

WHAT IS A DIVIDEND

An Overview

Street Address:

Level 3, ADF Haus, Musgrave Street
Port Moresby, Papua New Guinea

Phone: +675 7001 9121

Website: www.jmpmarkets.com

Questions regarding Dividends:

Q. What is a dividend and how often can I receive them?

A. A dividend is a part of the company's net earning for the year that is paid to its registered shareholders

A company is not obliged to pay a dividend. If a company does pay dividends, dividends can be paid either quarterly, bi-annually, or annually. The amount of the dividend paid to you is proportional to the number of shares you bid.

Please note that all listed companies pay dividends therefore before you buy shares in a particular company it is recommended that you confirm that the company does pay dividends and the frequency of those payments.

Q. What is a dividend?

A. Dividends are a distribution of a portion of a company's after-tax earning paid out to shareholders and expressed either in kina/toea or percentage terms.

Dividends can either be cash or stock distributions. While cash dividends result in immediate cash payments to shareholders, stock dividends increase the number of shares that investors in a company own.

Here in Papua New Guinea, dividends are generally cash distributions. Dividends are calculated and paid on a per shares basis and here in Papua New Guinea is usually expressed as toea/share.

Q. When does a company declare dividends?

A. Dividends are announced at specific periods of time

The dividend announcement date (or declaration date) is that date on which a company's board of directors announces a dividend payout. The announcement or the declaration includes the size of the dividend, the ex-dividend date, and the date of payment.

Q. Are you eligible for a dividend payment?

A. If a company declares a dividend for the financial year, to determine if you are eligible to receive a dividend, you need to look at two important dates. They are:

1. The record date (or date of record); and
2. The ex-dividend date (or the ex-date)

A record date is a specific date established by a company to determine the shareholders who are eligible to receive an upcoming dividend distribution.

Once the company sets the record date, the ex-dividend date is set based on the stock exchange rules.

Here, the PNGX rules state that the ex-dividend date is usually set 5 business days before the record date. If you purchase a stock on or after its ex-dividend date you will not receive the dividend.

Q. What is the record date?

A. When a company declares a dividend, it sets a record date when you must be on the company's share register as a shareholder to receive the dividend

The record date is set by the board of directors on the company

Q. What is the importance of the record date?

A. The dividend declared by a company is paid to all its shareholders whose names appear in the company's share register at the end of the record date.

So, if a company declares the record date of 18 May, then all the shareholders whose names appear in the company records as at the end of 18 May will be entitled to receive the dividends.

But what happens when the shareholder buys shares and gets the delivery of shares only after T+2 days – on the second trading day after the transaction date.

This is where the concept of ex-dividend date (or ex-date) comes into play.

Q. What is the ex-dividend date (or ex-date)?

A. Here in PNG the ex-date occurs before the record date because a stock trade is settled T+2

This means that if you bought shares on Day 1 it will take up to 2 working days for the transaction to be settled and you receive the shares on Day 3.

The ex-date deals with the issue of the T+2 delivery date. Under the PNGX listing rules, the ex-date is usually the fifth business day prior to the record date.

In the above case, since the record date is 18 May, the ex-date will usually be 13 May. If there are trading holidays, in between, the ex-date will be pushed back accordingly

So, what does the ex-date indicate? It indicates that you must buy the shares of the company before the ex-date so that your name appears in the company's share register by the record date and are therefore entitled to the dividends. The stock normally starts trading ex-dividend on the ex-date.

Q.How do you calculate the amount you will receive as dividends?

A.In PNG the dividend announcement of a company generally expresses the amount as toea/share

So, if a company announces a distribution amount of PGK0.30, this means that shareholder is entitled to 30 toea/share for each share owned. If you are holding 1000 shares in the company, you will receive K300 as dividends.

If a company announces the distribution amount in a primary currency other than PGK, it will release information at a nominated date of the payment currency equivalent and exchange rates to be used.

Q.What is the payment date for the dividends?

A.The company's dividend announcement will state the payment date of the dividend.

All publicly listed companies are required to maintain a share register. Here in PNG the share registers of all the companies are maintained by a Share Registry.

Currently it can take up to 3 weeks for the Share Registry to update the company's share register.

As such the payment date for dividends to the registered shareholders is usually 4 weeks post record date to allow for this.

Q.What is Dividend Withholding Tax (DWT)

A.Whenever a PNG resident company, other than a company engaged in Petroleum and Mining pays a dividend, it must deduct 15% DWT and remit it to the IRC

DWT is legally a tax on the receipt of the dividend and its subsequent status therefore depends on the status of the recipient:

1. Non-resident companies or individuals: the dividend withholding tax is a final tax on the dividend
2. Resident companies: the dividend withholding tax gives rise to a tax credit, which may be offset against a liability to deduct this tax when the company pays a dividend itself. These tax credits must be used within seven years
3. Resident individuals: the dividend withholding tax is credited against the individual's normal tax liability on that dividend income. It is the final tax on dividend as individuals are not required to declare dividend income in their return of income with effect from 1 Jan 2006.

JMP Contact Details:

Address: Level 3, ADF Haus, Musgrave Street, Port Moresby, NCD, Papua New Guinea

Telephone: +675 7001 9121

Post-box: PO Box 2064, Port Moresby, NCD, Papua New Guinea

Website: www.jmpmarkets.com

For enquires surrounding JMP publications, JMP educational content or the JMP Knowledge Lab email joshua.mortensen@jmpmarkets.com