

RESEARCH ARTICLE

THE EFFECT OF DIVIDEND POLICY ON SHARE PRICES OF BURSA MALAYSIA LISTED COMPANIES

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ABSTRACT - The objective of this study is to determine the effects of dividend policies on share prices with an emphasis on companies listed on the FTSE Bursa Malaysia 100 (FBM100) index. These research aims to investigate and examine the effect of dividend policy on the share prices performance of listed companies under FTSE FBM100. This study measures a relationship between dividend policies (independent variables) which include dividend yield, volume traded, dividend payout, and company size, return on invested capital, free cash flow yield, volume traded (control variables) toward share price as dependent variable. The effects of dividend policy on share price movement are one of the most disputed topics in corporate finance. The share price is the most common factor for investors when making decision to buy shares. Various empirical studies can be found examining and analyzing the effect of dividend policy on share prices, however, the results are inconsistent. This study focused on the effect of dividend policy on share prices of companies listed on the FTSE (Financial Time Stock Exchange) FBM100 index from 2011 to 2020. A total of 56 companies are sampled in this study after filtering, and data were analyzed using the regression model. The results of panel data regression model indicated that dividend payout has an insignificant effect on share prices, however, dividend yield has negative and significant effect on share price. Return on invested capital, volume traded, and company sizes by market capitalization have significant effect on share price while free cash flow yield had no significant effect. As a result, dividend policy has considerable impact on share prices. Thus, the result is important. The findings of this study are expected to serve as a reference for companies in establishing dividend policies that will improve company performance and for investors in considering whether it should retain, increase, or decrease their stake in the company.

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INTRODUCTION

The objective of this study is to investigate the effects of dividend policy on share prices for companies listed on FBM100. Dividend policy is a common research topic among financial researchers because it covers a wide range of company problems including share price volatility, agency cost, ownership, and other variables that influence dividend distribution. Previous studies have looked at the relationship between a company's dividend payout and dividend yield with the share price. However, their findings are inconsistent and there is no strong agreement among researchers on the effect of dividend policy on share price performance. The share price is an investor's initial consideration to look at before deciding to acquire a share. One of the factors that affect the share price is the dividend policy. The company's dividend policy becomes a benchmark for the company's delivery of returns that can maximize shareholders' wealth.

This study analyzes the effect of dividend policy on share price performance. Share price is the price at which a company's share can be traded on a given date. The share price is an indicator of the overall strength and reflects the value of a company. Dividend has been a topic of discussion and debate in the financial and investment sector for more than five decades. Several topics related to causes and dividend theories that influence dividend payout decisions have been addressed. However, no one has yet been able to explain and subject to in-depth research the behavior of dividends. A puzzle of dividend policy has not been resolved and causes disagreement among several researchers. The number of dividend payments and the retained earnings available for reinvestment in new initiatives is determined by a company's dividend policy. This policy refers to the percentage of earnings distributed to shareholders as dividends and retains earnings for investing in new initiatives or opportunities, (known as dividend payout) and translates what is the percentage of yield that the company contributed (known as dividend yield). It is important to have a properly implemented policy to maximize shareholder wealth (Akit et al., 2015).

Conflict between shareholders and managers and conflict between shareholders and bondholders are two types of conflict that exist (Jensen & Meckling, 1976). The consequence of a company's dividend policy on shareholder wealth

has yet to be determined, due to managers may make financial decisions that benefit them, but they do not maximize shareholder wealth because both managers and shareholders want what is best for them. A manager of the company must decide how to use its free cash flow or extra earnings. If the company has the proper strategy and policy, it will appear more attractive. Therefore, the company can use its earnings for future business activities such as expanding the business that can increase its market value and increase in share price, holding for emergency cases, or deciding to distribute the profit to shareholders. However, not all companies pay dividends. Some will have a stated policy of investing most of their earnings to help the company grow. For example, most listed banking companies pay stable dividends while growth companies in the information technology sector will tend to retain their earnings to fund new investments for expansion purposes.

Research Objectives

The objective of this study is to determine the effects of dividend policies on share prices with an emphasis on companies listed on the FTSE Bursa Malaysia 100 (FBM100) index. The following objectives were addressed to provide answers to the research questions below:

- i) To investigate the effect of dividend payout on the share prices performance of listed companies under FTSE FBM100
- ii) To examine the effect of the dividend yield on the share price performance of listed companies under FTSE FBM100

Research Questions

The concerns raised in the research problem statement should be discussed further in the following questions. The following are the research questions:

- i) Does the dividend payout influence the share price of FBM100 companies?
- ii) Does the dividend yield influence the share price of FBM100 companies?

