IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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August, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled **"IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used has cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Mr. Ujjwal Prasad Dhungana has defended the research proposal entitled **"IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL"** successfully. The research committee has registered the dissertation for further progress. It has recommended carrying out the work as per suggestions and guidance of supervisor Sita Dhital and submitting the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled **"IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL"** presented by Ujjwal Prasad Dhungana for the Degree of Master in Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of a degree.

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ACKNOWLEDGEMENTS

This research study on **"IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL"** has been prepared as the partial fulfilment of Master of Business Studies (MBS). The interest in the study arose from the group discussing with my colleagues by realizing that not many studies have been conducted in this sector in Nepal.

First of all, I would like to express my heartiest gratitude and sincere thanks to my thesis supervisor Sita Dhital and Chairman of Research Committee Asso. Prof. Dr. Sajeeb Kumar Shrestha, Shanker Dev Campus, who encouraged me from initial to completion of this task with their scholarly guidance and profound comment and suggestions.

I would also like to express my gratitude to Campus Chief Asso. Prof. Krishna Prasad Acharya and all other respected teachers of Shanker Dev Campus and from MBS department, Research department, and library staff that directly and indirectly supported and inspired me to complete this thesis. I am also thankful to my friends who always helped and motivated to complete this dissertation.

Lastly, my heartiest thank goes to my family members and college staffs along with classmates who have supported me by providing consistent help and encouragement.

Ujjwal Prasad Dhungana

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ABBREVIATIONS

&	:	And
ALICL	:	Asian Life Insurance Company Limited
ALICOL	:	MetLife-American Life Insuance Company Limited
ANOVA	:	Analysis of Variance
CLICL	:	Citizen Life Insurance Company Limited
CV	:	Coefficient of Variation
DPR	:	Divident Peyout Ratio
DPS	:	Divident Per Share
EPS	:	Earning Per Share
et al.	:	And others
F.Y.	:	Fiscal Years
GLICL	:	Gurans Life Insurance Company Limited
IMELICL	:	IME Life Insurance Company Limited
JLICL	:	Jyoti Life Insurance Company Limited
LICN	:	Life Insurance Corporation Nepal Limited
MLICL	:	Mahalaxmi Life Insurance Company Limited
MPS	:	Market Price Per Share
N	:	Total Number of Observation
NLIC	:	Nepal Life Insuracnce Company Limited
NLICL	:	National Life Insurance Company Limited
P/E	:	Price Earnings
SD	:	Standard Deviation

ABSTRACT

This study aims to analyze the impact of dividend policy on the stock price of Life insurance companies in Nepal. The study investigates the connections between different dividend policy indicators and stock prices using secondary data from ten insurance companies spanning an eight-year period, from 2014/15 to 2022/23. Market price per share (MPS) and important financial indicators, such as earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR), and price-to-earnings (P/E) ratio, are found to positively correlate, according to the investigation. For these associations, statistical significance is reported at the 0.05 level. The analysis of the dividend policy components shows that the regression model has a moderate explanatory power, as it accounts for 25.90% of the variance in MPS. The results indicate that while DPR has no discernible effect, MPS is greatly impacted by DPS, P/E Ratio, and EPS. The model's fit is validated by the ANOVA results, supporting the conclusions' validity. The study also found the significance of earnings and valuation indicators in influencing stock prices and directing dividend policy decisions, offering insightful information to insurance company owners, managers, and directors.

Keywords: Dividend Policy, Dividend Payout Ratio, Dividend Per Share, Earnings Per Share, P/E Ratio.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Dividend policy holds significant importance not only for the company but also for shareholders, consumers, employees, regulatory authorities, and the government. It is a central policy that influences other financial decisions within a company. The value of corporate securities is heavily influenced by dividends, making it a crucial factor when determining the company's financial structure (Josh, 2023). Dividends refer to payments made by corporations to their shareholders, representing a portion of corporate profits distributed to stockholders. When a corporation generates a profit or surplus, it can either reinvest the funds into the business, known as retained earnings, or distribute them to shareholders as dividends. Most corporations opt to retain part of their earnings while distributing the rest as dividends (Maskey, 2022).

Typically, dividend payments are not considered an expense for the firm but rather a distribution of profits to shareholders based on the proportion of their shareholding. According to Miller and Modigliani (1961), assuming a firm's investment policy is optimal, the choice of dividend policy does not affect shareholders' wealth. In contrast, Gordon (1963) argues that dividend policy influences a firm's value and the market price of its shares. He suggests that shareholders prefer to resolve uncertainty sooner and are willing to pay more for shares with a higher dividend payout ratio. The author agrees that investors tend to favor receiving current income as dividends over potential capital gains. In Nepal, only a few companies consistently pay dividends, while many others do not offer a stable dividend.

Dividends on shares are a key indicator of a bank's performance, which in turn attracts investors. Before investing in the stock market, investors often evaluate a bank's dividend policy. However, due to the inconsistent dividend policies of commercial banks in Nepal, investors find it difficult to predict future cash flows from dividends (Bhandari & Pokharel, 2012). It is observed that companies that consistently increase their dividends generally see a rise in their stock prices, while those that reduce or fail to pay dividends tend to experience a decline in stock prices. This suggests that dividends influence a company's stock price, but some researchers argue that it is the information about dividend payments that actually

impacts stock prices. Essentially, dividends serve as a clear signal of management's assessment of the firm's current performance and future prospects.

Dividends are a primary reason why the public is interested in investing in the shares of banks or other institutions. They represent a portion of a company's earnings distributed to shareholders as a return on their investment in the shares. Generally, a profitable business can afford to pay dividends. The amount distributed should meet shareholders' typical expectations. Dividends can be distributed in cash, shares, securities, or a combination of these forms. There is a reciprocal relationship between retained earnings and cash dividends, meaning that paying out cash dividends reduces the total amount of internal financing available. This section addresses three key issues: how firms determine the amount to pay in dividends, how those dividends are distributed to stockholders, and the two widely used measures of dividend payments—the dividend payout ratio and the dividend yield (Baral & Pradhan, 2019).In the context of Nepal, most public enterprises are operating at a loss. In such a situation, it is not possible to distribute dividends. Such enterprises mainly focus on minimizing their loss. Few companies pay dividends. But, after the establishment of joint venture companies, a new trend of distributing dividends to shareholders has brought new hopes for the productive mobilization of funds. The dividend distribution trend has not only attracted investors but has also made management conscious of the policy regarding the payment of dividends.

In Nepal, dividend policy has a direct impact on the stock prices of companies, particularly in the life insurance sector. Frequent dividend payments can create uncertainty for investors, leading to fluctuations in stock prices. Regular dividends from Nepalese life insurance companies may signal stability and profitability. According to signaling theory, declaring dividends suggests strong financial health and promising future prospects, which can boost stock values. Conversely, reducing or suspending dividends may indicate financial troubles, potentially leading to a decline in stock prices. Therefore, life insurance companies in Nepal should carefully assess their dividend policies to enhance investor confidence and strengthen their overall financial health.

1.2 Problem Statement

Business entities are created and run by owners with the goal of generating income that exceeds expenses, which is referred to as profit (Baral & Pradhan, 2022). The topic of dividends is a common issue in corporate finance, involving the distribution of this profit among a firm's shareholders (Pradhan, 1993).

The primary goal of financial management is to maximize shareholders' wealth while carefully balancing three crucial aspects: investment, financing, and dividend decisions (Bayisa, 2023). This study primarily concentrates on dividend decisions, which form the basis of dividend policies. In particular, it examines the payout policy that management employs to determine the amount and method of income distribution to shareholders (Khan & Jain, 1995).

Previous research has encouraged further investigation into the factors that influence share valuation and dividend decisions (Bayisa, 2023; Maskey, 2022; Murimi & Mungai, 2021). Earnings are often regarded as the primary source of a company's funding. By maintaining earnings, a business can expand its operations, reduce its debt ratio, and increase profits in the following year. Conversely, if a company opts to pay dividends, it may need to raise funds through the stock market, which could impact shareholder control. In this scenario, the company might incur debt or take out loans, thereby affecting its risk profile (Bhandari & Pokharel, 2012). Nonetheless, dividends are a significant attraction for investors, as they reflect the organization's strong market position. Although Nepal's capital market is still in its early development stages, investors continue to invest in startups without fully understanding their outlooks.

This research aims to examine the dividend policy in the banking sector of less developed countries like Nepal, where previous literature offers limited evidence. The study explores the impact of dividend payments on the market value of shares by testing the MM irrelevance theory and Lintner’s Dividend Adjustment Model (Bista, 2062). Additionally, the research seeks to identify the factors that determine dividend payments in Nepalese banking firms and to understand managers' perspectives and attitudes regarding the considerations involved in developing a dividend policy.

This study aims to fill the gap by conducting an empirical analysis of the factors influencing dividend payments of Nepalese banks listed on the Nepal Stock Exchange (NPSE). It is expected to help identify the determinants of dividend payouts in these banks, offering valuable insights for bank management, investors, policymakers, and other stakeholders. This understanding will aid in making informed decisions about dividend payouts. Accordingly, the study raises the following research questions:

1 What is the pattern of dividend policy and Market price per share of Life insurance Companies in Nepal?
2 Is the relationship between dividend policy and market price of Life insurance companies in Nepal?
3 Do the effect of dividend policy (i.e EPS, DPS, DPR & P/E ratio) on stock price of Life insurance companies in Nepal?

1.3 Objectives of the study

The primary goal of this study is to assess the impact of dividend policy on the stock prices of life insurance companies in Nepal. The research aims to analyze how dividend policy influences market share prices, focusing on variables such as retained earnings per share, dividend per share, lag price-earnings ratio, and lag market price per share. The specific objectives are:

4 To assess the pattern of dividend policy and market price per share of life insurance companies in Nepal.
5 To examine the relationship between dividend policy and the market price of life insurance companies in Nepal.
6 To analyze the effect of dividend policy (including EPS, DPS, DPR, and P/E ratio) on the stock prices of life insurance companies in Nepal.

1.4 Research Hypothesis

A hypothesis is a statement that suggests a presumed relationship among different variables, which can be tested using various statistical methods. Based on the study's objectives, the following hypotheses were formulated for testing:

H1: Dividend per share has a significant impact on market price per share.

