INFLUENCE OF DIVIDEND PAYOUT RATIO ON STOCK PRICES OF LISTED FIRMS IN NIGERIA

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Abstract

Today's businesses' dividend policy is a micro-prudential driver of organizational success since it increases shareholder profit and wealth maximization. The goal of this study is to consider how dividend payout influences the share prices of mentioned firms on the Nigerian Stock Exchange (NSE) from 2014 to 2020, with a sample of fifteen (15) companies. The secondary data acquired for this study were analyzed using the panel least square estimate approach and Hausman's test. The econometric model regressed the dependent variable on the explanatory variables. According to this study, the dividend has a negative and inconsequential relationship.

Keywords*: Dividend, payout ratio, share prices, influence*

1. INTRODUCTION

Debate on dividend payments in corporate finance has raged for decades, with academics and professionals arguing over their importance. There's a puzzle-like quality to the dividend choice when we look at it more holistically (Alfred, Vincent & Jessie, 2019). The "Puzzle" remains a prominent and complex issue in current finance literature, whether it is seen as a feature of a company's stock or a policy (Alfred, Vincent & Jessie, 2019).

Differences in dividend policy between developed and developing countries may be seen across the board (Miller & Shah, 1995). As a result, Miller and Shah concluded that developing markets only account for two-thirds of the developed market dividend payment, reiterating that a firm's dividend choice is critical to its financial structure and stock price. In addition, the amount of taxes that investors pay may be determined by this choice. There are also several theoretical models established by scholars and researchers that describe the variables that managers should take into account when making dividend policy choices (Huda & Farah, 2011). The dividend policy choice of today's organizations is a micro prudential driver of organizational success since it enhances the shareholder's profit and wealth maximization (Akani & Sweneme, 2016). The determination of the proportion of a company's earnings to be distributed to equity holders as recompense for capital invested and as a tool for those shareholders to regulate managerial opportunism is one of the strategic financial management decisions (Akani & Sweneme, 2016). While it is vital that corporations pay close attention to the financing of dividends, investors are also concerned about the amount of earnings preserved by businesses for future investment, not just the dividend payment itself (Akinkoye & Akinadewo, 2018). Continuous attention has been paid to strategic financial management and the relevance of a company's investment and retention strategies as strategic tools for successful and efficient management. Investors put their money into firms in the hopes of earning a return on it, whether it's in the form of a dividend, a bonus, or a capital gain through stock trading. The investor expects a high rate of return on their stock investment, which necessitates, on the part of management, the application of sufficient technical and managerial expertise, the adoption of a risky

investment strategy, and the efficient management of available resources in order to generate future cash flow (Akinkoye & Akinadewo, 2018).

It is important for future and present investors to consider the amount of earnings distributed to stock holders as dividends and the amount of capital available for reinvestment when assessing the company's fundamentals. Because investors place a lot of weight on the company's reported profits, they tend to pay more attention to the company's retained earnings as a financial asset as well (Akinkoye & Akinadewo, 2018). It has always been the goal of the equity investor to see how well the companies can create future cash flows and increase shareholder value. A corporation's ability to earn a significant return on its investment depends on how much of its profits are distributed to shareholders and how much is reinvested, and so, the worries of knowledgeable investors have focused on how a company uses its retained cash. So in today's business environment, investors put a great deal of emphasis on the function retained profits play in anticipating future cash flows since retained earnings acts as a predictor of future cash flows. Furthermore, the quantity of retained profits has become a crucial concern to investors and other stakeholders since it is another method to evaluate management's ability to accomplish the goal of increasing the market value of the businesses (Akinkoye & Akinadewo, 2018).

The dividend policy irrelevance thesis asserts that dividends have no impact on a corporation's value, based on Miller and Modigliani's (M&M) hypothesis from 1958. Many of these analysts claimed that any effect on unaffected company value was due to information convergence caused by dividend changes, rather than a true impact on firm value. When it comes to a stock's price or cost of capital, dividend policy has no bearing, demonstrating that dividend policy has no bearing on the value of a company's earnings, but rather on how those earnings are split between dividends and retained profits, as Miller and Modigliani demonstrate (1958). (Ologunwa, Simon-Oke, & Simon-Oke, 2016). Academics and financial professionals, on the other hand, have slammed their proposal. To put it another way, M&M's ideal capital market assumptions pave the path for alternate dividend relevance theories to emerge.

Furthermore, there has been an unsolved issue about the significance and/or irrelevance of dividends in determining business performance and value. The need to determine the influence of dividend payout on the

share prices of listed firms in Nigeria across different industries, as well as the importance of retained profits on the issue, prompted this study.

