

A Study on the Motivations, Market Reactions and Rationality of Kweichow Moutai's High Cash Dividend Policy

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Abstract. Dividend policy constitutes a vital component of financial management for listed companies. As a key element of corporate finance, it directly influences shareholders' investment decisions and serves as a crucial benchmark for evaluating a company's value. Consequently, the rational implementation of dividend policy has become a significant topic within the field of corporate finance. This paper employs a single-case study method, focusing on Kweichow Moutai Co., Ltd. as the research object to explore the motivations behind its high cash dividend policy and the subsequent market responses it triggered. The research indicates that Moutai's high cash dividend policy is the result of a balance among multiple factors, is well-aligned with the company's operational scale and cash flow status, and thus exhibits strong rationality. This study not only provides valuable references for formulating high dividend policies within the baijiu industry, but also offers a basis for investors to evaluate corporate value, and help capital markets in evaluating the worth of high-quality enterprises.

Keywords: Kweichow Moutai Co., Ltd., Dividend Distribution Policy, Market Reaction

1. Introduction

In recent years, the formulation of dividend policies has progressively become a crucial instrument in corporate governance. On the one hand, shareholders make investment decisions based on the dividend policies established by enterprises. On the other hand, a company's dividend policy serves as a public indicator of its actual profitability and risk profile, forming a key metric for shareholders in assessing investment value. A company that formulates a proper dividend policy can not only realize the rational distribution of operating income and the efficient use of resources, but also convey signals to external stakeholders and attract potential investors. Consequently, a practicable dividend policy is essential to promote the company's sustained development. As the leading enterprise in the baijiu industry, Kweichow Moutai Co., Ltd. (Kweichow Moutai) has consistently maintained an exceptionally high cash dividend payout ratio, with its cash dividends accounting for over 50% of net profits year after year [1]. Moreover, the scale of its dividends has consistently increased in line with the growth of net profits, establishing it as a benchmark enterprise for high-cash-dividend policies within the A-share market. Its generous dividends signal 'stable profitability and financial security' to the market, supporting robust long-term share price performance and attracting substantial long-term institutional investors. Consequently, this paper focuses on

Kweichow Moutai's high cash dividend policy, exploring the motivations behind it, the corresponding market reactions, and its rationality. This study enriches the case studies on dividend policies of highly profitable enterprises with robust cash flows. It also offers reference points for other baijiu enterprises in formulating appropriate dividend policies.

2. Literature review

Cash dividends represent the most prevalent form of dividend distribution, referring to investment returns allocated to shareholders by listed companies in the form of cash, drawn from net profits. They exert a direct influence on investors' rights and interests. Regarding the factors influencing the cash dividend policies of listed companies, scholars at home and abroad have conducted extensive research.

The agency theory of dividends posits that reducing free cash flow mitigates agency problems between shareholders and management. Meanwhile, the shareholder preference theory suggests that dividend policies are influenced by investor preferences [2]. The shareholder preference theory, first proposed by Miller and Modigliani, posits that shareholders will favour different investment decisions and dividend policies based on their personal income tax rates [3]. Shareholders with high personal income tax rates prefer low dividend policies and high investment, while those with low personal income tax rates favour high dividend policies and low investment.

The clientele effect theory can be seen as a more in-depth extension of the tax differential theory. By classifying investors into different tax brackets, this theory argues that preferences for dividend policies vary according to the marginal tax rates applicable to each bracket. Agency costs arise from the separation of management rights and ownership. Stakeholders naturally pursue decisions favourable to themselves, inevitably infringing upon others' interests in the process. Within the framework of modern corporate governance, agency costs can be broadly categorised into three components: monitoring costs, opportunity costs, and guarantee costs. Different agency relationships are associated with distinct types of agency costs [3].

3. Analysis of the drivers behind the high cash dividend policy

3.1. Financial fundamentals

As demonstrated by Kweichow Moutai's financial data over the past three years (2022–2024) (as shown in Table 1), its profitability and cash flow scale have demonstrated sustained growth. This provides robust support for the high cash dividend policy, thereby safeguarding its dividend-paying capacity.