H2: Earnings per share significantly affect market price per share.

H3: The dividend payout ratio has a significant effect on market price per share.

1.5 Rationale of the Study

The decision regarding dividend policy remains a contentious issue in the corporate world, with no single dividend theory universally applicable to all companies. There is still no universally accepted answer to the question, "Why do dividends matter?" Therefore, the study of dividend policy is highly relevant to investors, corporate management, economists, and academics.

Given the critical importance of dividend policy, corporate firms should adopt an appropriate dividend strategy. The practice of a well-considered dividend policy plays a crucial role in maximizing shareholder value. Dividend policy is regarded as one of the key variables influencing share prices, and it affects the investment choices of potential investors. Investors typically prefer to invest their savings in stocks that are expected to deliver the promised dividend rates outlined in the prospectus when the shares were initially offered in the primary market. If corporate firms fail to meet shareholder expectations by not implementing an optimal dividend policy, the share price may not rise as anticipated. This could hinder the growth of the corporate firm by making it more challenging to raise additional capital through new share issues or rights issues, thereby slowing down stock market growth. Although recent studies have examined the Nepalese stock market and dividend policies, there is still a gap in financial literature concerning dividend policy and practices within the Nepalese corporate sector.

Research conducted in different countries and industries often yields varying conclusions due to differences in rules, regulations, tax systems, and financial market frameworks. These fundamental differences underscore the importance of investigating the dividend policy of life insurance companies in Nepal to contribute valuable knowledge on the subject.

1.6 Limitations of the Study

The primary limitation of this study lies in its reliance on secondary data, which is inherently associated with issues of accuracy and completeness. The strength of the findings may be weakened by discrepancies and inconsistencies in the data, which are drawn from various financial statements, annual reports, and publications. Additionally, the study's analysis is confined to a five-year period from FY 2014/15 to FY 2022/23, which may not fully capture the impact of economic, regulatory, and institutional changes over a longer timeframe,

limiting the ability to observe long-term trends. Moreover, the study is exclusively focused on life insurance companies in Nepal. Therefore, caution is advised when interpreting the results and applying them beyond the specific context.

CHAPTER II
REVIEW OF LITERATURE

2.1 Conceptual Review

The topic of dividend policy holds significant importance for management, investors, and legislators. Investors regard dividends not only as a source of income but also as an indicator for selecting businesses to invest in, making it a critical issue. The primary goal of modern corporate finance is to establish a sound dividend policy that attracts investors and enhances the firm's market value. Financial managers aim to maximize shareholder wealth, and dividend policy plays a key role in this endeavor. A firm can maximize its shareholders' wealth by implementing an appropriate dividend policy.

Regarding the impact of dividends on a company's value, Miller and Modigliani (1961) proposed the irrelevance theory, which suggests that dividends do not affect shareholders' wealth because they have minimal impact on the company's share price. They concluded that a firm's value is determined by its asset investment strategy rather than its dividend policy.
The stock exchange market facilitates the conversion of savings into investments by enabling the buying and selling of shares and securities issued by various corporations. These markets are crucial for the development and mobilization of capital, supporting the growth of trade, industry, the service sector, and commerce, all of which contribute to national economic growth. As such, the stock market is often referred to as the economy's mirror (Ghimire & Mishra, 2018). According to Arnold (2004), stock markets serve as pools for long-term capital generation for both the government and industry, allowing investors to buy and sell assets. These investments are expected to fund the company's operations or be directed toward profitable ventures, ultimately providing a return on investment to investors.

The supply and demand of shares in the secondary market influence stock prices, along with other factors that impact individual investors' buying and selling behavior. Market characteristics significantly affect investment decisions (Riyazahmad & Saravanaraj, 2015). External factors such as the political and legal climate, events like wars or epidemics, and internal factors like financial ratios that reflect the company's performance can all influence purchasing and selling behavior (Mbabazize et al., 2016).

Dividends represent a portion of a business organization's earnings distributed to shareholders as a return on their investment. In other words, dividends are the reward for bearing the risk of uncertainty. Financial management's goal is not only to distribute dividends to shareholders and reinvest the remaining earnings but also to ensure the maximization of wealth. Shareholders typically expect higher dividends, while companies focus on setting aside funds for wealth maximization. Essentially, if paying dividends maximizes shareholders' wealth, the firm should do so; otherwise, retaining earnings for investment programs is preferable.

Therefore, the relationship between dividends and a firm's value should guide decision-making. Shareholders expect returns in the form of capital gains and cash dividends from purchasing common stock. Over time, they anticipate an increase in the market value of their shares. In some cases, shareholders also expect dividends from companies with stable and materialized images. This conceptual framework mainly covers the concepts that form the basis for the entire research. It is an analytical tool with various variations and contexts used to make conceptual distinctions and organize ideas.

2.1.1 Forms of Dividend

Depending on their objectives and policies, firms can offer various types of dividends to shareholders. Before adopting a dividend policy, firms must ensure smooth growth and meet shareholders' expectations. Companies can choose different methods and frequencies for paying dividends, such as annually, monthly, or quarterly. Consistency in dividend policy, financial plans, shareholder preferences, and directors' attitudes is crucial. Due to their early developmental stage, Nepalese corporations need to focus extensively on dividends. Empirical observations indicate that only a few public limited companies in Nepal pay dividends to the government due to regular losses and lack of ownership transfer risk (Bhattarai, 1996). Some major forms of dividends adopted by corporations include:

a) Cash Dividend:

A cash dividend is the portion of earnings paid to investors in cash, proportional to their share in the company. It is the most popular form of dividend payout, where the dividend is deposited into shareholders' bank accounts according to their holdings. The company's total assets and net worth decrease by the amount equal to the cash dividend after its payment. To maintain a stable dividend policy, the company must regularly perform cash planning and

ensure adequate cash balances. In Nepal, cash dividends are the most popular and widely adopted by many companies and financial institutions. However, the volume of cash dividends depends on the organization's earnings, management attitude, market conditions, and external financing costs.

b) Stock Dividend (Bonus Shares)

A stock dividend involves issuing additional shares to existing stockholders instead of or in addition to a cash dividend. This increases the number of outstanding shares without affecting the total net worth or shareholders' proportional ownership. The declaration of a stock dividend increases equity share capital and reduces reserves and retained earnings.

c) Stock Repurchases:

Stock repurchase refers to a company buying its shares from the secondary market, often viewed as an alternative to paying dividends. Repurchasing shares can increase earnings per share and, subsequently, the market price per share. Stock repurchases are considered tax-advantageous, as shareholders can be taxed at the capital gains rate rather than the ordinary dividend rate. However, Nepalese companies are prohibited from purchasing their own shares or providing loans against their shares.

d) Property Dividend:

Also known as liquidating dividends, property dividends involve distributing assets or property, other than cash, to shareholders. This form of dividend may be used when assets are no longer necessary for business operations or in extraordinary circumstances. The distributed assets are recorded at their current market price, which may result in profit or loss.

e) Script Dividend:

Scrip dividends are liability profits distributed as certificates instead of cash dividends. Shareholders can choose to receive profits at a later time or obtain additional shares. This practice is used when a company lacks sufficient cash to pay cash dividends but wants to maintain an uninterrupted dividend record. Scrip dividends are not yet practiced by Nepalese business organizations.

f) Share Buybacks (Reverse Stock Splits):

This policy involves reducing the number of outstanding shares, leading to an increase in the nominal value of the remaining shares. Share buybacks are intended to prevent stock prices from falling to low levels and are used to create shares with prices higher than those prevailing in the market. This policy has seen significant growth in the United States and Europe.

2.1.2 Major Policies of Dividend Payout

Major Policies of Dividend Payout Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also form of dividend, payment procedure etc. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow that accrues to stockholders. The third major decision of the firm is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earning retain in the firm and affect the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings are measured for ease of exposition; we use account net earnings but assume that these earnings can form true economic earnings. In practice, net earnings may not conform and may not be an stock dividend or bonus shares. Dividend policy according to the application could be categorized as following:

a) Stable Dividend Policy

A stable dividend policy involves the consistent payment of a fixed dividend amount over time, regardless of fluctuations in a company's earnings. This approach aims to provide regular and predictable income to shareholders, which can enhance the company's share price by attracting a loyal investor base and signaling positive future earnings. This policy is typically employed by firms with stable and predictable earnings. However, while the amount may remain consistent, it is subject to change if the company's earnings fluctuate significantly.

b) No Immediate Dividend Policy

Under the no immediate dividend policy, companies refrain from declaring dividends until they achieve significant profits. This approach is often used in the following scenarios:

- The firm is a new and rapidly growing concern that requires substantial funds to finance expansion.
- The company finds it difficult to access capital markets or faces costly external financing.
- Stockholders agree to forgo immediate dividends in exchange for higher returns in the future.
- This policy may be accompanied by the issuance of bonus shares instead of cash dividends, reflecting the reinvestment of earnings into the company.

c) Regular Stock Dividend Policy

A regular stock dividend policy involves consistently paying dividends in the form of additional shares rather than cash. This policy is often adopted when:

1. The company needs to conserve cash to finance modernization or expansion projects.
2. Despite high earnings, the firm lacks sufficient cash due to tied-up receivables.

This approach allows the company to retain cash while still rewarding shareholders with additional equity, potentially increasing their ownership stake.

d) Irregular Pay Dividend Policy

An irregular pay dividend policy does not involve a fixed dividend amount or schedule. Instead, dividends vary in line with the company's earnings. This policy is common among firms with unstable earnings or when the availability of investment opportunities fluctuates. In years of high earnings, the company may distribute more dividends, while in lean years, it may retain more earnings for reinvestment. This policy is particularly prevalent in Nepal, reflecting the country's economic conditions and business practices.

e) The Residual Theory of Dividend Policy

According to the residual theory, dividends are considered the leftover earnings after all investment opportunities have been funded. This approach views dividend payments as secondary to the company's investment needs. Only after fulfilling all acceptable investment opportunities, which typically require internally generated funds due to their lower cost

compared to external financing, will dividends be paid. Consequently, this policy is entirely passive, with dividends being a byproduct of the firm's investment decisions. As Van Horne (1981) suggests, "When we treat dividend policy as strictly a financing decision, the payment of cash dividend is a passive residual."

