,72
JSC"Gazprom"	9,45	9,06	1,10	7,13	9,13	15,82	11,22	14,50
The average value	20,64	14,79	9,43	12,84	12,86	20,94	20,03	21,01

* Calculations are made on the basis of the materials from the official website

Table 2: The dividend yield of state oil and gas companies for 2006-2013 years,%

Company	2006	2007	2008	2009	2010	2011	2012	2013
JSC"GazpromNeft"	6,74	3,53	8,65	2,18	3,47	4,88	6,53	6,39
JSC "Oil company "Rosneft"	0,55	0,69	1,73	0,91	1,26	3,51	3,84	5,16
JSC "Gazprom"	0,84	0,78	0,33	1,31	1,99	5,23	4,16	5,19
The average value	2,71	1,67	3,57	1,47	2,24	4,54	4,84	5,58

* Calculations are made on the basis of the materials from the official website and MICEX-RTS

The average value of the dividend yield on shares of public companies was in the range 1.47-2.71% during 2006-2010 years as can be seen from Table 2 (except for 2008, when the stock price collapsed and the dividend yield was raised) [4].

The average value of dividend yield on the shares of state-owned companies increased to 4.54% in 2011 due to the increased dividend payout ratio of JSC "Gazprom" and JSC "Oil Company" Rosneft ". The average value of the dividend yield ratio continued to grow in 2012-2013.

Consider the dividend policy of certain oil and gas companies with state participation.

JSC "Gazprom oil". The authorized capital consists of ordinary shares. According to the regulation of JSC "Gazprom Neft" on dividend policy on 25.01.2010, minimum annual dividend payment is 15% of net profit. Net profit is determined according to US GAAP [4]. In the 2006-2013 the company paid even more in practice. The dividend payout ratio was about 20%.

Dividend yield of the company is not very high. This ratio was amounted to 6.74% in 2006. Then it ranged from 2.18 to 4.88%(except 2008). And only in 2012-2013 it increased again to 6.5%.

Dividend policy of JSC "Gazprom Neft" may be characterized as restrained. The company is committed to maintaining the dividend payout ratio at the same level [5].

JSC "Gazprom". The dividend policy was approved by the Board of Directors on 27.10.2010. The calculation of the amount of the dividend is made according to the net profit of the company [4].

Payout ratio of JSC "Gazprom" was amounted to 9% IFRS net income on the average in 2006-2009 (excluding crisis years). And this indicator increased to 14% in the period of 2011-2013.

The dividend yield of shares of JSC "Gazprom" is one of the lowest in the industry. Only in 2011 year it grew significantly and reached 5.23%.

It should be noted down that the dividend policy of JSC "Gazprom" may be characterized as passive. This company pays dividends as a residual. And only recently the situation has begun to change [6].

JSC "Oil company "Rosneft". The authorized capital of the company consists of ordinary shares. There is a provision on the dividend policy of JSC "Oil company "Rosneft" which was approved on 17.05.2006. The document stated that the recommended amount of dividend payments was at least 10% of non-consolidated net profit of the company [4].

The value of the company's dividend payout ratio was in the range of 9 to 15% in 2006-2010, except from 2008. JSC "Oil Company "Rosneft" had a significant increase in dividend payout ratio in 2011. The level of dividend payout ratio remained in 2012-2013.

Dividend yield of shares of JSC "Oil Company "Rosneft" is sufficiently low. It was in the range of 0.55-1.73% in 2006-2010. Dividend yield of shares had small but stable growth in 2011-2013.

Dividend policy of JSC "Oil Company "Rosneft" can be described as passive in 2006-2013 as well as the dividend policy of JSC "Gazprom".

Thus, companies with state participation choose passive dividend policy. They pay dividends on a residual basis and pay more attention to investing profits in various investment projects. Only recently the situation have begun to change gradually because the state policy is aimed at increasing the revenues of the Federal budget of the Russian Federation. It should be noted down that JSC "Gazprom" and JSC "Oil Company "Rosneft" are the main payers of dividends that come in the Federal budget revenues [7].