Table 1. Key accounting data and financial indicators over the past three years [1]

| | 2024 | 2023 | Year-on-Year Growth Rate(%) | 2022 |
|---|--------------------|--------------------|--------------------------------|--------------------|
| Total Assets | 298,944,579,918.70 | 272,699,660,092.25 | 9.62 | 254,500,826,096.02 |
| Net assets attributable to Net Shareholders' Equity | 233,105,984,399.47 | 215,668,571,607.43 | 8.09 | 197,480,041,239.46 |
| Operating income | 170,899,152,276.34 | 147,693,604,994.14 | 15.71 | 124,099,843,771.99 |
| Net Profit Attributable to Shareholders | 86,228,146,421.62 | 74,734,071,550.75 | 15.38 | 62,717,467,870.12 |
| Diluted Net Profit (After Non-recurring Items) | 86,240,905,977.42 | 74,752,564,425.52 | 15.37 | 62,792,896,829.57 |
| Net cash flow from operating activities | 92,463,692,168.43 | 66,593,247,721.09 | 38.85 | 36,698,595,830.03 |
| Weighted Average Return on Net Assets (%) | 36.02 | 34.19 | +1.83 | 30.26 |

Unit:yuan Currency: RMB

As further illustrated in Table 1, Kweichow Moutai's 2022–2024 financial data reveals a sustained enhancement in its profitability and cash flow scale. This not only underpins the high cash dividend policy but also consolidates the company's dividend-paying sustainability. This provides robust support for its high cash dividend policy, thereby safeguarding its dividend-paying capacity. Return on equity (ROE) stands as one of the core financial indicators for assessing corporate profitability. Generally, a consistently high ROE signifies stronger earnings-generating capacity [4]. Kweichow Moutai's financial statements over the past three years reveal sustained growth in the company's net profit. Shareholders' net profit increased from RMB 62.717 billion in 2022 to RMB 86.228 billion in 2024, representing a compound annual growth rate of 17.2%.

Furthermore, non-recurring net profit is highly consistent with net profit, indicating that earnings primarily derive from core business operations and exhibit strong sustainability. Moreover, the weighted average return on equity (ROE), serving as an indicator of high profitability, rose from 30.26% in 2022 to 36.02% in 2024. This figure significantly exceeds the average for A-shares (approximately 8%-10%), reflecting exceptionally high capital utilisation efficiency and outstanding shareholder returns. The prerequisite for a company to distribute dividends is possessing sufficient cash flow. Some enterprises may achieve substantial profits but remain unable to pay cash dividends due to insufficient operating cash flow. Thus, the implementation of a high dividend payout policy requires not only robust profitability but also ample operating cash flow [4].

The financial statements reveal substantial growth in cash flow from operating activities, surging from RMB 36.699 billion in 2022 to RMB 92.464 billion in 2024. The year-on-year growth rate for 2024 reached 38.85%, significantly outpacing net profit growth. This indicates the company faces no accounts receivable pressure and utilises advance receipts to safeguard cash flow.

3.2. Low investment demand characteristic of the company's maturity phase

Kweichow Moutai's cash flow situation fully exhibits the typical characteristics of a mature-phase enterprise (as shown in Table 2). The company possesses strong profitability, ample cash flow from operating activities, and minimal capital expenditure. Consequently, substantial cash is available annually for dividend distribution, providing robust support for Kweichow Moutai's implementation of a high cash dividend policy. This enables the company to employ high cash dividends to reward shareholders.

Table 2. Cash flow statement for Kweichow Moutai 2023–2024 [5]

| | 2024 | 2023 |
|---|--------------------|--------------------|
| Net Cash Flow From Operating Activities | 92,463,692,168.43 | 66,593,247,721.09 |
| Net Cash Flow From Investing Activities | -1,785,202,630.71 | -9,724,414,015.16 |
| Net Cash Flow From Financing Activities | -71,067,506,484.81 | -58,889,101,991.94 |

Enterprises in the growth stage typically allocate substantial funds to investment activities to meet their expansion needs, thereby opting for a low cash dividend distribution policy. In contrast, large and medium-sized enterprises that have secured a certain market share in their industry and possess diversified financing channels usually operate in the mature stage of their life cycle, where they no longer require large-scale investment. At this stage, medium-sized and large enterprises are more inclined to utilise retained funds for distributing substantial cash dividends in order to attract additional investors [6].

According to relevant data, Kweichow Moutai has consistently reported negative net cash flow from investing activities over the past decade. Calculating the proportion of cash used for investment activities reveals that the company has limited external investment opportunities and low investment utilisation rates. This indicates that Moutai prioritises maintaining its current development trajectory, mitigating risks, and avoiding over-investment. Consequently, it can be inferred that under the current market conditions Moutai lacks reinvestment opportunities requiring substantial capital outlays. Returning surplus funds to shareholders through high cash dividends at this juncture not only prevents capital idleness or inefficient investment but also aligns with the strategic logic of 'shareholder return priority' characteristic of mature enterprises.