2. LITERATURE REVIEW

Alfred, Vincent, and Jessie (2019) evaluated the impact of dividend payment policy on the costs of stock, mistreatment empirical proof from African country. The study checked out panel information from 2011 to 2015, a five-year amount. Dividend yield (DY) includes a marginally negative impact on value per share (MPS), whereas dividend payout (DPO) includes important positive impact on MPS, earnings per share (EPS) includes important positive impact on MPS, and web plus per share (NAPS) includes a marginally positive impact on MPS, in line with the findings. The study concludes that dividend policy will influence stock costs within the Nigerian stock market's commodity sector, demonstrating that the notion of dividend irrelevance doesn't apply in African country.

The influence of dividend policy on the share costs of 10 Nigerian in public listed businesses was researched by Ohiaeri, Ogunmeru, and Akinbowale (2019). In keeping with the analysis, there was a reciprocally important association between dividend yields, earnings per share, dividend per share, profit when tax, retention rate, and market share costs.

Between 2010 and 2016, Marcel, Okeke, and Maria-Gorretti (2018) evaluated the impact of dividend policy on the performance of elite quoted enterprises in Federal Republic of Nigeria. The findings discovered that in the study amount, the dividend payout quantitative relation (DPR) and maintained earnings (RE) had a positive and important impact on come on investment (ROI) among the tested enterprises.

Ebire, Mukhtar, and Onmonya (2018) studied the impact of dividend policy on the performance of Nigerian listed oil and gas businesses from 2007 to 2016. Dividend payment quantitative relation and maintained earnings have a positive influence on earnings per share of listed oil and gas corporations in Federal Republic of Nigeria, in keeping with the info, but dividend yield features a huge however negative impact.

Zayol, Mya, and Muolozie (2017) checked out the factors that influenced fossil oil companies' dividend policies in Federal Republic of Nigeria. Secondary knowledge was examined mistreatment correlations and

multivariate analysis. In keeping with the conclusions of the study, business size, liquidity, and leverage had lowest impact on Nigerian fossil oil companies' dividend policies, however profitableness did. profitableness is one in every of the foremost necessary predictors of dividend policy by listed fossil oil corporations in Federal Republic of Nigeria, in keeping with the analysis.

The impact of dividend policy on stockholder wealth and business performance in Asian nation was researched by Farrukh, Irshad, Khakwani, Ishaque, and Ansari (2017). In keeping with the regression results, dividend policy, as measured by dividend per share and dividend yield, features an important helpful impact on shareholders' wealth and business performance. This study supported the dividend connection theory, the signal impact theory, and the bird in hand theory, and therefore the clientele-effect hypothesis. In an exceedingly world of unpredictability and data spatial property, dividends square measure valued otherwise than maintained earnings, in keeping with Al-Malkawi (2007). (Capital gains). In his argument, Adefila, Oladipo, and Adeoti (2011) steered that a company that pays an even bigger dividend would be valued above one that pays a lesser dividend. As a result, investors can usually like dividends to maintained earnings thanks to the unpredictability of future income. Despite the very fact that this idea has been wide debated and lacks sensible empirical support, the fundamental assumptions square measure that investors square measure taxed at the next rate than once a financial gain is accomplished on the sale of a share which dividends function a symbol of expected money flows despite the very fact that paying dividends features a tax disadvantage, management continues to try to therefore.

3. METHODOLOGY

An ex-post factor research design is used in this study. This design is adopted because the study is an investigation of a fact that has already occurred without interference from the researcher. The population consists of 160 quoted companies still in active status as at the time of this research (Nigerian Stock Exchange, 2020). While a total of fifteen (15) quoted companies was sampled based their leadership in their respective industries. The sampling technique employed is a judgmental sampling technique. The total sample size used as observation is a total of 105 (One-hundred and five), arrived at by selecting fifteen (15) companies across seven (7) years i.e. 2014-2020. The samples were selected across eight sectors which are financial services,

health services, technology, consumer services, consumer goods, basic materials, industrials and oil & gas sectors based on their dividend paying records.