Now, consider the dynamics of the same indicators during 2006-2013 to compare the dividend policy of the Russian state and private oil and gas companies. We will observe the following private companies:

- JSC "NOVATEK";
- JSC "Tatneft";
- JSC "LUKOIL";
- JSC "Surgutneftegas".

Dynamics of Dividend Payments private companies is presented in Table 3.

The average value of dividend payout ratio of these companies varies between 23-47% during the study period. This is significantly greater than the average value rate for the state-owned companies. The dividend payout ratio of private companies was 47% in 2008 which is the highest value dividend payout ratio for the entire study period [4]. This shows that private companies adhere to the theory of essentiality of dividend payments.

If we talk on the average dividend yield of the shares of private companies, it is in the range from 3 to 6 %. This is not significantly different from the dividend yield shares of public companies.

Consider the dynamics of these indicators in the context of individual private oil and gas companies.

JSC "NOVATEK". Its authorized capital consists of ordinary shares. According to dividend policy of the company, it is planned to allocate at least 30% of net profit to pay dividends.

During the study period the dividend payout ratio was in the range of 21 to 38% of net profit under IFRS. For the last three years this indicator began to decrease and it was 27% on average.

As for the dividend yield of JSC "NOVATEK", it is one of the lowest in the oil and gas sector and it is within 1-1.3% (except for 2008, when the dividend yield rose to 5.2%). This is due to the fact that the company's shares are overvalued by the market and they are sold too expensive prices [8].

Overall, it can be concluded that the JSC "NOVATEK" has active dividend policy and they support the theory of essentiality of dividend payments and signaling theory.

JSC "Tatneft". The authorized capital of JSC "Tatneft" consists of ordinary and preference shares. According to the statute, the holders of preferred shares have the right to receive an annual fixed dividend equal to 100% of the nominal value of the shares [4]. The value of the dividend per ordinary share was equal to the dividend per preferred share during 2006-2013.

The company maintain the overall payout ratio at around 30% of the net profit to RAS. The statements of "Tatneft" prepared in accordance with US GAAP was taken for the research. The company's dividend payout ratio is in the range 23-29% of net income under US GAAP beginning in 2009. The greatest value of this indicator was 116.69% in 2008 [9].

The dividend yield of preferred shares of "Tatneft" varies on the level of 6-9% (with the exception of 2008). Ordinary shares of "Tatneft" has a dividend yield within 3.4 - 4.7%, which is quite a low figure among the other private companies.

JSC "LUKOIL". The regulations on the dividend policy was approved 29.08.2003 [4]. It states that the amount of funds allocated to dividend payments must be at least 15% of the net profit. Net profit is determined on the basis of the consolidated financial statements of JSC "LUKOIL", which is prepared in accordance with US GAAP.

Table 3: Dividend payout ratio of private oil and gas companies for 2006-2013 years,%

Company	2006	2007	2008	2009	2010	2011	2012	2013
JSC "NOVATEK"	35,77	38,10	33,37	32,46	30,15	32,13	29,97	21,73
JSC "Tatneft"	35,95	29,63	116,69	26,77	23,06	25,79	24,73	29,98
JSC "LUKOIL"	16,40	15,30	15,83	20,86	18,06	19,10	22,90	36,50
JSC "Surgutneftegas"	31,65	31,59	22,24	21,08	20,88	16,3	23,46	11,34
The average value	29,94	28,66	47,03	25,29	23,04	23,33	25,27	24,89

* Calculations are made on the basis of the materials from the official website.