LITERATURE REVIEW

The most major decision in corporate finance is whether the company's profit should be distributed as a dividend to shareholders or reinvested in new initiatives. Dividends are not only sources of regular income, but they are also significant in determining the value of a company (Bernstein, 1998). The other source of income is capital gain, which is based on the share price and volatility of stock and is difficult to predict the return. With the volatile economic condition that occurred in 2020 and market uncertainties putting pressure on companies' earnings, high-yielding companies without strong financial strength may not be able to sustain future dividends and may be prone to dividend cut and suspensions. Bloomberg reports Share Price Vs Dividend Yield from 2010 to 2021. From 2020 to 2021, the data showed an increased dividend yield from 2.7% to 4.2%.

This study measures a relationship between dividend policies as independent variables which include dividend yield, volume traded, dividend payout, and company size. The control variables are return on invested capital, free cash flow yield, and volume traded. Share price is the dependent variable.

DEPENDENT VARIABLE

Share price

Share price referred to the price at which shares are traded in a market that incorporates sell-and-buy transactions between investors. According to Neelanjana et al., (2019), the company can attract investors and indirectly enhance the share price of the company through dividend distribution. The assumptions adopted by the dividend irrelevance theory may not be realistic. These assumptions include an environment of no taxes, zero transaction costs, and no information influence on share prices. Furthermore, this theory is irrelevant as the price of shares decreases because of dividend distribution and the value of the company is unchanged. The fact that these assumptions are broken indicates that dividend policy is relevant in situation 8 when a dividend tax in a certain country is imposed in the real world.

INDEPENDENT VARIABLE

Dividend Policy

Dividend policy is a policy guideline for management to declare dividend amounts and dividend payments in terms of cash, share or retained earnings for the latest reinvestment in new projects or reserves. This policy relates to the company's earnings divided into two portions which are dividend payout to shareholders and reinvestment in new opportunities. Dividend payout and dividend yield are the two most basic indicators of dividend policy that investors are

referring to. Singh and Tandon (2019) stated that dividend is exempted from taxation in India while capital gains are taxable. From a tax scenario perspective, investors in high tax brackets should buy low-paying companies, whereas those in low tax brackets should choose high-paying companies. However, not all companies pay dividends, some will have a stated policy of investing most of their earnings to help the company grow. For example, most listed banking companies pay stable dividends while growth companies in the information technology sector will tend to retain their earnings to fund new investments for expansion purposes.

(i) Dividend Payout: Dividend payout refers to the company's earnings divided to shareholders in terms of dividend distribution during the sample period. A high payout ratio indicates that a company is paying out a substantial portion of its earnings in dividends, leaving less money to invest in the company's future growth. (ii) Dividend Yield: The rate of return on investment in form of dividends is called dividend yield. It is calculated by dividing the total dividend per share by the sample period's closing price.

Control Variables

(i) Return on invested capital (ROIC): This variable indicates how effectively a company uses the sources of capital invested in its operations. Based on BBG, the computed as 100 times (12-month net operating profit after tax dividing average invested capital). (ii) Free cash flow yield (FCFY): Free cash flow yield to show the expected return. BBG calculates free cash flow yield as trailing 12-month free cash flow per share divided by the last price to get the projected return per share. (iii) Volume traded (VOLTRADED): Volume traded refers to volumes in the underlying stock market. Share liquidity is calculated by dividing the total number of shares traded and shares outstanding during some period. Securities must be sufficiently liquidated. (iv) The company sizes (CS): Market capitalization refers to the size of the company which represents each company's end of the year for the sample period. Calculated as share outstanding (BS_SH_OUT) times the last price (PX_LAST).

Underpinning Theories

Bird-in-hand theory

The bird-in-hand contradicts the dividend irrelevance theory, which assumes perfect market conditions, no tax and zero transaction cost. Lintner (1956) and Gordon (1959) proposed the bird-in-hand theory argument to defend dividend relevance, which argued that in the real world, there is uncertainty and an imperfect market. According to this theory, due to the unpredictability of future cash flow, investors prefer cash in hand, which is a cash dividend rather than capital gain. These explain that companies tend to have more control of dividends compared to capital gain and investors might not see dividends as risky as a capital gain. Lintner (1956) concludes that a company's earnings are the most important determinant of dividend changes and provide valuable information about the company's future prospects. Dividend payouts have become more uncertain in the future of time (Gordon, 1959).