This theoretical framework underscores the importance of investment opportunities in determining a company's dividend policy, particularly in scenarios where internal funding is preferable to external financing due to lower costs or other strategic considerations.

2.2 Theoretical Review

This section reviews key empirical studies and theories related to dividend, earnings, and stock price behavior. The major studies are categorized into theories supporting dividend irrelevance and relevance.

2.2.1 Irrelevance of Dividend Theory

Modigliani and Miller's model (1961) has provided the foundation for much subsequent research on dividend policy. In favor of relevance of dividend policy many writers advocate that dividend policy does affect the value of a corporation. But Modigliani and Miller made a most comprehensive argument that dividend policy of a corporation is irrelevant since it has nothing to do with the wealth of the shareholders.

Given the investment decision of a corporation the dividend payout ratio has nothing to do with stock price. The value of corporation in a large measure is determined by the earning power on corporation's assets as its investment policy and the way how earnings stream is split between dividends and retained earnings without affecting value. The MM approach is based on the following critical assumptions:

1 There exists perfect capital market in which all investors behave rationally to the extent they have free access to information and there is complete absence of transaction costs, flotation costs, bankruptcy costs and management costs of decision etc. Securities are infinitely divisible, and no investor is large enough to affect the market price of a share.

2 Taxes do not exist or corporations in a world of no taxes so that there are no differences in tax rates applicable to capital gains and dividends. It implies that investors value a rupee of dividend as much as a rupee of capital gains.

3 There is an absence of floatation costs on securities issued by the corporations.

Every investor expects perfect certainty as to future investments and profits of a corporation. Risk or uncertainly does not exist.

Modigliani and Miller provided the proof in support of their argument in the following manner:

Step 1

In the beginning of a period the market price of a share of the firm is defined as equal to the present value of dividend paid at the end of the period plus present value of the market price at the end of the period.

Symbolically,

$P0 = D1 + P1/1+Ke$

Where,

P0 = Current market price per share

Ke = Cost of equity capital

D1 = Dividend per share to be received at the end of period.

P1 = Market price of the share at the end of the period.

Step 2

Multiplying both sides of equations (I) by the number of shares outstanding (n), we obtain the total value of the firm if no new financing exists:

$np_0 = n (D1 + P1)/1 + Ke$

Where,

n = Number of shares outstanding at the beginning period

Step 3

If the firm's internal sources of financing, to finance its investment opportunities, fall short of the funds required, and Δn is the number of new shares issued at the end of year 1 at price P1 then,

$np0 = nD1 + P1(n + \Delta nP1)/1 + Ke$

Step 4

If the investment proposals of a firm, in a given period of time, can be financed either by retained earnings or by the issuance of new shares or by both, the amount of new issue will be:

$\Delta nP1 = I - (E - nD1)$

or, $\Delta nP1 = I - E + nD1$

Where,

I = Total new investments to be financed during period.

E = Total earnings of the firm during the period.

$\Delta nP1$ = The amount obtained from the sale of new shares to finance investment opportunities.

$E - nD1$ = Retained earnings.

Step 5

By substituting the value of $\Delta nP1$ from equation (IV) to equation (III) we get,

$np0 = P1(n + \Delta n) - I + E/1 + Ke$

Since dividend does not seem directly in expression and E, I, $(n + \Delta n)$ P1 and Ke are assumed to be independent of dividend, MM concluded that dividend policy has no effect in the value of the firm. Furthermore, MM argued that the value of the firm is determined by the earning power of the firm's assets and the manner in which the earnings stream is split between dividends and retained earnings doesn't not affect this value.

Black and Scholes (1974) examined the relationship between dividend yield and stock returns in order to identify the effect of dividend policy on stock prices. They constructed 25 portfolios of common stocks listed on the New York Stock Exchange (NYSE), extending the capital asset pricing model (CAPM) to test the long run estimate of dividend yield effects. The study employed the following regression model:

$$E(Ri)=yo+[E(Rm)-yo]\ \beta i+y1(\sigma i-\sigma m)/\ \sigma m+\varepsilon i$$

Where,

E(Ri) is the expected return on portfolio i

E(Rm) is the expected return on the market portfolio,

γo is an intercept to be compared with short-term risk-free rate *R*,

βi is the systematic risk of portfolio i

γ1 is the impact of dividend policy,
δi is the dividend yield on portfolio *i*,
δm is the dividend yield on the market, and εi is the error term.

Black and Scholes (1974) used a long-term definition of dividend yield (previous year's dividends divided by the year-end share price). Their results showed that the dividend yield coefficient (γ1) is not significantly different from zero either for the entire period (1936-1966) or for any of shorter sub-periods. That is to say, the expected return either on high or low yield stocks is the same. Black and Scholes, therefore, concluded that, "we are unable to show that differences in yield lead to differences in stock prices". Stated another way, in their study neither high-yield nor low-yield payout policy of firms seemed to influence stock prices. Black and Scholes's conclusion lent important empirical support to M&M's dividend irrelevance argument. Other studies by leading financial economic researchers such as Miller and Scholes (1978,1982), Hess (1982), Miller (1986), and more recently, Bernstein (1996) provided evidence in support of the dividend irrelevance hypothesis.

2.2.2 Relevance of Dividends Theory

Gordon's (1962) developed another popular and important model relating to the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. The researcher explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainly.

It is assumed that current dividend is less risky than the expected capital gain. "This argument insisted that an increase in dividend payout ratio leads to increase in stock prices for the reason that investors consider the dividend yield is less risky than the expected capital gain." Pradhan (1992) found that Gordon's model is also described as "a bird in hand argument." The researcher supports the argument, which is popularly known as a bird in hand is worth two in the bush. What is available at present is preferable than what may be available in the future. That is to say current dividends are considered certain and risk-less. So, it is preferred by rational investors as compared to deferred dividend in future. The future is uncertain. The

investors would naturally like to avoid uncertainty. So, the current dividends are given more weight than expected future dividend by the investors. So, the value per share increases if dividend payout ratio increases. This means there is positive relationship between the amount of dividend and stock prices. Gordon's model is based on the following assumptions:

a. The firm uses equity capital only.
b. Internal rate of return (r) and cost of capital (ke) are constant.
c. The firm and its stream of earnings are perpetual.
d. There are no taxes on corporate income.
e. The retention ratio (b) once decided upon is constant. Thus, the growth rate, (g = br) is constant forever.
f. 'Ke' must be greater than g (br) to get meaningful value.
g. The source of financing for new investment is only retained earnings. No external financing is available.

Based on the above assumptions, Gordon's Dividend Capitalization Model propounded that the market value of a share is equal to the present value of an infinite stream of dividends to be received on share. The Gordon's model can be symbolically expressed as:

$P0 = EPS (1 – b)/Ke – br$

Where,

P0 = Price of a share

EPS = Earnings Per share

b = Retention ratio

1-b = Dividend payout ratio

Ke = Capitalization rate or cost of capital

b = Growth rate

r = required rate of return

EPS (1-b) = Dividend per share

The market price of a share of the firm in the beginning the period is equal to the present value of dividends paid at the end of the period plus the market price of the share at the end of the period. Gordon's views on effect of dividends can be concluded as follows:

In case of growth firm (r>k)

Share price tends to decline in correspondence with increase in payout ratio i.e. dividends and stock process is negatively correlated with growth firm.

In case of normal firm (r = k)

A share's market value does not change by its dividend policy.

In case of declining firm (r < k)

In such firms, share prices tends to raise in correspondence with rise in dividend payout ratio i.e., dividend and stock prices are positively correlated with each other in declining firm.

Walter's (1963) supports the relevancy of dividend policy that has to maximize the wealth position of stockholders. The relationship between the business's internal rate of return (r) and cost of capital (K) is crucial in formulating the dividend policy to optimize shareholder wealth, as the model makes perfectly evident. The Walter model is based on number of assumptions as given below by Francis (1972).

In Corporations finance, all investment through retained earnings can be considered as debt or new equity, which is not issued. Both the internal rate of return (r) and the cost of capital (k) are constant. Corporations distribute all earnings as dividends or reinvest all earnings internally and immediately. The corporate earnings at the beginning and the dividends are assumed to remain constant for any given values. Corporations are assumed to have a very long or infinite life. This study, considering the above assumptions since, corporations operates on the wealth maximization criterion; the appropriate dividend payout in determining market price per share is based on following formula:

MPS =DPS +r/k(EPS – DPS)/k

Where,

MPS = Market Per Share

r= Internal rate of return

k= Cost of capital or capitalization rate

EPS = Earning per share and

DPS = Dividend per share

The above formula suggests that market price per share depends upon the relationship between market capitalization rate and internal rate of return.

2.2.3 Signaling Theory

- **Concept**: Signaling theory posits that dividends serve as a communication tool from management to investors, conveying private information about the firm's financial health and future prospects. The theory is based on the idea that executives possess superior information compared to outside investors, particularly concerning the true value and future potential of the company.
- **Key Idea**: Managers of undervalued firms may use dividend changes to signal their private information to the market. An increase in dividend payouts is interpreted as a positive signal about the firm's future earnings, which typically leads to an increase in the firm's stock price. Conversely, a decrease in dividends can signal potential problems and lead to a decrease in stock price.
- **Information Asymmetry**: The core of the signaling theory is the concept of asymmetric information, where management has more accurate or extensive information about the company's prospects than external investors. This discrepancy drives the use of dividends as a signal to align market perceptions with the company's true value.
- **Implications of Dividend Announcements**: According to signaling theory, dividend announcements contain valuable information that reflects changes in management's expectations about the company's future performance. An increase in dividends is often seen as a positive indicator of strong future earnings, whereas a reduction might be viewed as a negative signal.
- **Theoretical Basis**:
  - **Tax Considerations**: Dividends may be taxed more heavily than capital gains, influencing how companies use dividends to signal information.
  - **Managerial Confidence**: Firms with confident management about their future prospects are more likely to increase dividends as a positive signal to investors.
  - **Investor Reactions**: Dividend announcements can result in abnormal returns as investors react to the new information being communicated.
- **Supporting Research**:
  - **Bhattacharya (1979)**: Suggested that managers confident about future profitability are likely to increase dividends to convey their positive outlook to the market.
  - **Miller and Rock (1985)**: Further developed the signaling theory, emphasizing that dividend changes are used to signal management's private information to the market.