Table 4: The dividend yield of private oil and gas companies during 2006-2013 years,%

Company	2006	2007	2008	2009	2010	2011	2012	2013
JSC "NOVATEK"	0,99	1,27	5,20	1,62	1,20	1,52	2,27	2,26
JSC "Tatneft" (preference shares)	5,95	6,49	21,72	8,59	5,79	8,04	8,95	7,07
JSC "Tatneft"	3,77	3,82	8,00	4,70	3,38	4,41	4,45	4,13
JSC "LUKOIL"	1,66	2,03	5,18	3,48	3,52	4,17	4,88	5,83
JSC "Surgutneftegas" (preference shares)	2,39	5,27	21,81	7,17	7,50	13,07	7,22	8,35
JSC "Surgutneftegas"	1,32	2,03	3,63	1,68	1,55	2,34	1,94	2,26
The average value	2,68	3,49	10,92	4,54	3,82	5,59	4,95	4,98

* Calculations are made on the basis of the materials from the official website and MICEX-RTS.

Table 5: Differences between the dividend policy of public and private Russian oil and gas companies

Distinctive feature	Public oil and gas companies	Private oil and gas companies
Type of dividend policy	Passive	Active
Selected theory of dividend payments	The payment of dividends on the residual principle	Payment of significant dividends
The level of dividend payout ratio	Low	High

The company supports this principle in practice. So dividend payout ratio was about 15% of net income under US GAAP for 2006-2008 and for the last 5 years it has been on average of 23%.

Dividend yield of shares of JSC "LUKOIL" has been gradually increasing. It was 1.66% in 2006 and in 2013 the figure rose to 5.83%. The exception is 2008 because that year the dividend yield rose to 5.18% because of the falling stock prices.

It should also be mentioned that there was a constant dividend growth, but uneven for the entire period. Even when the net profit decreased, the company did not reduce dividends, on the contrary it increased their payment. Therefore it can be said that the company holds the dividend hypothesis content (signal theory) [10].

JSC "Surgutneftegas". The company is one of the most closed from the information point of view. RAS statements were used in the calculations.

The authorized capital of JSC "Surgutneftegas" is composed of ordinary and preference shares. It is worth saying that the dividend payout ratio for preferred shares of the company is stable and every year it is 7.09% of the net profit under RAS throughout the study period [4].

Common dividend payout ratio was about 32% for 2006-2007. In the period 2008 to 2012 the company reduced this indicator to 21% of net profit under RAS. Dividend payout ratio dropped significantly and amounted to 11% in 2013.

The dividend yield of preferred shares of JSC "Surgutneftegas" was at the level of 7% in 2009-2010 and it increased to 13.46% in 2011. It again decreased to 7% in 2012-2013. Ordinary shares of the company have a low dividend yield, which varies from 1.3 to 2.3% during the study period (except for 2008, when the dividend yield rose to 3.6%) [11].

The Company adheres to the principles of the payment of dividends on preferred shares, so that investors can predict the amount of dividends on these shares in advance. Consequently, it can be affirmed that the company keep active dividend policy and pays a lot of attention to it.

Thus, private companies use active dividend policy and adhere to the theory of significant dividend payments and signal theory.

The differences in approaches to dividend payments by companies with public and private participation are displayed in Table 5.

As for the dividend yield of private companies, it is on the same level as the dividend yield on government agencies.

In recent years, the state oil and gas companies have increasingly taken over private companies. So, 12.10.2014 JSC "Bashneft" received the notification from the register holder (JSC "Registry") about changing the controlling shareholder of the company. According to the notice, 122,971,934 ordinary and 6,192,245 preferred shares of «Bashneft" (71.62 % of share capital) debited with personal accounts of JSC "System" and closed JSC "Sistema-Invest" and credited to the account of the Federal Agency for State Property Management of [12].

These were actions carried out according to the entry of the decision of the Arbitration Court of Moscow from December 8, 2014 into legal force. The court satisfied the claim of the General Prosecutor's Office on the requirement of transmission in favor of the Russian Federation having the shares of "Bashneft" owned by JSC "System" and closed JSC "Sistema-Invest" October 30, 2014 [12].

It is believed that this merger is a consequence of the investment attractiveness of private oil companies made by implementation of effective dividend policy.

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