They claimed that dividend policy had an impact on both the company's value and stock prices during the same period; hence, a higher dividend payout would lower the cost of capital and increase the company's value. Therefore, to improve the share price, the company should set a higher dividend payout. It will be at the mercy of future events and risks if the dividend payout is deferred. Although appealing, this argument is false. Market forces should indicate that a stock's price is appropriate for the degree of risk and return. Investors may invest their funds if a higher dividend is paid out. It might be used to fund a different investment with a higher return, but more risk or one with a low yield but lower risk.

Agency theory

According to Miller and Modigliani (1961), there were no disputes between managers and shareholders based on their research. On the other hand, the assumption was impractical because management and shareholders might not have the same interests. The problem may incur an agency cost because of the manager and shareholder's potential conflicting interests. Agency cost is the internal cost that must be paid to an agent who acted on behalf of a principal. Therefore, the conflict between shareholders and management caused those costs to rise. The dividend policy was important in preventing agency costs because of the parties' conflicting interests. Rajverma et al. (2019) mentioned that shareholder ownership influences dividend and capital structure policy decisions because the dividend is a source of income for shareholders. Otherwise, management insisted that the company use their personal power and profit which was contrary to the shareholders' interest.

Hypotheses Development

According to Shahrabaki et al. (2020), they mentioned that companies in the Iran market might keep paying dividends if their business is doing well. When entering the equity market, a company with the steady paying of dividends will confront less asymmetric information. When the company has no profitable projects, dividend policy allows it to reallocate resources and conveys information about the company's prospects to the market.

Based on literature and empirical works, the hypotheses for this study are as follows:

- H₁: There is a significant effect of dividend payout on share price of listed companies
 H₂: There is a significant effect of dividend yield ratios on share price of listed companies
 H₃: There is a significant effect of return on invested capital on share price of listed companies
 H₄: There is a significant effect of free cash flow yield on share price of listed companies
 H₅: There is a significant effect of volume traded on share price of listed companies
 H₆: There is a significant effect of company size on share price of listed companies.

The hypotheses were developed and tested using the panel regression method, to see the relationship between share price (dependent variable) and independent variables which are dividend yield, dividend payout, return on invested capital, free cash flow yield, size of firm, and volume over a ten-year period from 2011 to 2020.

METHODOLOGY

This study examines the effect of dividend policy on the share price performance of companies listed in FTSE FBM100. A total of 100 companies in Malaysia which represents the top 100 market capitalization as of 1st September 2021 were chosen. According to THEEDGE CEO morning brief dated 25 March 2021, most companies held by government-linked investment companies (GLICs) did not pay dividends for the fourth quarter of 2020 which are; UEM Sunrise Bhd, Malaysia Airport Holdings Bhd, Lotte Chemical Titan, SP Setia Bhd, LBS Bina Group Bhd, Yinson Holdings Bhd, SKP Resources Bhd, IJM Corporation Bhd, BIMB Holdings Bhd, Velesto Energy Bhd, Malaysian Resources Corp Bhd, TH Plantations Bhd, Boustead Holdings Bhd, Amanah Harta Tanah PNB, and Theta Edge Bhd. A total of 100 companies are sampled in this study, and data were analyzed using the regression model.

Research Design

This study examines the effect of dividend policy on the share price performance of companies listed in FTSE FBM100. 100 companies in Malaysia representing the top 100 market capitalization as of 1st September 2021 were chosen. Data were collected from Bloomberg, Bursa Malaysia, and Malaysia stock.biz for the period 2011 - 2020. Data were collected until 2020 because some listed companies did not declare dividends and paid a lower dividend than usual, a consequence of prolonged movement control order in 2020 due to the COVID-19 pandemic. (Refer Table 1).

Table 1. List of companies that did not declare dividend and pay lesser dividend

Company	DPS		%		DPS		Growth %
	2018	2019	2020	2021	2019	2020	2021
Malaysia Airport Holding Bhd	0.13	0.14	0.00	0.00	7.69	-100.00	0.00
Public Bank Bhd	0.14	0.15	0.03	0.08	5.80	-82.19	188.46
CIMB Group Holdings Bhd	0.25	0.26	0.05	0.23	4.00	-81.50	378.17
VS Industry Bhd	0.04	0.04	0.01	0.02	-12.20	-63.89	38.46
Carlsberg Brewery (M) Bhd	0.91	0.95	0.40	0.56	4.96	-57.98	40.00
Gamuda Bhd	0.12	0.12	0.06	0.00	0.00	-50.00	-100.00

Source: from Bloomberg (negative DPS growth indicates the company pays lesser dividend)

To simulate the Malaysian market, a total of 100 companies listed on FTSE Bursa Malaysia 100 as of September 2021 were chosen. The companies' data were selected from BBG Data Stream and Bursa Malaysia. The analysis period covers the year 2011 to 2020.

