THE IMPACT OF DIVIDEND POLICY ON STOCK RETURN OF THE LISTED NON-FINANCIAL COMPANIES IN COLOMBO STOCK EXCHANGE

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ABSTRACT

Dividend policy is one of the important factors that affect share return. Dividend policy is measured by dividend per share, dividend yield and dividend payout. The purpose of this paper is to analyze the impact of dividend policy on stock return of the non-financial companies listed in Colombo Stock Exchange. The Purposive Sample comprises of 36 non-financial companies from six sectors of Colombo Stock Exchange covering a time span from year 2014 to 2018. Non-financial sectors selected for this study include Beverage Food and Tobacco, Manufacturing, Chemicals and Pharmaceuticals, Health care, Power and Energy and Motors. Data has been collected from annual reports of companies. Statistical Package Stata 15.0 has been used to analyze and evaluate panel data using descriptive statistics, Fixed and Random Effect. Finally, Hausman test was used to select the appropriate model to explore the impact of dividend policy on stock return.

This study follows the fixed effect model. In order to explore the impact of independent variables and stock return, three hypothesis have been developed and tested. A positive impact is found for dividend per share, while there is a negative impact between dividend yield and stock return. The impact of dividend payout is deemed to be insignificant. In addition it is shown that firm size, asset growth and long term debts explain changes to share return. The study supports the fact that dividend policy is relevant with stock return for the non-financial companies listed in Colombo Stock Exchange.

This research shows new insights for policy makers to improve the performance of Colombo Stock Exchange.

Keywords: Dividend per Share, Dividend Yield, Dividend Payout, Share Return, Colombo Stock Exchange

TABLE OF CONTENTS

ACKNOWLEDGEMENT.....I

ABSTRACT.....II

TABLE OF CONTENTS.....III

LIST OF TABLES.....VII

LIST OF FIGURES.....VII

LIST OF ABBREVIATIONS.....IX

CHAPTER ONE – INTRODUCTION.....1-7

1.1 Background of the Study.....1

1.2 Problem Statement.....3

1.3 Research Questions.....5

1.4 Objectives of the Study.....5

1.5 Scope of the Study.....6

1.6 Significance of the Study.....6

1.7 Summary.....7

CHAPTER TWO – LITERATURE REVIEW.....8-23

2.1 Introduction.....8

2.2 Dividend Policy.....8

2.2.1 Types of Dividend Policy.....10

2.2.2 Factors Affecting Dividend Policy.....11

2.2.3 Importance of Dividend Policy.....14

2.2.4 Theories Relating to Dividend Policy.....16

2.3 Stock Return.....21

2.3.1 Definition.....21

2.3.2 Determinants of Stock Return.....22

2.3.3 Dividend Policy and Share Return.....22

2.3.4 Summary.....23

CHAPTER THREE – CONCEPTUALIZATION AND OPERATIONALIZATION.....24-30

3.1 Introduction.....24

3.2 Conceptualization.....24

3.2.1 Share Return 25

3.2.2 Dividend per Share.....26

3.2.3 Dividend Yield.....26

3.2.4 Dividend Payout Ratio.....26

3.2.5 Firm Size.....26

3.2.6 Asset Growth.....27

3.2.7 Leverage.....27

3.3 Formulation of Hypothesis.....27

3.3.1 Dividend Yield.....28

3.3.2 Dividend Payout Ratio.....28

3.3.3 Dividend per Share.....29

3.4 Operationalization.....30

3.5 Summary.....30

CHAPTER FOUR.....31-36

4.1 Introduction.....31

4.2 Research Design.....31

4.3 Sample.....31

4.4 Data Collection.....32

4.5 Methods of Data Presentation and Analysis.....32

4.6 Panel Data.....33

4.6.1 Univariate Analysis and Bivariate Analysis.....33

4.7 Basics of Panel Data Model.....34

4.7.1 Unit Root Test.....34

4.7.2 Fixed Effect Model.....34

4.7.3 Random Effect Model.....35

4.7.4 Hausman Test.....35

4.7.5 Model.....36

4.8 Summary.....36

CHAPTER FIVE – DATA PRESENTATION AND ANALYSIS.....37-51

5.1 Introduction.....37

5.2 Presentation.....37

5.3 Sample.....38

5.4 Data Analysis.....38

5.4.1 Descriptive Statistic.....38

5.4.2 Unit Root Test.....43

5.4.3 Pooled Regression Model.....44

5.4.4 Fixed Effect Model.....45

5.4.5 Random Effect Model.....47

5.4.6 Hausman Test.....48

5.5 Hypothesis Testing.....49

5.6 Summary.....50

CHAPTER 6 – FINDINGS AND DISCUSSION.....52-58

6.1 Introduction.....52

6.2 Discussion on Descriptive Statistic.....52

6.3 Discussion on Stationarity.....53

6.4 Discussion on Bivariate and Multivariate.....53

6.4.1 Discussion on Fixed Effect Model.....53

6.4.2 Impact of Dividend Per share on Stock Return.....54

6.4.3 Impact of Dividend Yield on stock Return.....55

6.4.4 Impact of Dividend Payout on Stock Return.....55

6.4.5 Impact of Firm Size on Stock Return.....55

6.4.6 Impact of Asset Growth on Stock Return.....56

6.4.7 Impact of Long Term Debt on Stock Return.....56

6.4.8 Impact of Dividend Policy on Stock Return.....56

6.5 Summary.....58

CHAPTER SEVEN – CONCLUSIONS AND RECOMMENDATIONS.....59-62

7.1 Introduction.....59

7.2 Conclusion.....59

7.3 Recommendation 60

7.4 Managerial Implications.....61

7.5 Suggestions for Future Researchers.....61

7.6 Limitations.....62

References.....63

Appendices 68

Appendix A : Sample Profile of the Study.....68

Appendix B : Data Considered in the Study to obtain Results.....70

LIST OF TABLES

Table 3.1: Summary of Operationalization.....30

Table 4.1: Sample of Panel Data.....33

Table 5.1: Sample of the Selected Non-Financial Sectors.....38

Table 5.2: Descriptive Statistics.....39

Table 5.3: Correlation Analysis.....42

Table 5.4: Levin-Lin-Chu Unit Root Test Results.....44

Table 5.5: Fixed Effect Model.....45

Table 5.6: Model Summary of Fixed Effect Model.....45

Table 5.7: Summary of Random Effect Model.....47

Table 5.8: Hausman Test Results.....49

Table 6.1: Summary of the Hypothesis Results.....58

LIST OF FIGURES

Figure 3.1: Conceptual Framework.....25

Figure 5.1: The Histogram for the Share Return of Non-Financial Companies.....40

Figure 5.2: The Histogram for the Dividend Per share of Non-Financial Companies.41

Figure 5.3: The Histogram for the Dividend Yield of Non-Financial Companies.....41

Figure 5.4: The Histogram for the Dividend Payout of Non-Financial Companies....42