3.3. Shareholder structure level

Institutional investors account for a significant proportion of Kweichow Moutai's shareholder base. These investors typically prioritise long-term stable cash flows and low investment risks. Through the company's high cash dividend policy, institutional investors can assess the authenticity and sustainability of the company's operating performance, thereby mitigating investment misjudgments caused by information asymmetry. Analysis of Kweichow Moutai's cash flows indicates it is a quintessential mature enterprise. The majority of shareholders prefer the company to return more profits in cash form rather than retaining excessive funds for reinvestment. They contend that when mature companies lack high-quality investment opportunities, generous cash dividends directly enhance shareholders' current returns while preventing inefficient capital occupation. Consequently, Kweichow Moutai implements a high cash dividend policy to satisfy shareholder preferences, demonstrating the company's robust profitability, stable cash flow, and sound financial position.

4. Market reaction analysis

4.1. Analysis of share price movements

Stock price fluctuations reflect investors' market response to high cash dividends. According to relevant data, Kweichow Moutai's dividend payout ratio gradually increased from 30% in 2001 to the 50% range by 2015, maintaining an average payout ratio of 51.9% over these six years. Following the implementation of a combined policy of special dividends and annual dividends in both 2022 and 2023, the payout ratio exceeded 75% in each year. Furthermore, Moutai announced in 2024 that it will, in principle, conduct two cash dividend distributions annually from 2024 to 2026, with each year's total dividend payout not falling below 75% of the net profit attributable to shareholders for that year.

Kweichow Moutai stated that the company values providing reasonable investment returns to shareholders while balancing operational needs and sustainable development, and that cash dividends should maintain continuity and stability. From an external perspective, stable dividend distributions by listed companies reflect robust corporate development and a combined policy of special dividends and annual dividends [7]. An industry benchmark dividend payout ratio exceeding 50% is generally regarded as indicative of a high-cash dividend policy. As illustrated in Figure 1, Kweichow Moutai's share price has exhibited an upward trajectory in recent years. This suggests the market responds positively to the company's high-cash dividend policy.

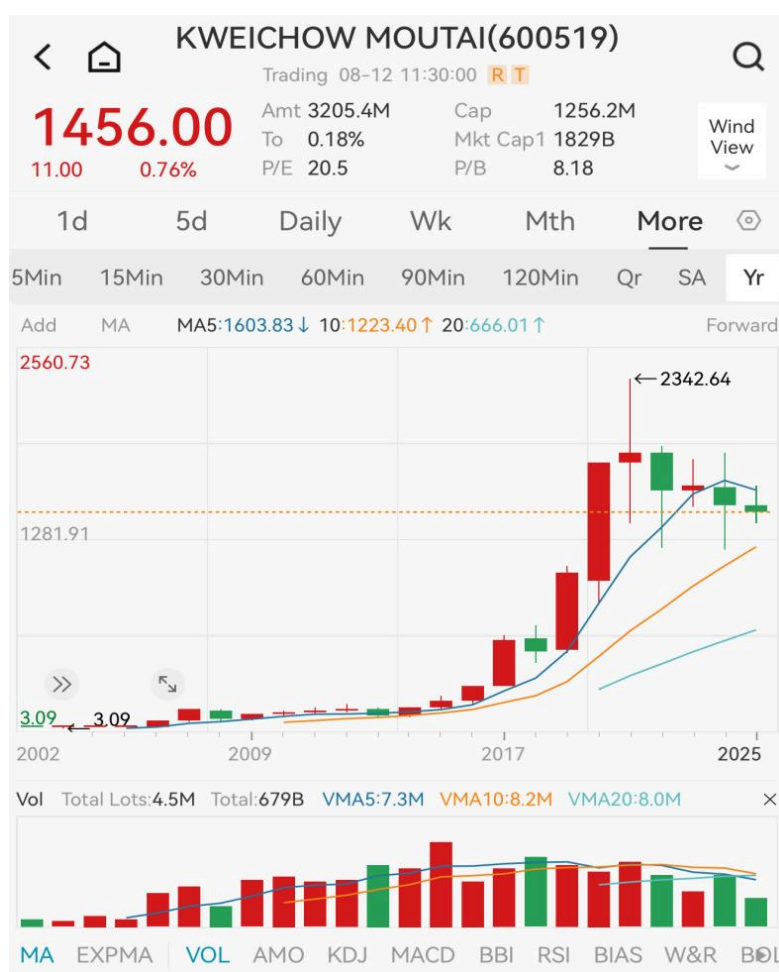


Figure 1. K-line chart of Kweichow Moutai from 2002 to 2025 [5]

4.2. Analysis of investor trading behaviour

4.2.1. Share trading volume

Since 2015, when the company's dividend payout reached the high cash dividend standard of 50%, share trading volume has risen accordingly, reaching a peak. Subsequently, trading volume fluctuated alongside share price movements and market conditions, yet remained at a relatively high level overall, reflecting the market's strong interest in Kweichow Moutai shares. In 2024, the company announced that the annual dividend payout ratio would not be less than 75% of net profit attributable to shareholders. Trading volume subsequently rose markedly compared to 2023 [1]. This demonstrates that following the announcement of the high cash dividend policy, certain investors adopted a positive trading stance, leading to a significant short-term increase in trading activity.