3.1 Model Specification

The model embraced for this research is an extension to the model used by Alfred, Vincent and Jessie (2019) in their study stated as:

Market price per share$_{it}$ = β_0 + β_1Dividend per share$_{it}$ + β_2Earning per share$_{it}$+ β_3Dividend yield$_{it}$ +μ

However, for more robust and comprehensive research, other related variables like retention ratio and return on investment were included to the econometric model stated as follows:

$$SPP_{it}=\beta_0+\beta_1\sum DPR_{it}+\beta_2\sum EPS_{it}+\beta_3\sum DY_{it}+\beta_4\sum RR_{it}+\beta_5\sum ROI_{it}+e_{it} \quad (1)$$

Where;

β_0; the equation intercept or Constant

β_{1-5}: regression slope/coefficient

Dependent Variable: Market price per share (SPP)

Explanatory Variable: Dividend pay-out ratio (DPR), earning per share (EPS), dividend yield (DY), retention ratio (RR), and return on investment (ROI).

e_{it}: Error Term/Stochastic Variable

i: Selected quoted companies in Nigeria.

t: Time dimension of the variables

$\sum$: Summation sign. This will be added to each of the variables because they are measurements that cut across various companies and sectors.

3.2 Description of Research Variables

Market Price per Share (SP): According to Walter (1980), the market value of a company is used to classify it as mature, growing, or decreasing. Gordon's 1963 growth model was used to calculate market price per share.

Dividend pay-out ratio (DPR): The dividend pay-out magnitude relation is that the magnitude relation of a corporation's dividend per share to its earnings per share.

Earnings per share (EPS): To calculate earnings per share, the whole profit accessible to standard shareholders is split by the amount of shares outstanding.

Dividend Yield: Dividend yield is that the magnitude relation of a company's future dividend to its current value per share.

Retention Rate: the proportion of earnings per share that's not delivered to shareholders is understood because the retention magnitude relation.

Return on Investment: total asset is used to divide net profit after tax.

3.3Estimation Procedure

The technique of panel least square multiple regression was utilized to analyse data. Hausman's fixed and random effect test was examined for consistency in arriving at a reasonable and robust conclusion. Descriptive statistics was used to make reasonable deduction from the sample size tested in the research.

4. RESULTS

Table 4.1: Descriptive Statistics

	EPS	DPR	RR	DY	ROI	SPP
Mean	5.684190	0.379048	0.621048	8.744571	0.073238	2.700000
Median	1.370000	0.380000	0.630000	0.220000	0.050000	0.470000
Maximum	62.06000	1.420000	3.500000	110.3100	0.540000	30.73000
Minimum	-34.87000	-2.500000	-0.420000	-10.99000	-1.020000	-0.360000
Std. Dev.	12.99889	0.474805	0.474805	21.34124	0.181894	4.839573
Skewness	2.388171	-2.181059	2.180443	3.012452	-1.911930	2.832257
Kurtosis	11.00540	14.90407	14.90221	12.01650	15.21416	13.27845
Jarque-Bera	380.1870	703.2157	702.9750	514.4859	716.6579	602.5829
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

Observations	105	105	105	105	105	105

Source: Econometric views (E-views)

According to Table 4.1, the dependent variable market share price (SPP) has an average value of N2.70, a standard deviation of N4.84 and a median value of N0.47. N30.73 and (N0.36) are the maximum and minimum values, respectively.

The retention ratio (RR) can be as high as 3.5 percent and as low as 0.5 percent (0.42 percent). The retention rate (RR) has a mean, median, and standard deviation of 0.621048 percent, 0.63 percent, and 0.474805 percent, respectively. The Jarque-Bera statistic of 702.9750 with a p-value of 0.00000 finds outliers and validates the data's non-normality.

For the time, the average return on investment (ROI) was 0.073238 percent, with a standard deviation of 0.181894 percent. For the time period under consideration, the greatest and lowest values are 0.54 percent and (1.02), respectively. The Jarque-Bera statistic value of 716.6579 with a p-value of 0.00000 confirms the data's non-normality and outlier presence.

The average (EPS) was N5.68, with a standard deviation of N13.00. The highest and lowest values for the time period under consideration are 62.06 and (N34.87), respectively. With a p-value of 0.00000, the 380.1870 Jarque-Bera statistic confirms the data's non-normality while also indicating the presence of outliers.

The average dividend yield (DY) at the time was N8.74, with a median of ₦0.22 and a standard deviation of N21.34. For the time period under consideration, the greatest and lowest values are ₦110.31 and (₦10.99), respectively. The Jarque-Bera statistic of 514.4859 with a p-value of 0.0000 validates the data's non-normality and also reveals the existence of outliers.

Furthermore, during the time period under consideration, the average dividend pay-out ratio (DPR) was 0.379048 percent, with a standard deviation of 0.474805 percent. For the time, the greatest and lowest numbers were 1.42 percent and (2.5 percent), respectively. The Jarque-Bera statistic of 703.2157 with a p-value of 0.000000 indicates that the data is non-normal since the p-value is less than 0.05, indicating the existence of outliers.