- **Fairchild et al. (2014)**: Argued that dividend announcements contain significant information content, influencing stock prices based on investor interpretations of these signals.

In summary, signaling theory provides a framework for understanding how dividend changes can serve as a communication tool from management to investors, reflecting the company's financial health and future prospects.

2.2.4 Agency Theory

- **Concept**: Agency theory addresses the conflicts of interest that arise between shareholders (owners) and managers (agents) due to the separation of ownership and control. While managers and shareholders are assumed to have aligned interests in theory, in practice, their objectives often diverge. Managers may pursue actions that benefit themselves at the expense of shareholders, leading to agency conflicts.
- **Agency Costs**: These conflicts generate agency costs, which include:
  - **Monitoring Costs**: Expenses incurred by shareholders to oversee managerial actions and ensure they align with shareholder interests.
  - **Bonding Costs**: Costs incurred by managers to guarantee their performance aligns with shareholders' interests.
  - **Residual Loss**: Losses that arise from investments in unprofitable or undesirable projects financed by free cash flows.
- **Optimal Dividend Policy**: According to agency theory, an optimal dividend policy can minimize agency costs by reducing the amount of free cash flow available for potentially unwise investments. Higher dividend payouts reduce the funds left under managerial discretion, thus lowering agency conflicts and costs. Additionally, paying out more dividends may necessitate borrowing from external sources, which subjects managers to additional scrutiny from both shareholders and lenders.
- **Easterbrook's View**: Easterbrook (1984) argued that higher dividends decrease free cash flow, thereby reducing managerial discretion and compelling firms to seek external financing for new projects. This external financing provides greater monitoring by shareholders and capital markets, which helps align managerial actions with shareholder interests and supports value maximization.

2.2.5 Transaction Cost Theory

- **Concept**: Transaction cost theory explores the impact of dividend payout behavior on transaction costs incurred by shareholders and firms. It considers the costs associated with buying and selling shares, as well as raising external funds.
- **Shareholder Preferences**: Shareholders seeking regular income from dividends may incur transaction costs if they have to sell part of their holdings to generate cash if the firm pays low or no dividends. Conversely, shareholders who prefer to reinvest dividends may incur costs associated with buying additional shares. Therefore, firms are incentivized to develop a dividend policy that minimizes transaction costs for different types of shareholders.
- **Financing and Investment**: A firm's dividend policy also affects its financing and investment decisions. High dividend payouts reduce internal financing, potentially forcing the firm to seek expensive external funds or forgo profitable investment opportunities. This can increase the cost of financing and decrease firm value. Bhattacharya (1979) discussed this as the transaction cost of dividends.
- **Optimal Dividend Policy**: Firms should design their dividend policies to balance the transaction costs associated with external financing and the costs of foregone investment opportunities. The goal is to find a dividend payout level that minimizes these transaction costs.

2.2.6 Catering Theory of Dividend

- **Concept**: Developed by Baker and Wurgler (2004), catering theory challenges the Modigliani-Miller (MM) assumption of market perfection. It posits that dividend policies are influenced not only by managerial preferences but also by investor demand for dividends.
- **Investor Preferences**: According to this theory, investor preferences for dividends fluctuate over time. When investors value dividends, firms are more likely to pay dividends to cater to this demand. Conversely, when investors prefer non-dividend-paying stocks, firms may choose not to pay dividends.
- **Dividend Premium**: The theory suggests that firms may issue dividends when there is a premium on dividend-paying stocks and withhold dividends when there is a premium on stocks that do not pay dividends. This approach reflects managers' responsiveness to changing investor preferences.
- **Time-Varying Linkage**: The relationship between dividends and share value is considered time-varying, with managers adjusting their dividend policies based on current

investor preferences. This adjustment helps firms align with market trends and investor demand, potentially enhancing stock value.

In summary, these theories provide different perspectives on the role of dividends in corporate finance:

- **Agency Theory** highlights how dividends can reduce agency costs by limiting free cash flow and increasing external oversight.
- **Transaction Cost Theory** focuses on balancing transaction costs associated with dividends and financing decisions.
- **Catering Theory** suggests that dividend policies are influenced by changing investor preferences and market conditions.

2.3 Empirical Review

This section reviews empirical studies on dividend policies, focusing on how different factors impact dividend payments and share prices across various economies and industries. The studies are categorized based on their relevance to the objectives of the study.

Nepalese Context

1. **Manandhar (2000)**

   - **Findings**: There is a significant relationship between changes in dividend policy and lagged earnings in Nepalese commercial banks. Increasing EPS generally leads to increased dividends, while decreasing EPS leads to reduced dividends. Nepalese firms tend to maintain or increase dividends rather than decrease them, reflecting a preference for signaling financial strength and stability.

2. **Gautam (2000)**

   - **Findings**: Despite satisfactory average EPS and DPS, there is considerable fluctuation in these figures across banks. The study found no clearly defined dividend strategies among commercial banks, indicating inconsistency in dividend policies.

3. **Khatiwada (2001)**

   - **Findings**: The announcement of dividends and earnings did not significantly affect shareholder returns on average. Positive abnormal returns were observed for specific banks like Nepal SBI Bank Ltd.

4. **Rijal (2004)**

- **Findings**: Investors primarily seek dividends but also value capital gains. Firms struggle to balance dividend distribution with retaining earnings. In Nepal, dividend payout ratios are inconsistent, and other factors such as earning power and market rumors also influence share prices.

5. **Bista (2006)**

- **Findings**: Banks and manufacturing companies showed fluctuating dividend payout ratios and market prices. There was no clear trend in EPS or market prices, highlighting variability in dividend policies.

6. **Adhikari (2007)**

- **Findings**: High dividend-paying stocks showed higher liquidity and better financial positions compared to low dividend-paying stocks. However, the impact of dividends on stock prices differed between finance and non-finance sectors.

7. **Jha (2007)**

- **Findings**: The study emphasized the need for a consistent dividend policy and improved information disclosure. Dividend payments exhibited high fluctuation despite increasing earnings.

8. **Bhattarai (2008)**

- **Findings**: Banks and manufacturing companies had fluctuating dividend payout ratios and market prices. A clear dividend policy was often lacking, with significant variations in market prices and book values.

9. **Gautam (2009)**

- **Findings**: Dividend payouts were inconsistent, and there was no clear growth rate. Gautam recommended adopting a clearly defined dividend strategy to address investor expectations.

10. **Bhandari (2012)**

- **Findings**: DPS had a positive relationship with EPS and MPS but a negative relationship with P/E ratio and net worth. Higher dividends were associated with increased market value and investor retention.

11. **Bhattarai (2013)**

- **Findings**: There was significant fluctuation in EPS and DPS, with a positive but insignificant relationship between DPS and EPS. No distinct dividend policies were observed.

12. **Bhattarai (2014)**

- **Findings**: The volume of stock traded and dividend payments significantly influenced stock prices. Signaling effects were major determinants, with fluctuations in stock prices driven by earnings and dividends.

13. **Dhungel (2013)**

- **Findings**: In Nepal, dividends are a significant factor in share pricing, though the relationship remains unclear. The study found a lack of significant impact of dividends on share pricing in most banks, with a need for more research.

14. **Paudel (2014)**

- **Findings**: MPS had varied correlations with financial indicators like EPS, NWPS, and DPS. The Nepalese stock market showed inefficiencies in pricing based on financial performance.

15. **Pokharel (2016)**

- **Findings**: Dividend per share positively affected stock prices across different sectors, though the impact varied. Dividend changes could influence share prices, but retained earnings had a less prominent effect.

16. **Rajbhandari (2017)**

- **Findings**: Factors like DPS, EPS, and MPS influenced dividend policies, but consistency was lacking. There was a positive relationship between DPS and EPS, but market prices showed mixed results.

17. **Baral and Pradhan (2018)**

- **Findings**: In Nepalese commercial banks, EPS and P/E ratios had positive relationships with stock prices, whereas DPR had a varying impact. The study emphasized the influence of P/E ratios on stock prices for top-performing banks.

18. **Shah (2018)**

- **Findings**: EPS had a significant positive impact on share prices, while dividend yield and retention ratio had a negative impact. The study found that dividend changes did not significantly impact future earnings, challenging the signaling concept.

19. **Thapa (2018)**

- **Findings**: EPS and DPS showed a positive association with stock prices, while interest rates and P/E ratios had an inverse relationship. Dividend and short-term interest rates were significant predictors of stock prices.

20. **Neupane (2020)**

- **Findings**: DPS and BPS had a substantial impact on stock prices, while EPS and P/E ratios had negligible effects. The study identified SHIVM Cement as riskier and UNI-Lever as more valuable based on stock performance.

21. **Shrestha (2020)**

- **Findings**: Dividends significantly impacted stock prices in Nepalese companies, with cash dividends negatively affecting prices and stock dividends positively impacting them. The study used a Fixed Effect model to analyze the impact.

22. **Dulal (2021)**

- **Findings**: Dividend policy had a negative association with stock price volatility. Higher dividend yields and payout ratios were linked to reduced price volatility, though further research is needed to confirm these findings.

Summary

The empirical studies reviewed reveal a range of findings on the impact of dividends on stock prices, with significant variation across different contexts and sectors. While some studies highlight a positive relationship between dividends and stock prices, others find inconsistencies or negligible effects. The variability in findings underscores the need for continued research, particularly in the context of developing markets like Nepal.

