

ABSTRACT

Ari PutriUtami. 2015, THESIS. Title: “The Influence of Free Cash Flow to the Dividend payout Ratio (The Study Case of the Registered Company in Jakarta Islamic Index of 2012-2013 Period)”

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Key words : free cash flow, dividend payout ratio

A company has a main purpose to maximize its equity or value for its stockholder and owner. By sharing the dividend, the stockholder will get an equal share and it increases the value of the company. The problem of agency may cause a conflict which involves many parties. It may occur between the manager and stockholder, stockholder and creditor, also manager and other stakeholders. Managers have an incentive to enlarge the company over its optimum size so that they will continue make an investment even though it gives a negative net present value. This kind of overinvestment uses the fund from the company's internal source, free cash flow, to avoid the supervision related to the financial capital increment from other companies. In fact, this kind of fund should have been paid to the stockholders in the form of dividend raising or repurchasing the stock of company.

This study aims to examine the influence of free cash flow on the dividend payout ratio of companies listed on Jakarta Islamic Index in the period of 2012-2013. The study employs secondary data from the financial annual report. The sampling of this research uses purposive sampling method and 13 companies as its research sample. The data analysis methods of this research are descriptive analysis, classical assumption test, simple linear regression analysis and hypothesis testing. The hypothesis testing of this research employs Simultaneous Test (F-Test) and Partial Test (T-Test).

The results show that simultaneously and partially Free Cash Flow variable gives positive influence on the Dividend Payout Ratio variable. The significant results of this research show that the higher free cash flow of the company, the higher the pressure company management gets from the stockholders to share the dividends. As a result, the dividend paid to them tends to increase.