The data from the last 10 years with the significant market capitalization of companies listed on the Main Board of Kuala Lumpur Stock Exchange (KLSE) should provide more significant findings in this study. Companies that do not have more than eight (8) years of data were omitted from the population since the companies do not meet the eligibility requirements. After filtering the data, a total of 44 companies were removed and the final sample size is 56 companies.

Theoretical Framework

The theoretical framework used for this study to examine the relationship between independent variables, control variables, and dependent variable is as below:

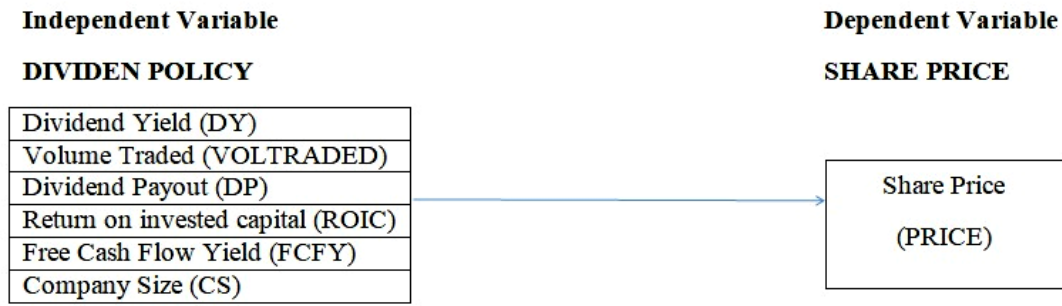


Figure 1. Theoretical Framework

An Economic Model

Regression analysis was used to test all the objectives stated. The panel data models are as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \mu_{it} \tag{1}$$

To achieve our objective to investigate the effect of dividend policy on share price through panel data time period, the following regression equation was used.

$$PRICE = \beta_0 + \beta_1DP_{it} + \beta_2DY_{it} + \beta_3ROIC_{it} + \beta_4FCFY_{it} + \beta_5VolTraded_{it} + \beta_6MCAP_{it} + \mu_{it} \tag{2}$$

Price is the share price, the constant is β_0 (Intercept of the dependent variable), $\beta_1 - \beta_5$ are the parameters or coefficients for every independent variable whereas μ_{it} is error term in time. β_1 is dividend payout, β_2 is dividend yield, β_3 is return on invested capital, β_4 is free cash flow yield, β_5 is volume traded β_6 is company size and μ_{it} is the error term or disturbance term measured by the company’s end of period. This test’s null hypothesis is that DP has no effect on share price implying that $\beta_1 = 0$. Similar hypotheses were stated for other independent variables.

This study uses panel regression analysis to determine the effect of dividend policy on share price by using EViews. In regression analysis, the dependent variable (share price) is regressed against two independent variables namely dividend payout ratio and dividend yield. Due to other factors that can influence the share price, this study includes control variables in the regression equation to address this issue. The following control variables are return on invested capital, free cash flow yield, volume traded, and the size of company.

DISCUSSION

The standard deviations for all variables are Share Price (PRICE), Dividend Payout (DP), Dividend Yield (DY), Return on Invested Capital (ROIC), Free Cash Flow Yield (FCFY), Firm Size based on Market Capitalization (MCAP) and Volume Traded (VOLTRADED). The result for this study stated that the mean of share price in this study is 8.6027 with a standard deviation of 15.1163. The range shows minimum and maximum for PRICE range from 0.0480 to 147.4000. The result is comparatively lower than the study made by Olawale and Ilo (2018) in Nigeria, in which they found a mean value of 65.64 and a standard deviation of 135.45. The minimum and maximum are between ranges 1.13 to 982.81, showing a variation in the value. The maximum value of DP is 13.0358, while the minimum value is zero. DY has a mean value of 3.4312 with a maximum value of 21.7690 while the standard deviation is 2.3195. Hence, the dividend yield for Malaysian companies is higher than in other markets. In terms of ROIC, it has a mean of 14.0007 with a maximum value of 174.6985 and a minimum of -143.2663. MCAP, on the other hand, has a mean value of 17,053.5900 and a median value of 8,712.6510, ranging from a minimum of 67.1276 to a maximum value of 105,670.9000. In contrast, the standard deviation is 20,137.0800. It shows that the company’s study has a bigger market capitalization.

The correlation analysis of the variables employed in this study showed correlations that indicate that DY and VOLTRADED are negatively correlated with PRICE, whereas DP, ROIC, FCFY and MCAP are positively correlated with PRICE. We can observe from the results that VOLTRADED is negative with all other variables except MCAP which was found to be positively correlated. ROIC has a negative correlation with FCFY, MCAP and VOLTRADED, but has a positive correlation with DP, DY, and a strong positive correlation with PRICE.