2.4 Review Table

Authors	Title	Data analysis tools	Major findings
Al-Shawawreh and Jordan (2014)	The impact of dividend policy on share price volatility: Empirical evidence from Jordanian Stock Market	Descriptive statistic, correlation, regression, ANOVA, Beta analysis	The empirical results indicate a weak positive correlation between dividend yield and stock price volatility and a significant negative correlation between an organization's payout ratio and stock price volatility. The findings indicate that a high payout ratio causes decreased

			share price volatility. The primary factor influencing the stock price volatility is the payout ratio. The company's size had a very weak positive correlation with price volatility among the control variables, indicating that the larger the company, the less volatile the stock price. The correlation between price volatility and stock repurchase was insignificant.
Al Qaisi et al. (2016)	Factors affecting the Market Stock Price - The case of the Insurance Companies Listed in Amman Stock Exchange	Simple and multiple linear regression	This study investigated the impact of several variables, including debt ratio, age, size, and return on equity (ROE) and asset (ROA) on market stock price. Regarding insurance companies listed on ASE, there is no correlation between ROE and market stock price. For insurance businesses listed on ASE, there is a relationship between the market stock price and the debt ratio. In insurance businesses listed on ASE, there is a relationship between the market stock price and the company's age. The company's size influences the market stock price of insurance businesses listed on ASE.
Wanjohi (2017)	Effects of Dividend policy on shareholders	Correlation, Regression,	The effect of the dividend policy on the share price of the listed

	wealth: Evidence from insurance firms in the Kenya.	ANOVA, Beta analysis	insurance companies was determined using a dynamic regression analysis. According to this study, the share price value for listed insurance companies can be predicted by the combined statistical significance of dividend payout, dividend yield, earnings per share, and inflation. The study advises insurance companies to carefully analyze their dividend policy because it significantly impacts share price. As a result, management should declare dividends on a timely basis. The results of this study are useful in decision-making for insurance companies and regulators such as the NSE, IRA, and CMA.
Islam (2019)	Dividend policy and share price: Evidence from some selected pharmaceutical and chemical companies in Bangladesh	Descriptive statistic, correlation, and regression	The research examines whether the price of a share, earnings per share, and dividend per share are positively and significantly correlated. According to the results, return on equity has a considerable negative influence on share price, whereas dividends and earnings per share have a significant positive impact. However, the dividend payment and retention ratios unaffected the share prices of Bangladeshi

			chemical and pharmaceutical companies.
Shrestha (2020)	Effect of dividend on stock market price: A panel data approach	Multivariate Regression model, Hausman Test	This study shows that the stock market price of Nepalese firms is significantly impacted positively and negatively by cash dividends. Raising the stock dividend is one way Nepalese businesses can raise their market value. Therefore, to raise the stock market price and the firm's value, the management should consider increasing the stock dividend instead of the cash dividend.
Murimi and Mungai (2021)	Dividend policy and Financial performance of Insurance companies Listed in Nairobi Securities Exchange, Kenya	Correlation, Regression, ANOVA, Beta analysis	The study found that retained earnings had a positive and significant impact on the financial performance of insurance companies listed in the Nairobi Securities Exchange, dividend yield had a positive effect on the financial performance of insurance companies listed in the Nairobi Securities Exchange, and dividend payout did not affect the performance of insurance companies listed in the Nairobi Securities Exchange.
Baral and Pradhan (2022)	Impact of Dividend Policy on Share Price of Commercial Bank in Nepal	Correlation, Regression, ANOVA, Beta analysis	The study concluded a negative correlation with DPR in Nepal's top gainer banks and a positive correlation with EPS, P/E, DPR,

			and MPS in the country's top-losing commercial banks. Out of the sampled top five gainers and top five losers among commercial banks, only two banks showed their market price is responsive to the dividend announcement, according to the analysis and interpretation of the data. Nepalese commercial banks, therefore, significantly influence the dividend in the price of their market shares.
Maskey (2022)	Specific determinants of share prices: A case study of listed life insurance companies in Nepal Stock Exchange	Correlation, Regression, Beta analysis, VIF	The study emphasized market factors that affect the market stock prices of life insurance businesses listed on the Nepal Stock Exchange (NEPSE). Regression research found that while dividend yield significantly negatively correlated with market stock prices, the independent variables EPS, DPS, P/E ratio, and company age had a substantial positive relationship. The study concludes that the market stock price of Nepali life insurance businesses listed on the stock exchange is determined by factors such as dividend yield, company age, P/E ratio, DPS, and EPS.
Bayisa (2023)	Determinants of	Correlation,	The findings indicated that the

	Dividend Payout in Private Insurance Companies of Ethiopia	Regression, Beta analysis,	firm's size, profitability, and liquidity were determined to be essential determinants in dividend payout. The remaining variables, firm age, leverage, growth, GDP, and inflation, were insignificant, contrary to the estimates. As expected, profitability, liquidity, and business size have a favorable and substantial impact on dividend payout. Therefore, while deciding how much to distribute as dividend payments, profitability, liquidity, and firm size.

2.5 Research Gap

While existing studies have established a foundational understanding of the relationship between dividend policies and stock prices, particularly in the context of Nepal, there remain several areas where further investigation is warranted:

Current Relevance of Previous Findings: Given the dynamic nature of financial markets and organizational changes, it is crucial to assess whether previous conclusions about dividend policies and stock prices in Nepal are still valid. Changes in market conditions, regulatory frameworks, and company strategies could impact these relationships.

Limited Scope of Existing Studies: Much of the existing research on Nepalese companies relies on secondary data sources. While valuable, these studies may not capture real-time changes and insights. There is a need for primary research that includes direct surveys and interviews with executives in the financial industry to gain a more nuanced understanding of dividend policies and their impacts.

Need for Updated Data: As the financial landscape evolves, updating research with recent data is essential. Previous studies may not reflect the current economic environment or recent developments in the insurance sector. Conducting new studies with up-to-date data will provide a clearer picture of the present situation.

Sector-Specific Insights: The impact of dividend policies on stock prices may vary across different sectors. While previous research has focused on broad categories or specific sectors, there is a need for more detailed studies on specific sectors such as life insurance companies in Nepal. This will help in understanding sector-specific dynamics and tailoring financial strategies accordingly.

Expansion Beyond Secondary Data: To gain a comprehensive view of the impact of dividend policies, integrating both secondary data and primary research methods is essential. Primary research, including executive surveys and industry interviews, will provide firsthand insights into the factors influencing dividend decisions and their consequences on stock prices.

Addressing these gaps will contribute to a more thorough and current understanding of how dividend policies affect stock prices, specifically for life insurance companies in Nepal. This approach will help bridge the gap between existing knowledge and the evolving financial landscape.

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CHAPTER III
RESEARCH METHODOLOGY

Research methodology outlines the systematic approach used to collect, analyze, and interpret data for a study. It encompasses various methods and processes essential for addressing research questions and solving problems effectively.

3.1 Research Design

The research design is a strategic plan used to address research questions and control variables. This study employs both descriptive and causal-comparative research designs. Descriptive research is utilized to provide an overview of the current status of dividend policies and their effects on stock prices, while causal-comparative research aims to identify cause-and-effect relationships between dividend policies and market prices. The study incorporates both secondary data (from reliable sources) and primary data (obtained via a questionnaire survey), employing quantitative analysis methods to achieve the research objectives.

3.2 Population and Sample

The study focuses on the life insurance sector in Nepal, where there are 19 life insurance companies. For the sample, a judgmental sampling method is used to select the top ten life insurance companies that are dividend-paying and actively traded. These companies are:

a. MetLife-American Life Insurance Company Limited (ALICO)
b. Asian Life Insurance Company Limited (ALICL)
c. Citizen Life Insurance Company Limited (CLICL)
d. Gurans Life Insurance Company Limited (GLICL)
e. IME Life Insurance Company Limited (IMELICL)
f. Jyoti Life Insurance Company Limited (JLICL)
g. Life Insurance Corporation Nepal Limited (LICN)
h. Mahalaxmi Life Insurance Company Limited (MLICL)
i. National Life Insurance Company Limited (NLICL)
j. Nepal Life Insurance Company Limited (NLIC)

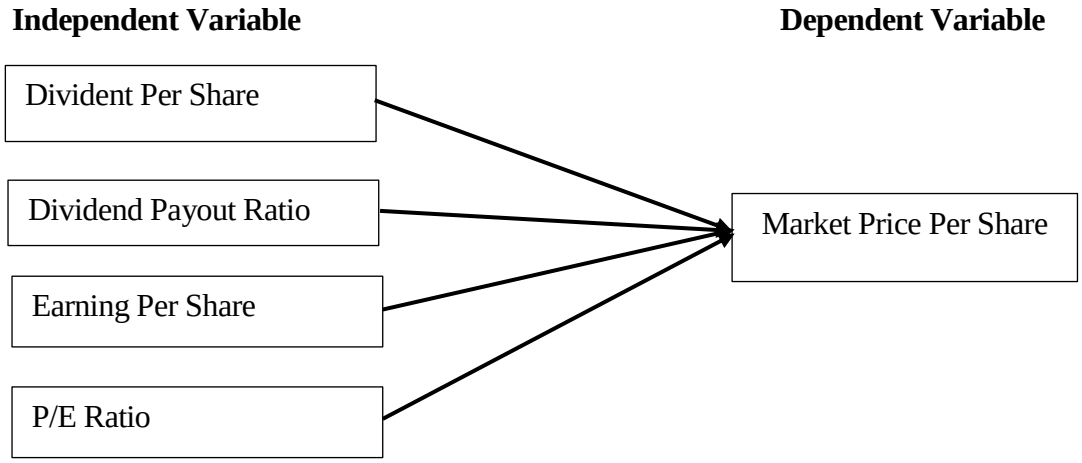
3.3 Nature and Sources of Data

The research relies primarily on secondary data, which is collected from:

- Annual reports of the selected life insurance companies (Fiscal year 2015/16 to 2021/22)
- Company magazines and bulletins
- Publications from SEBON (Securities Board of Nepal), NEPSE (Nepal Stock Exchange), NRB (Nepal Rastra Bank)
- Various newspapers, previous studies, theses, and dissertations relevant to the field

3.4 Theoretical Framework

Dividends are the portion of a company's earnings that are distributed to shareholders as a return on their investment. Essentially, dividends represent a share of the company's surplus allocated to investors. They serve as compensation for taking on the risk associated with investing in the company. However, the objective of financial management extends beyond merely distributing dividends; it also includes reinvesting the remaining earnings into opportunities for further growth and investment.



