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Dividend Payout and Bonds Risk in Listed Companies from Malaysia

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ABSTRACT
The study aims to examine the effect of dividend payout on distance to default of bonds issued by non-financial firms listed on Bursa Malaysia. For this purpose, the data is collected of 298 non-financial firms over the period 2006-2015. This paper focus on whether Dividend payout (hereafter abbreviate as DPO) is effect on distance to default (hereafter abbreviate as DtD). This study followed the Bharath and Shumway (2008) DtD mixtures model and combining both accounting and market-based evidence to unravel the Malaysian corporate bonds DtD quality. The results indicated that an increase in dividend payout would results an increase in distance to default (DtD). Further indication on the determinants of DtD is found to be strong to various sensitivity examinations with different trials of variable. Bonds are increasingly playing a more critical role in the private debt intermediation process and are becoming more interconnected with financial system and more significant role in the development of corporate bonds.
Keywords: Distance to Default (DtD), dividend payout (DPO), determinants of DtD, Bursa Malaysia

Introduction

As a developing country, bonds are very important that affect the confidence of financers to invest in Malaysia. Based on Bank Negara Malaysia (BNM) (2018), a complete measurement of corporate area has a great effect on the constancy of an economic system in a country. Based on this report, the bankruptcy cases increased in Malaysia, and credit risk reached to an alarming situation. The rating agency Malaysia released the data of last fifteen years, bonds defaults in Malaysian capital market shows the average of 2.3 % of total bond default in fifteen years. Moody's reports that default rates touched 3.0 % in 2017, in the U.S., 2.54%, in Europe, and 1.96% and 0.18% in the developing markets, which is a "statistical extreme." In the past 30 years, the regular default rate was only 1.2%. Possibly, firms fail to pay their debt due to decrease in cash flows because of dividend payment.

Malaysia is a second biggest dividend payout with in Asia ex-japan. The dividend payout is documented as 48.9% within the Asia ex-Japan region (Yap, 2012). Besides, the rating authority Malaysia released last fifteen years data on the bonds defaults in capital market. In accordance with