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Effects of Dividend Payout Ratio and Earning per Share on Market Price per Share: a study on Micro Finances of Nepal

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Abstract – *This paper examines the effects of Dividend payout ratio and earnings per share on stock market price of micro finances of Nepal using yearly data from fiscal year 2071/2072 to fiscal year 2075/2076. Data were sourced from annual reports of micro finances, websites of micro finances, website of Nepal Stock Exchange and share Sansar.. This study uses correlation analysis and regression model to examine such impact. The result of such test suggests that dividend payout ratio and earnings per share are positively correlated with market price per share. From the regression analysis it is examined that dividend payout ratio and earnings per share have insignificant impact on market price per share of micro finances in Nepal. This study helps to know the effects of dividend payout ratio and earnings per share on stock price in Nepal Stock Exchange (NEPSE). Thus, investors should also analyze other factors while making investment decision.*

Key Variables: Market Price per Share, Dividend Payout Ratio, Earnings per Share, Correlation, Regression analysis.

1. INTRODUCTION

Generally Market Price per Share (MPPS) is the cost of buying a share on stock exchange (NEPSE in case of Nepal.) market price per share depends upon several factors like dividend payout ratio, earnings per share, dividend per share, size of firm, growth of firms, liquidity position and some other macroeconomic variables. Among them dividend payout ratio and earnings per share are taken in this study.

Dividend is the portion of profits and retained earnings that a firm distributes to its stockholders. When a firm earns profit, certain portion of profit is kept in reserve as retained earnings and the remaining portion is either distributed as dividend or reinvested in business. Dividends are major source of earnings for investors. Dividends are calculated on yearly basis. Dividends are paid out of profits. That's why if a company announces dividend it means company is performing well and is stable. It attracts more investors which increases the demand of that stock that automatically increases price. The investors who like to earn maximum income as dividend so they buy the share of that company.

The announcement of dividend encourages investors to buy stocks before ex-dividend date; they are ready to pay premium for that stock too. It increases the price of that share on market. On the ex-dividend date price of stocks declines because new investors do not receive dividend so they do not like to pay premium. Similarly, stock dividend increases the total shares outstanding of a company where, company values is same, it dilutes the book value per share and leads to decrease in stock price. When the stock market is optimistic about the stock leading up to ex-dividend date, there is increment in share price.

In case of Nepal stock dividends are more popular. Companies distribute large portion of dividend as stocks and small portion of dividend in the form of cash. In this article Dividend Payout Ratio (DPR) includes both cash and stocks dividend. Dividend payment system in Micro finances in Nepal is good. The primary shareholders of Micro Finances in Nepal have observed their initial investment increase almost by double in less than one year period.

Earnings per Share (EPS) means the return earned per share. EPS measures the company value and market value of shares. It is used as benchmark for comparing the performance among several firms. (Velankar, Chandani and Ahuja, 2017). EPS is calculated by dividing Net Income after payment of dividend to preference stockholders by total number of shares outstanding. Investors like to invest in such company whose EPS is higher because it reflects company is in profit and it has profits to distribute to its shareholders. According to Islam, Khan, Choudhory and Adan (2014),

share price does not move as fast as earnings per share. Although it is important factor other factors also should be considered while buying shares.

As per data of 2019 AD, out of 43 listed micro finances in Nepal Stock Exchange (NEPSE), Chhimek Laghubitta Bittiya Sanstha Limited, Forward Community Microfinance Bittiya sanstha Limited and National Microfinance Bittiya Sanstha Limited have highest level of EPS. Among all the banking and financial institutions micro finances have favorable DPR and EPS. And more investors like to buy the share of micro finances.

2. LITERATURE REVIEW

Literature review section represents the short review of literature on effects of Dividend Payout Ratio and Earnings per Share on Market Price per Share.