4.2.2. Institutional investor shareholding ratio

The overall trend in institutional shareholding ratios for Kweichow Moutai from 2020 to 2024 (excluding the fixed 62.1% annual shareholding by general legal entities") shows a declining trajectory (as illustrated in Table 3). This indicates that certain institutions may harbour concerns regarding the high cash dividend policy. However, the reduction in institutional holdings does not constitute an outright rejection of the high cash dividend policy, but rather reflects the cautious decision-making of some investors adopting a long-term development perspective. For instance, some institutions contend that Moutai's high cash dividend policy comes at the expense of future growth potential. Investors consider that funds could be better allocated towards research and development or market expansion. Institutional scepticism regarding the sustainability of the high cash dividend policy stems from concerns that a potential decline in future operating performance may make it difficult to sustain such a high dividend payout level, thereby prompting some institutions to reduce their shareholdings. Overall, the market's reaction to Moutai's high cash dividend policy has been somewhat inconsistent with the company's expectations. Instead of attracting more investor interest as expected, this policy has led some to believe that the company lacks attractive investment opportunities and relies solely on generous cash dividends to retain shareholders.

Table 3. Institutional investor shareholding proportion of Kweichow Moutai company, 2020–2024 [8]

| Year | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|-------|-------|-------|-------|-------|
| Institutional Investor Shareholding Ratio (%) | 72.04 | 71.14 | 71.04 | 71.34 | 71.31 |

4.2.3. Analysis of retail shareholder stability

Retail investors exhibit a pronounced tendency towards long-term holding. Moutai, valued by retail investors as a 'benchmark for value investing' due to its scarcity, brand moat and stable earnings growth, resulting in a high proportion of long-term retail holders. Particularly since 2016, the institutionalisation of the A-share market accelerated, some retail investors remained steadfast in their holdings, resulting in strong share lock-up. The 2024 annual report indicates Kweichow Moutai's shareholder count stands at approximately 207,900 households, a significant increase from around 80,000 households in 2018. However, the average holding value per household has substantially risen (reflecting increased institutional and large-holder participation), indicating

heightened concentration of retail holdings [1]. The stock's price volatility typically remains lower than that of small and medium-cap stocks, with retail investors exhibiting reduced selling pressure during market downturns and demonstrating greater holding stability. Moreover, Moutai's high dividend payout ratio incentivises retail investors to hold shares long-term for stable cash flow, reducing short-term trading frequency. While Moutai's retail shareholder stability ranks among the highest in the A-share market, the proportion of retail holdings may gradually decline in the long run as institutionalisation deepens within the A-share market.

5. Evaluation of the rationality of Kweichow Moutai's high cash dividend policy

5.1. Sustainability underpinned by cash flow

Moutai's cash dividends align closely with its free cash flow. Its core business (baijiu production and sales) generates stable and abundant operating cash flow, with free cash flow consistently ranking among the industry's highest. The amount of high cash dividends distributed in each period is generally lower than the FCF generated in the corresponding period, indicating that the company does not rely on external financing to fund dividend payments. This demonstrates that Moutai's cash dividends are strongly supported by its cash flow and do not impose pressure on the company's capital chain.

5.2. Industry comparative analysis

In recent years, Wuliangye's average cash dividend payout ratio has been 58.75%, while Luzhou Laojiao's cumulative dividend payout ratio is 60.93% [9,10]. Although Moutai's dividend rate during the same period (such as "above 70%") is higher than the other two, they both meet the common characteristics of "high dividends" in the liquor industry. The baijiu sector generally exhibits a preference for high cash dividends, slowing growth, and low capital requirements. Moutai's high cash dividend policy aligns with the industry's common practice of 'high dividends and shareholder returns,' consistent with its market position and profit scale.

6. Conclusion

This study investigates the determinants of Kweichow Moutai's high cash dividend policy and the corresponding market responses. Key drivers include robust profitability and substantial cash flow underpinning generous payouts, a mature business phase lacking suitable investment opportunities, and catering to shareholder preferences to bolster investor confidence.

Market response indicates that the company's high cash dividend policy typically induces positive short-term stock price volatility, attracting long-term value investors. However, some investors express concerns that substantial dividends may erode the company's long-term capital reserves, potentially undermining sustainable development. Overall, the research findings suggest that Moutai's high cash dividend policy represents a balanced consideration of multiple factors, with market reactions predominantly positive yet accompanied by cautious observation.

Nevertheless, this study's conclusions are constrained by the data period, failing to encompass performance under extreme market conditions. Furthermore, the sample's focus on a single enterprise introduces inherent limitations. In the future, it will focus on comparison with other companies.

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