Source: Ramana et al. (2022)

3.5 Data Analysis

a. Dividend per Share (DPS)

Dividend Per Share (DPS) is a key financial metric that measures the amount of dividend a company pays to its shareholders for each share of stock. It is calculated by dividing the total dividends distributed by the number of outstanding shares. DPS is crucial for

investors, especially those seeking income from their investments, as it reflects the return they can expect from owning a share of the company. A consistent or increasing DPS often signals a company's financial stability and profitability. Since DPS is derived from Earnings Per Share (EPS), a higher EPS generally leads to a higher DPS. In other words, the DPS is calculated by dividing the total dividends paid to equity shareholders by the number of equity shares in circulation. This metric also impacts the stock's market price, with higher EPS typically resulting in higher DPS.

Formula,

$$\text{DPS} = \frac{\text{Total Dividends Paid}}{\text{Number of Outstanding Shares}}$$

b. Dividend Payout Ratio (DPR)

The Dividend Payout Ratio is an essential financial metric that reveals the percentage of a company's profits distributed to shareholders as dividends. It is calculated by dividing the Dividends Per Share (DPS) by Earnings Per Share (EPS), and then multiplying by 100. This ratio provides insights into how much of a company's earnings are returned to shareholders compared to the amount retained for reinvestment and growth. A lower payout ratio may indicate that the company is focusing on future expansion by retaining more earnings, while a higher ratio suggests a greater emphasis on rewarding shareholders. Essentially, the Dividend Payout Ratio shows the balance between profit distribution and the retention of earnings for the company's development.

The formula for calculating DPR is:

$$\text{DPR} = \frac{\text{Dividends Per Share}}{\text{Earning Per Share}} \times 100$$

c. Earnings Per Share (EPS)

Earnings Per Share (EPS) is a key financial metric that measures a company's profitability on a per-share basis. It calculates the profit assigned to each share of common stock by dividing the company's total earnings available to common shareholders by the number of outstanding shares. EPS is essential for investors as it provides a clear view of a company's financial health and performance, offering a straightforward means to evaluate profitability across different firms, regardless of their size or industry. EPS is also a critical factor influencing both dividend policy and stock price. Generally, higher EPS indicates greater earning power per share, which can lead to larger dividends and potentially higher stock prices. Therefore,

EPS is often used as an independent variable in analyzing dividend distribution and market price trends.

The formula for calculating EPS is:

$$\text{EPS} = \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

d. Price Earnings Ratio (P/E Ratio)

The Price-to-Earnings (P/E) Ratio is an important financial metric that assesses a company's current stock price relative to its earnings per share (EPS). This ratio provides insight into how much investors are willing to pay for each dollar of the company's earnings, serving as a key indicator of market sentiment and valuation. A high P/E ratio often suggests that investors expect significant future growth, while a low P/E ratio may indicate undervaluation or lower growth expectations. Essentially, the P/E ratio reflects the market value per share for each unit of reported EPS and is calculated by dividing the market value per share by the earnings per share.

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earning per Share}}$$

e. Market Price Per Share

The Market Price Per Share is the current trading value of a company's stock on the stock market. This price is influenced by supply and demand dynamics, reflecting what investors are willing to pay at a given moment. It fluctuates throughout the trading day due to various factors such as company performance, economic conditions, industry trends, and investor sentiment. The market price can differ from the stock's intrinsic value, which is based on an assessment of the company's earnings, dividends, and growth potential. Investors use the market price per share to evaluate their investment costs, determine the best times to buy or sell, and assess their portfolio's performance. Publicly traded companies' share prices are readily available on stock exchanges and financial platforms.

3.5 Data Analysis

Data analysis involves presenting data in tables and charts, applying financial and statistical tools, and interpreting results. The analysis utilizes various financial and statistical tools,

including:

- Simple regression analysis
- Multiple regression analysis
- Hypothesis testing
- Descriptive statistics such as arithmetic mean and standard deviation
- Correlation analysis

3.6 Regression Analysis

Regression analysis helps determine the relationship between independent and dependent variables.

Multiple Regression

The study uses multiple regression analysis to assess how different variables influence the market price per share. The model is specified as:

$Y=a+b1X1+b2X2+b3X3+b4X4+b5X5Y$

Where:

Y = Market Price per Share

a = Regression constant

b_1 = Regression coefficient of EPS variable

b_2 = Regression coefficient DPS variable

b_3 = Regression coefficient DPR variable

b_4 = Regression coefficient EYR variable

b_5 = Regression coefficient DYR variable

X_1 = Earnings per share

X_2 = Dividend per share

X_3 = Dividend Pay Out Ratio

X_4 = Earning Yield Ratio

X_5 = Dividend Yield Ratio

This model helps predict to what extent EPS and DPS affect share market price. In Correlation and regression analysis, following statistics have been calculated and interpreted accordingly.

CHAPTER IV

RESULTS AND DISCUSSION

The chapter provides both descriptive and inferential analyses of various financial metrics, including Earnings Per Share, Price Earnings Ratio, Cash Dividend Per Share, Dividend Payout Ratio, and Market Value Per Share for life insurance companies in Nepal. It employs financial and statistical tools to compare these financial indicators. Additionally, it concludes with correlation and regression analyses of the sampled microfinance companies, presenting the results in an organized, tabulated format.

4.1 Financial Variables

This study includes descriptive statistics covering Earnings Per Share, Price Earnings Ratio, Cash Dividend Per Share, Dividend Payout Ratio, and Market Price Per Share for each life insurance company in Nepal from 2014/15 to 2022/23, as shown in the tables. The descriptive analysis facilitates the classification and comparison of the life insurance companies in Nepal, as well as the sample microfinance companies, based on their respective sectors.

4.1.1 Dividend Per Share

Dividend Per Share (DPS) is a key financial metric that measures the amount of dividends a company pays to its shareholders per share of stock. It is calculated by dividing the total dividends paid by the number of outstanding shares. DPS is crucial for investors, especially those seeking income from their investments, as it reflects the financial return they can expect from owning a share. A stable or growing DPS often indicates a company's strong financial health and its ability to maintain consistent profits. However, DPS can be affected by factors such as the company's profitability, dividend policy, and overall economic conditions. Investors use DPS to assess potential income from their investments and to compare companies that pay dividends.

Table 4. 1:

Dividend Per Share

F.Y	ALICOL	ALICL	CLICL	GLICL	IMELICL	JLICL	LICN	MLICL	NLICL	NLIC
2014/15	18.93	15	21.32	12.63	20	23	19	18.93	15.23	15.23
2015/16	15.87	2.63	22.32	13.1	18	19	16	20.87	22.63	16.63
2016/17	17.34	17.63	11.05	11.58	16	20	17	17.34	17.63	15.63
2017/18	23.11	15	27.68	14.04	18	18	20	23.11	15.65	17.65
2018/19	22.23	10	25.79	22.11	15	14	21	22.23	10.13	16.13
2019/20	17.22	15	22.71	15.53	14	16	19	17.92	15.1	15.78
2020/21	13.54	14	20.42	17.68	17	14	18	19.54	14.87	13.67
2021/22	15.54	15.05	21.13	21.55	19	16	21	16.54	15.05	15.65
2022/23	14.34	18.16	19.87	22.34	21	11	16	18.34	18.54	16.54
Mean	17.57	13.61	21.37	16.73	17.56	16.83	18.56	19.42	16.09	15.88
SD	3.13	4.45	4.37	4.08	2.17	3.34	1.83	2.11	3.18	1.03
CV	17.81	32.73	20.45	24.38	12.34	19.86	9.88	10.84	19.78	6.51

Note. Annual Report of Sample Life Insurance

Table 4.1 shows that the average Dividend per Share (DPS) of the ALICOL, ALICL, CLICL, GLICL, IMELICL, JCICL, LICN, MLICL, NLICL and NLIC are 17.57, 13.61, 21.37, 16.73, 17.56, 16.83, 18.56, 19.42, 16.09 and 15.88 respectively. The average Dividend per Share (DPS) of CLICL is greater than other sample insurance companies. This means that CLICL is better than other insurance companies regarding DPS. The reason of this low DPS was because the dividend declined sharply in the year and there was a declaration of bonus shares. The DPS of ALICOL, ALICL, CLICL, GLICL, IMELICL, JCICL, LICN, MLICL, NLICL and NLIC for the fiscal year of 2014/15 to 2022/23. The DPS of CLICL is 21.37, which is higher than other sample insurance companies. The DPS of ALICL has 13.61, which is lower than other sample insurance companies. It means that CLICL is better DPS then other sample banks.

4.1.2 Earnings Per Share

Earnings Per Share (EPS) is a key financial metric that measures a company's profitability on a per-share basis. It calculates the profit allocated to each share of common stock, providing a clear and direct way to evaluate a company's financial

performance. EPS is essential for investors to assess a company's financial health and profitability, regardless of its size or industry. By quantifying the profit generated per share, EPS facilitates meaningful comparisons between companies. Investors use EPS to gauge a company's profitability and to make informed decisions about buying or holding its stock.

Table 4. 2:

Earnings Per Share

FY	ALICOL	ALICL	CLICL	GLICL	IMELICL	JLICL	LICN	MLICL	NLICL	NLIC
2014/15	41.43	32.34	24.58	31.71	81.68	32.2	21.71	31.43	24.34	14.34
2015/16	43.46	32.08	22.17	35.77	92.04	37.12	25.77	33.46	22.18	12.98
2016/17	49.15	34.48	25.01	37.18	46.37	23.48	27.18	39.15	24.48	14.38
2017/18	39.04	36.39	27.27	37.14	40.55	23.04	28.14	39.04	26.39	16.39
2018/19	36.66	29.29	23.92	35.26	30.26	28.19	25.26	36.66	27.15	17.25
2019/20	39.38	32.16	26.67	37.57	27.54	27.44	30.57	39.38	25.76	15.46
2020/21	44.14	24.91	29.51	25.12	16.75	20.27	29.12	34.14	24.91	14.51
2021/22	41.81	31.22	31.84	30.14	37.72	22.77	26.14	31.81	23.22	13.62
2022/23	44.63	11.94	27.54	28.79	32.13	23.65	24.79	34.63	21.94	16.14
Mean	42.19	29.42	26.50	33.19	45.00	26.46	26.52	35.52	24.49	15.01
SD	3.48	6.88	2.80	4.18	23.85	5.07	2.46	2.97	1.70	1.31
CV	8.25	23.39	10.57	12.61	52.99	19.14	9.29	8.35	6.93	8.76

Note. Annual Report of Sample Life Insurance

Table 4.2 shows that the average Earnings per Share (EPS) of the ALICOL, ALICL, CLICL, GLICL, IMELICL, JCICL, LICN, MLICL, NLICL and NLIC are 42.19, 29.42, 26.50, 33.19, 45.00, 26.46, 26.52, 35.52, 24.49 and 15.01 respectively. The average Earnings per share (EPS) of IMELICL is greater than that of other insurance companies. This means that IMELICL is better than other insurance companies in terms of EPS. This low EPS was because the dividend declined sharply during the year, and bonus shares were declared.