All variables were found to be positively skewed in terms of skewness, with the exception of return on investment and dividend payout ratio, which were adversely skewed away from the normal distribution point.

4.1 Panel Least Square Regression Result

Table 4.2: FIXED-HAUSMAN TEST

Explained Variable: SPP				
variable	Coefficient	Std. Error	t-Statistic	Prob.
C	226.5792	434.5561	0.521404	0.6035
RR	-222.3756	434.628	-0.511646	0.6103
ROI	0.981908	3.683032	0.266603	0,7905
EPS	-0.028873	0.052912	-0.545673	0.5868
DY	-0.007876	0.041165	-0.19132	0.8488
DPR	-225.8616	434.6097	-0.519688	0.6047
Effects Specification				
Cross-section fixed (dummy variables)				
Period fixed (dummy variables)				
R-squared	0.647128		Mean dependent var	2.70000
Adjusted R-squared	0.535460		S.D. dependent var	4.839573
S.E. of regression	3.298515		Akaike info criterion	5.435548
Sum of squared resid	859.5361		Schwarz criterion	6.092719
Log likelihood	-259.3663		Hannan-Quinn criter.	5.701846
F-statistic	5.795098		Durbin-Watson stat	1.582738
Prob(F-statistic)	0.000000			

Source: Econometric views (E-views) output

The F-statistic is used to determine if the independent factors have a combined effect on the dependent variable. It proves or disproves the following hypothesis:

H0: 1 = 0; 2 = 0; 3 = 0; 4 = 0; 5 = 0 (There is no effect on the joint)

Decision rule: If the prob(F-statistic) is a smaller amount than the importance level of 0.05, reject the null hypothesis that everyone parameters are adequate zero.

4.3 Discussion of Findings

Because the prob(F-statistic) from the result's 0.00000, the null hypothesis that each one parameters are adequate zero is rejected. This implies that each one of the factors have a giant impact on one another. The R-squared constant of determination indicates however well the independent variables make a case for the variation within the variable quantity (SPP). The R^2 is zero.647128 as a results of this. This implies that changes within the informative variables of retention rate, come on investment, earnings per share, dividend yield, and dividend payout magnitude relation account for concerning sixty five % of the variation within the market share value (SP). Once all alternative variables are control constant, the intercept worth of 226.5792 indicates that market share value can increase by 226.5792.

The retention magnitude relation (RR) and market share value (SPP) have a negative relationship supported their constant of correlation (222.3756). As a result of the p-value of zero.6103 is larger than the brink of significance of zero.05, the association is statistically insignificant. The association between come on investment (ROI) and market share value (SPP) was found to be positive with a constant of 0.981908, indicating a positive relationship. The link is statistically insignificant with a p-value of 0.7905 that is larger than the 0.05 level of significance.

The correlation between earnings per share (EPS) and market share value (SPP) was found to be negative, with a constant of (0.028873). It absolutely was conjointly shown to be statistically insignificant, with a p-value of 0.5868, which is larger than the importance threshold of 0.05. With a constant of zero, the connection between dividend yield (DY) and market share value (SPP) was shown to be negative (0.007876). As a result of the p-value of zero.8488 was larger than the amount of significance, the affiliation was deemed statistically insignificant. Finally, with a constant of -225.8616, the connection between dividend payout magnitude relation (DPR) and market share value (SPP) was shown to be negative. The degree of significance was larger than five-hitter, as indicated by the p-value of zero.6047.

5. CONCLUSIONS

Based on the results of the panel least square regression of the hausman test, it can be inferred that there is a negative insignificant link between retention rate and market share prices of quoted companies on the Nigerian Stock Exchange during the period under consideration, 2014 to 2020. There is a negative insignificant link between dividend yield and market share prices of specified companies on the Nigerian Stock Exchange for the period under consideration, 2014 to 2020. For the period under consideration, 2014 to 2020, there is a negative negligible link between dividend payment ratio and market share prices of stated companies on the Nigerian Stock Exchange. There is negative insignificant relationship between earnings per share and market share prices of quoted companies on the Nigerian Stock Exchange for the period under review i.e. 2014 to 2020. A joint impact exists between the dependent variable (proxied by the market share price) and the explanatory variables of earning per share, dividend yield, return on investment, dividend payout ratio, and retention rate. However, positive insignificant relationship was observed between return on investment and market share prices of quoted companies on the Nigerian Stock Exchange for the period under review i.e. 2014 to 2020.

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