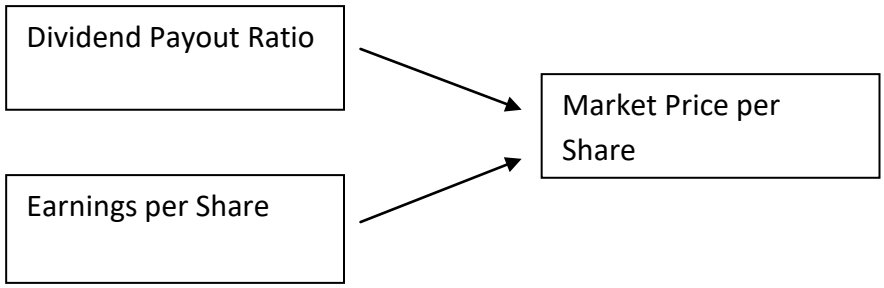
Dependent variable (market price per Share)

Market price per share is the cost of purchasing a security on exchange. In this study, Market price per Share (MPPS) is dependent variable because the value of MPPS is shown due to change in Dividend Payout Ratio and Earning per Share. MPPS are affected by so many factors like Dividend per Share, Dividend Pay Out, Earning per Share, Price earnings ratio, Liquidity position, profitability, growth rate, retained earnings ratio and so on. Among them Dividend payout Ratio and Earning per Share are taken as key variable that bring changes in MPPS.

Independent variables (Dividend payout Ratio and Earning per Share)

Dividend Payout Ratio (DPR) and Earning per Share (EPS) are independent variables. DPR and EPS leads to change in MPPS of Microfinance listed in NEPSE.

2.1 Theoretical Framework



The above structure consists of dependent and independent variables used in study. An effect of DPR and EPS on MPPS is examined in this study. The Theoretical Model is set below:

$Y = a + b1DPR + b2EPS + \dot{\varepsilon}$

Where,

Y measures the changes in of share market prices where the data are annual based.

DPR is the dividend payout ratio of Micro finances of Nepal from fiscal year 2071/72 to 2075/76.

EPS is the earning per Share of micro finances of Nepal from fiscal year 2071/72 to 2075/76

2.2 Empirical framework

Empirical framework consists of the research conducted by different researchers in order to know the effects of dividend payout ratio and earnings per share on market price share of any firms.

2.2.1 Empirical evidences on effect of Dividend Payout Ratio on Market Price per Share

Gautam (2017) in the study: Dividend policy and Share Price Volatility: A case of Nepalese Commercial Banks, using regression model concluded that dividend payout ratio is negatively related to stock price volatility.

Sharif, Ali and Ali Jan (2015): Effects of Dividend policy on Stock Prices; using pooled regression model and fixed and random effect tests, reveals that Dividend Payout Ratio has significant positive relationship with stock price.

2.2.2 Empirical evidences on effect of Earnings per Share on Market Price per Share

Bhattarai (2014) in a study "Determinants of share price of Nepalese Commercial Banks" by applying regression model revealed that earnings per share and market price per share has significant positive relationship. Earnings per share are one of the major influencing factors of market price per share.

The study conducted by Robbetze, Villiers and Harmse (2017): The effects of Earnings per Share Categories on Share Price Behavior; using correlation tool shows that earnings per share and market price per share are positively correlated.

Velankar (2016) on a study "Impact of Earnings per Share and Dividend Payout Ratio on Stock price: A study on selected public Sector Banks of India; by applying regression model examined that Earning per Share has significant impact on market price per share.

3. RESEARCH DATA AND METHODOLOGY

3.1 Research Design

For this study, both descriptive and analytical methods of analysis are used. The variables of the study are Market Price per Share, Dividend Payout Ratio and Earning per Share. Market Price per Share is response variable and Dividend Payout Ratio and Earning per Share are explanatory variable.

3.2 Nature and Sources of Data

The nature of data is secondary. Time series data are collected from several sources. Data of seven Micro finances for the fiscal year 2071/72 to 2075/76 are collected from annual reports, websites of micro finances and share sansar.

3.3 Methodology

3.3.1 Descriptive Statistics

The major purpose of descriptive statistics is to outline the information about variables used in study and also to trace the probable relationships between those variables. Descriptive statistics is used to measure data quantitatively. Large amount of data can be simplified in understanding

form which makes researcher easier for further analysis. In order to narrate and inspect the data set mean, median, standard deviation; kurtosis and skewness, smallest and greatest values of variables are used.

3.3.2 Correlation Analysis

Correlation is one of the econometric tools that are used to measure the relationship between variables (dependent and independent). If changes in one variable lead to changes in value of another variable, then they are correlated with each other and this relationship is called correlation. According to A.M Tuttle "correlation is an analysis of the co variation between two or more variables." Correlation is used to test the consistency between data and variables. It also helps in assemble the variables so that data interpretation becomes easier.