4.1.3 Dividend Payout Ratio

The Dividend Payout Ratio is a key financial metric that reveals the portion of a company's profits distributed to shareholders as dividends. It is calculated by dividing

the dividends per share by the earnings per share or by dividing the total dividends paid by net income, then multiplying the result by 100. This ratio provides insight into how much of a company's profit is returned to investors versus what is retained for growth and development. A lower payout ratio may indicate that the company is investing more in its future, while a higher ratio suggests a focus on delivering returns to shareholders. Understanding this ratio helps investors evaluate the sustainability of dividend payments and the company's financial strategy.

Table 4. 3:

Dividend Payout Ratio

FY	ALICOL	ALICL	CLICL	GLICL	IMELICL	JLICL	LICN	MLICL	NLICL	NLIC
2014/15	0.73	0.78	0.72	0.85	0.58	0.58	0.65	0.75	0.78	0.73
2015/16	0.52	0.61	0.75	0.91	0.39	0.49	0.71	0.72	0.61	0.75
2016/17	0.67	0.87	0.69	0.67	0.69	0.52	0.81	0.68	0.87	0.81
2017/18	0.65	0.85	0.76	0.81	0.73	0.5	0.86	0.75	0.85	0.85
2018/19	0.62	0.68	0.79	0.93	0.71	0.54	0.73	0.73	0.68	0.78
2019/20	0.56	0.87	0.78	0.85	0.78	0.59	0.82	0.76	0.87	0.67
2020/21	0.66	0.82	0.89	0.78	0.83	0.51	0.79	0.69	0.82	0.72
2021/22	0.62	0.71	0.71	0.64	0.66	0.64	0.74	0.72	0.71	0.68
2022/23	0.67	0.69	0.73	0.78	0.87	0.71	0.88	0.67	0.69	0.64
Mean	0.63	0.76	0.76	0.80	0.69	0.56	0.78	0.72	0.76	0.74
SD	0.06	0.09	0.06	0.09	0.14	0.07	0.07	0.03	0.09	0.06
CV	9.36	11.73	7.38	11.56	19.53	12.25	9.08	4.27	11.73	8.77

Note. Annual Report of Sample Life Insurance

Table 4.3 shows that insurance businesses' Dividend Payout Ratios (DPR) throughout time show considerable disparities in average payouts and consistency. The highest mean DPR of 0.80 belongs to GLICL, which consistently returns considerable revenues to shareholders. Its payment policy may vary because of its 11.56% coefficient of variation (CV). LICN and NLICL have high mean DPRs of 0.78 and 0.76, respectively, indicating good shareholder returns with reasonable consistency. IMELICL, with a mean DPR of 0.69 and the highest CV of 19.53%, may alter dividends based on profitability. MLICL has the most steady dividends, with a mean DPR of 0.72 and the lowest CV of 4.27%, appealing to investors seeking

dependability. GLICL and LICN prioritize high dividend payouts. MLICL has the most stable returns, while IMELICL distributes dividends more flexibly.

4.1.4 P/E Ratio

The Price-to-Earnings (P/E) Ratio is an important financial metric that gauges a company's current stock price relative to its earnings per share (EPS), offering insights into how the market values its profitability. This ratio reveals the amount investors are willing to pay for each dollar of a company's earnings, reflecting market sentiment and valuation. A high P/E ratio usually suggests that investors expect strong future growth, while a low P/E ratio may indicate undervaluation or lower growth expectations. Investors use the P/E ratio to assess whether a company's stock is overvalued, undervalued, or fairly priced in comparison to others in the same industry.

Table 4. 4:

Price-to-Earnings (P/E) Ratio

FY	ALICOL	ALICL	CLICL	GLICL	IMELICL	JLICL	LICN	MLICL	NLICL	NLIC
2014/15	23.82	26.19	21.68	21.07	17.5	12.94	22.07	21.82	16.19	16.19
2015/16	23.78	25.73	22.94	25.12	18.63	16.32	24.12	22.78	15.73	17.73
2016/17	28.93	21.94	29.99	36.02	27.39	27.35	26.02	26.93	14.34	19.34
2017/18	22.09	25.31	27.12	34.35	23.28	28.7	24.35	23.09	15.67	15.67
2018/19	23.16	25.61	25.76	22.62	28.59	18.18	22.62	24.16	15.32	16.32
2019/20	21.97	17.13	17.67	27.68	16.01	12.97	25.68	22.97	17.13	17.13
2020/21	24.69	24.77	20.76	27.13	25.1	30.62	23.13	24.69	19.67	16.67
2021/22	24.21	32.92	22.25	22.81	29.77	22.8	22.81	23.21	18.22	17.22
2022/23	22.34	22.39	24.47	21.48	19.65	24.12	22.48	20.34	22.87	18.87
Mean	23.89	24.67	23.63	26.48	22.88	21.56	23.70	23.33	17.24	17.24
SD	2.00	3.98	3.46	5.16	4.83	6.34	1.35	1.74	2.51	1.16
CV	8.38	16.12	14.65	19.48	21.12	29.41	5.68	7.45	14.54	6.71

Note. Annual Report of Sample Life Insurance

Table 4.4 presents the Price-to-Earnings (P/E) Ratio, which investors use to assess insurance companies' earnings. The average P/E ratio of GLICL is 26.48, indicating that investors are willing to pay a higher price for each unit of profits generated by GLICL. ALICL and CLICL exhibit comparable P/E ratios, with values of 24.67 and 23.63, respectively. The companies NLIC and NLICL have the lowest average price-to-earnings (P/E) ratios, precisely 17.24. This suggests that the market assigns a lower value to their earnings than other companies.

The data in The P/E ratios have remained steady over time, as evidenced by the standard deviation (SD) and coefficient of variation (CV). The CV of 5.68% for LICN demonstrates exceptional stability in terms of valuation. On the other hand, JLICL boasts an impressive CV of 29.41%, indicating significant fluctuations in its P/E ratio and market assessment of its profits. The CV of IMELICL, which stands at 21.12%, indicates that market assessments of its profit value need to be more consistent. GLICL has the highest investor valuation, while LICN exhibits the most consistent P/E ratio, rendering it more predictable for investors. On the other hand, JLICL and IMELICL demonstrate greater market volatility.

4.1.5 Market Price Per Share

The Market Price Per Share represents the current value at which a company's shares are bought and sold on the stock market. This price is determined by the supply and demand dynamics, reflecting how much investors are willing to pay for the shares at any given time. As such, the market price per share is subject to fluctuations throughout the trading day due to changes in investor activity. Factors influencing these fluctuations include the company's performance, economic conditions, industry trends, and investor sentiment. It's important to note that the market price of a stock may differ from its intrinsic value, which is calculated based on factors like earnings, dividends, and growth prospects.

Table 4. 5:

Market Price Per Share

FY	ALICOL	ALICL	CLICL	GLICL	IMELICL	JLICL	LICN	MLICL	NLICL	NLIC
2014/15	563	669	479	663	469	318	563	663	469	569
2015/16	698	755	403	655	467	303	555	598	455	495
2016/17	690	762	546	683	470	685	583	620	462	562
2017/18	654	753	648	648	400	558	548	654	453	453
2018/19	577	783	436	544	467	665	584	560	483	422
2019/20	550	607	574	464	469	589	564	580	307	400
2020/21	590	548	470	457	445	566	457	600	348	380
2021/22	638	574	471	427	463	586	487	638	374	374
2022/23	667	345	490	387	489	487	494	610	345	360
Mean	625	644	502	547	460	529	537	614	411	446
SD	53.05	134.56	70.80	109.95	23.54	128.65	43.33	31.89	62.68	75.03
CV	8.48	20.89	14.11	20.08	5.12	24.34	8.07	5.20	15.26	16.82

Note. Annual Report of Sample Life Insurance

Table 4.5 shows the Market Price Per Share (MPS) discloses significant differences in insurance business valuations. ALICL has the highest average MPS (644), indicating market confidence, followed by ALICO (625) and MLICL (614). The market places a higher value on these businesses, demonstrating investor confidence. However, NLICL and NLIC have the lowest average MPS (411 and 446), indicating lower market valuations. MELICL and MLICL had the most stable market prices, with CVs of 5.12% and 5.20 percent, respectively, indicating low volatility and solid investor sentiment. However, ALICL and GLICL have higher CVs of 20.89% and 20.08%, implying greater price volatility. JLICL has the greatest CV at 24.34%, indicating market volatility due to speculative trading or market opinions. ALICL is the most valued, but IMELICL and MLICL are the most stable, attracting risk-averse investors.

Table 4. 6:

Dividend Policy and Market Price of Life insurance companies

	Min.	Max.	Mean	SD	CV	N
MPS	303.05	783	531.48	111.95	21.06	90
DPS	2.63	27.68	17.36	3.77	21.72	90
DPR	0.39	0.93	0.72	0.11	14.79	90
EPS	11.94	92.04	30.43	11.91	39.15	90
P/E Ratio	12.94	36.02	22.46	4.68	20.84	90

Note. *Annual Report of Sample Life Insurance*

Table 4.6 presents descriptive statistics for key financial variables across various insurance businesses. The market price per share (MPS) ranges from 303.05 to 783, averaging 531.48. The standard deviation (SD) of 111.95 and coefficient of variation (CV) of 21.06% suggest that market prices vary moderately. The Dividend Per Share (DPS) has a mean of 17.36, with values ranging from 2.63 to 27.68, and a slightly higher CV of 21.72%, indicating some volatility in dividend payouts.