Dividend policy is measured using either dividend payout (DP) or dividend yield (DY). Based on the EViews, the probability for the research model is 0.0000 except for DP and FCFY by using Panel Least Squares method. DP showed no significant effect between PRICE, whereas DY showed a negative significant relationship at 1% level of significance. As a result, the null hypothesis is rejected in this study. This rejection of the null hypothesis is supported by robust least squares results, which demonstrate that DP is insignificant while FCFY is significant by 5%.

R square in Regression Analysis measures the strongest relationship between dependent variables and independent variables. The adjusted R square takes the degree of freedom into account. Some observations might be dropped from the list. Normally, the adjusted R square is lower than the R square. The R square and adjusted R square are moving in the same direction. The increasing number of variables reflects to increasing R square and adjusted R square. The result stated the value of the R square is 0.2643 whereas the adjusted R square is 0.2564. It means that the dividend payout, dividend yield, return on invested capital, free cash flow yield, firm size and volume traded, contribute to 26.43% of the variation in share price. On the other hand, the value of adjusted R square translates to 25.64% of the total variation share price which can be explained similarly to R square variables after the degree of freedom is taken into consideration.

The f-statistic in this study shows a result of 33.1185. The significance of a single independent variable effect on share price was evaluated using the T-statistic. After evaluating by EViews of 100 companies listed on FBM100 from the year 2011 to 2020, the result shows that dividend yield, return on invested capital, size of firm by market capitalization and volume traded significantly affect the share price. On the other hand, dividend payout and free cash flow yield are found to have an insignificant effect on the share price.

CONCLUSION AND IMPLICATION

Even though there are numerous studies on dividend policy in Malaysia, only a few of them look into the effects of the dividend policy on the share price. However, the finding of the studies showed inconsistent results. Therefore, the purpose of this study is to examine the relationship between dividend policy and share price influences on the companies listed in the FTSE 100 index and whether the effect is significant or not. This study will be beneficial for investors in making investment decisions as well as the board of directors in formulating and revising dividend policies by taking into consideration the determinants that will affect share price performance. If the board of directors is considering increasing the dividend payout to shareholders, the free cash flow yield, return on invested capital, liquidity and company size should all be taken into consideration.

This is significant since the dividend is a traditional method with minimal risk that will attract investors to invest. Furthermore, a stable and high dividend payout will retain investors to hold their shares; therefore, management should seek high earnings and larger companies by market capitalization to satisfy the expectation of the shareholders' objective of wealth maximization through higher dividends. In addition, this study reviewed the literature based on the context of dividend policy and delivers empirical evidence for the effect of dividend policy on share prices for stocks listed in FTSE FBM100. Panel regression model analysis results showed that dividend yield and volume traded have a negative impact on share price, whilst dividend payout and free cash flow yield have a positive relationship but insignificant effect. Return on invested capital and company size, on the other hand, have a positive and considerable effect on the share price. As a result, we can infer that shareholder is more interested in dividend yield than dividend payout.

The results of this study are in line with the results of Singh et al. (2019) and Olawale and Ilo (2018). Singh and Tandon's (2019) results, however, differ from the findings by Zakaria, Muhammad, and Zulkifli (2012). Most of the companies in the sample are held by Government Linked Investment Companies (Khazanah, EPF, PNB, KWAP, LTH and LTAT) with more than 10% of paid-up capital. The dividend yield is significant with share price; thus, maximization of shareholders' wealth requires consideration of the investor's desire for return in terms of dividend. If the company pays dividends on a regular basis, the wealth of its shareholders will be maximized eventually. Telesphore and Patrick (2018) investigate the effect of corporate dividend policy on share price performance for the bank of Kigali listed on the Rwanda stock exchange. They found a highly significant correlation between share prices and dividend payout. Increased demand for the company's shares with higher volume traded as well as a more stable dividend payout ratio will help increase share prices. As a result, a positive correlation for the dividend per share strongly influences share prices.

The study's findings are beneficial to investors, managers, and other stakeholders. Dividends are not only a source of income but also a way to evaluate companies from an investment point of view. The findings are used by management to set up a dividend policy in such a way as to maximize shareholders' wealth. Investors also need to pay attention to other variables such as the economic situation of the country. The future study can focus on a larger group of companies by country, or it can be industry specific. Data on the impact of dividend policy before and after the COVID-19 pandemic can also be analyzed in the future study.

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