Correlation coefficient shows the result of correlation which is denoted as r and ranges from -1 to +1. There are three cases found in measurement of correlation i.e. Positive Correlation, negative correlation and no correlation. When there is positive correlation between two variables then, the increase in one variable lead to increase in another variable and vice-versa. When there is negative correlation between two variables then increase in one variable leads to decrease in another variable and vice-versa. Correlation is 0; it means there remains no-correlation

3.3.3. Regression Analysis

Regression analysis is a strong statistical tool that is used to scrutinize the relationship between two or more variables. The main purpose of regression is to foresee the results based on historical data. It establishes the linear equation that best foresee the values of dependent variable by using more than one independent variable from a large group of independent variables.

4. ANALYSIS AND INTERPRETATION

4.1 **Table 1:**

	MPPS	C	DPR	EPS
Mean	1245.029	1.000000	33.01969	45.17029
Median	1160.000	1.000000	26.32000	45.01000
Maximum	3300.000	1.000000	80.71000	101.4600
Minimum	375.0000	1.000000	12.63000	13.92000
Std. Dev.	661.8464	0.000000	15.73046	20.80723
Skewness	1.140627	NA	0.980826	0.499766
Kurtosis	4.131094	NA	3.586205	2.931391
Jarque-Bera	9.455097	NA	6.112918	1.463836
Probability	0.008848	NA	0.047054	0.480986
Sum	43576.00	35.00000	1155.689	1580.960
Sum Sq. Dev.	14893383	0.000000	8413.213	14719.99
Observations	35	35	35	35

Descriptive statistics for all three variables are represented on the above table 1; it can be seen that skewness values of market price per share, dividend payout ratio and earnings per share are closed to 0. Similarly, kurtosis a value of respective variables is 3 which means distribution is normal. The Jarque Bera measures the difference between kurtosis and skewness. Kurtosis is 3 and skewness is near 0, p-value <0.05, null hypothesis is reject. it shows that the distribution is normal.

4.2 Table 2: Correlation Analysis

	MPPS	C	DPR	EPS
MPPS	1.000000	NA	0.434934	0.429783
C	NA	NA	NA	NA
DPR	0.434934	NA	1.000000	0.705924
EPS	0.429783	NA	0.705924	1.000000

From the table: 2, the correlation between MPPS and DPR is positive. So, increase in the value of dividend payout ratio of any micro finance will

increase the market price per share. Similarly there is also a positive relationship between MPPS and EPS. So increase in value of EPS of any micro finance will simultaneously increase the market price per share.

4.3 Table 3: Regression analysis

Dependent Variable: MPPS				
Method: Least Squares				
Date: 06/04/20 Time: 00:55				
Sample: 1 35				
Included observations: 35				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	529.1889	259.9874	2.035440	0.0502
DPR	11.03199	9.278968	1.188925	0.2432
EPS	7.783142	7.014988	1.109502	0.2755
R-squared	0.219204	Mean dependent var		1245.029
Adjusted R-squared	0.170404	S.D. dependent var		661.8464
S.E. of regression	602.8240	Akaike info criterion		15.72294
Sum squared resid	11628697	Schwarz criterion		15.85626
Log likelihood	-272.1515	Hannan-Quinn criter.		15.76896
F-statistic	4.491902	Durbin-Watson stat		1.657486
Prob(F-statistic)	0.019081			

From table it is found that the probability value (P-Value) of dividend payout ratio and earning s per share is greater than 0.05 so null hypotheses is rejected. It means there is insignificant relationship of dividend payout ratio and earnings per share with market price per share. The coefficient of determination (R-squared) is 0.219204, it means 21.92 % of MPPS (dependent variable) is explained by DPR and EPS and remaining 78.08 % of MPPS is explained by other factors but not DPR and EPS. Adjusted R squared is 0.170404, it means 17.0404 % of MPPS is Explained by DPR and EPS and remaining percentage of MPPS is effected by other variables. For a good regression model, Durbin-Watson value must be 2 whereas, this model has 1.65, it means there is insignificant relationship between dependent and independent variables.

5. CONCLUSION

On this paper "The effects of Dividend Payout Ratio and earnings per Share on Market Price per Share: a study on Micro Finances of Nepal", it is found that two factors i.e. dividend payout ratio and earnings per share have insignificant impact on market price per share of Nepalese micro finances of Nepal. This paper examined two statistical model i.e. correlation analysis and regression analysis. And result of both tests is found to be insignificant which means dividend payout ratio and earnings per share do not affect on market price per share. Thus, investors should also analyze other factors to get better decision for investment.

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