The payout Payout Ratio (DPR) follows a more regular pattern, with a mean of 0.72 and a comparatively low CV of 14.79%, indicating that the companies' payout policies are stable. Earnings Per Share (EPS) varies significantly, with values ranging from 11.94 to 92.04, a mean of 30.43, and a high CV of 39.15%, showing that profitability levels differ between

organizations. The Price-to-Earnings (P/E) Ratio averages 22.46, with a range of 12.94 to 36.02 and a CV of 20.84%, indicating substantial fluctuation in how the market values earnings. Overall, the statistics demonstrate significant variation in financial performance and market views among the companies, with EPS being the most variable.

4.2 Relationship between Market Price Per Share and Dividend Per Share

Dividend per share (DPS) and market price per share (MPS) are necessary measurements for determining how much a company's stock price is affected by dividends. Generally, a more excellent DPS can favor the MPS since it may indicate to investors that the business is flourishing and can provide value to shareholders. This may result in higher demand for the stock, raising its price.

Table 4. 7:

Relationship between dividend policy and market price

		1	2	3	4	5
1)	MPS	-				
2)	DPS	.223*	-			
3)	DPR	.30*	0.131	-		
4)	EPS	.253*	0.171	-.310**	-	
5)	P/E Ratio	.427**	0.101	-0.031	0.16	-
	N	90	90	90	90	90

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient between MPS and DPS, DPR, EPS & P/E ratio are 0.223, 0.30, 0.253 and 0.427 respectively. There was a positive correlation between MPS and EPS, DPS, DPR & P/E ratio. The MPS and EPS, DPS, DPR & P/E ratio which was statistically significant at the 0.05 level (2-tailed) ($r = 0.223, 0.30, 0.253 \& 0.427$, $n = 90$, $p < 0.05$).

Table 4. 8:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.509a	0.259	0.224	98.6176

a Predictors: (Constant), EPS, DPS, P/E Ratio, DPR

Table 4.8 shows the relationship between MPS and insurance companies' EPS, DPS, P/E Ratio, and DPR. R^2 has a value of about 0.259. This means that the independent variable explained by a dependent variable is 25.90%.

Table 4. 9:

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	288846.99	4	72211.747	7.425	.000
	Residual	826661.7	85	9725.432		
	Total	1115508.69	89			

a Dependent Variable: MPS

b Predictors: (Constant), EPS, DPS, P/E Ratio, DPR

Table 4.9 shows the significance of EPS, DPS, P/E Ratio, DPR influencing the Market price per share of sample life insurance. The P-value is 0.000, which is less than 0.01. A significant relationship exists between MPS and EPS, DPS, P/E Ratio, DPR with a 99% confidence interval. The ANOVA table indicates that the fitted model or R square is highly significant ($F(4, 85) = 7.425$, $p = 0.000$). It means that the model is fit.

4.3 Effect of Dividend Per Share on Market Price Per Share

Table 4. 10:

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	331.775	109.35		3.034	0.003
	DPS	-6.026	2.803	-0.203	-2.15	0.034
	DPR	55.898	103.238	0.053	0.541	0.590
	P/E Ratio	8.902	2.279	0.372	3.907	0.000
	EPS	2.105	0.94	0.224	2.241	0.028

a Dependent Variable: MPS

Table 4.10 depicts a regression analysis of financial variables and market price per share (MPS). After all variables are zero, the constant term, 331.775, indicates a baseline MPS and is statistically significant. There is a statistically significant negative correlation between MPS and the independent variable Dividend Per Share (DPS) (-6.026). When all other parameters remain unchanged, a higher DPS reduces MPS. Nonetheless, there is a positive correlation of 55.698 for the Dividend Payout Ratio (DPR), but this association is not statistically significant (p-value = 0.590), indicating that DPR has no effect on MPS. A strong and positive correlation has been shown between greater Price-to-Earnings (P/E) Ratios and higher MPS. A correlation of 2.105 indicates that MPS rises with increased Earnings Per Share (EPS). In general, MPS is greatly impacted by DPS and P/E Ratio but not by DPR. EPS positively impacts MPS as well.

4.4 Summary of hypothesis

Table 1: *Hypothesis test*

	Hypothesis	P-value	Results
H1	There is a significant effect of dividend per share on market price per share.	0.034	Accepted
H2	There is a significant effect of dividend payout ratio on market price per share.	0.590	Rejected
H3	There is a significant effect of P/E Ratio on market price per share.	0.000	Accepted
H4	There is a significant effect of earning per share on market price per share.	0.028	Accepted

The results of hypothesis tests on the impact of divident variable (i.e., DPS, DPR, P/E ratio, EPS) on Market Price Per Share are presented in Table 11. H1 is accepted with a p-value of 0.034, indicating that Dividend Per Share (DPS) influences MPS. The earlier observation that higher DPS diminishes MPS is supported by the statistically significant effect of DPS on MPS.

This research rejects H2, which examines the extent to which the Dividend Payout Ratio (DPR) has an impact on MPS. The p-value of 0.590 for DPR suggests that the stock price of MPS is not substantially impacted by DPR adjustments.

The third hypothesis (H3), which assesses the impact of P/E on MPS, is adopted due to the p-value of 0.000. This demonstrates that stock prices are correlated with higher P/E ratios.
The fourth hypothesis (H4) investigates the impact of EPS on MPS. This hypothesis is corroborated by a p-value of 0.028, which suggests that EPS has a positive impact on MPS. A favorable market valuation in share prices is suggested by higher EPS levels.

The findings indicate that MPS is substantially influenced by DPS, P/E Ratio, and EPS, while DPR is not. It means that there is significant relationship which was statistically significant at the 0.05 level (2-tailed) ($p < 0.05$).

4.5 Major Findings

- The DPS of ALICOL, ALICL, CLICL, GLICL, IMELICL, JCICL, LICN, MLICL, NLICL and NLIC for the fiscal year of 2014/15 to 2022/23. The DPS of CLICL is 21.37, which is higher than other sample insurance companies. The DPS of ALICL has 13.61, which is lower than other sample insurance companies. It means that CLICL is better DPS then other sample banks.
- Table 4.2 shows that the average Earnings per Share (EPS) of the ALICOL, ALICL, CLICL, GLICL, IMELICL, JCICL, LICN, MLICL, NLICL and NLIC are 42.19, 29.42, 26.50, 33.19, 45.00, 26.46, 26.52, 35.52, 24.49 and 15.01 respectively. The average Earnings per share (EPS) of IMELICL is greater than that of other insurance companies. This means that IMELICL is better than other insurance companies in terms of EPS. This low EPS was because the dividend declined sharply during the year, and bonus shares were declared.
- Table 4.3 shows that insurance businesses' Dividend Payout Ratios (DPR) throughout time show considerable disparities in average payouts and consistency. The highest mean DPR of 0.80 belongs to GLICL, which consistently returns considerable revenues to shareholders. Its payment policy may vary because of its 11.56% coefficient of variation (CV). LICN and NLICL have high mean DPRs of 0.78 and 0.76, respectively, indicating good shareholder returns with reasonable consistency.

IMELICL, with a mean DPR of 0.69 and the highest CV of 19.53%, may alter dividends based on profitability. MLICL has the most steady dividends, with a mean DPR of 0.72 and the lowest CV of 4.27%, appealing to investors seeking dependability. GLICL and LICN prioritize high dividend payouts. MLICL has the most stable returns, while IMELICL distributes dividends more flexibly.

- Table 4.4 presents the Price-to-Earnings (P/E) Ratio, which investors use to assess insurance companies' earnings. The average P/E ratio of GLICL is 26.48, indicating that investors are willing to pay a higher price for each unit of profits generated by GLICL. ALICL and CLICL exhibit comparable P/E ratios, with values of 24.67 and 23.63, respectively. The companies NLIC and NLICL have the lowest average price-to-earnings (P/E) ratios, precisely 17.24. This suggests that the market assigns a lower value to their earnings than other companies.
- Table 4.5 shows the Market Price Per Share (MPS) discloses significant differences in insurance business valuations. ALICL has the highest average MPS (644), indicating market confidence, followed by ALICO (625) and MLICL (614). The market places a higher value on these businesses, demonstrating investor confidence. However, NLICL and NLIC have the lowest average MPS (411 and 446), indicating lower market valuations. MELICL and MLICL had the most stable market prices, with CVs of 5.12% and 5.20 percent, respectively, indicating low volatility and solid investor sentiment. However, ALICL and GLICL have higher CVs of 20.89% and 20.08%, implying greater price volatility. JLICL has the greatest CV at 24.34%, indicating market volatility due to speculative trading or market opinions.
- Table 4.6 presents descriptive statistics for key financial variables across various insurance businesses. The market price per share (MPS) ranges from 303.05 to 783, averaging 531.48. The standard deviation (SD) of 111.95 and coefficient of variation (CV) of 21.06% suggest that market prices vary moderately. The Dividend Per Share (DPS) has a mean of 17.36, with values ranging from 2.63 to 27.68, and a slightly higher CV of 21.72%, indicating some volatility in dividend payouts.
- The correlation coefficient between MPS and DPS, DPR, EPS & P/E ratio are 0.223, 0.30, 0.253 and 0.427 respectively. There was a positive correlation between MPS and EPS, DPS, DPR & P/E ratio. The MPS and EPS, DPS, DPR & P/E ratio which was statistically significant at the 0.05 level (2-tailed) ($r = 0.223, 0.30, 0.253$ & 0.427, $n = 90$, $p < 0.05$).

- Table 4.8 shows the relationship between MPS and insurance companies' EPS, DPS, P/E Ratio, and DPR. R^2 has a value of about 0.259. This means that the independent variable explained by a dependent variable is 25.90%.
- Table 4.9 shows the significance of EPS, DPS, P/E Ratio, DPR influencing the Market price per share of sample life insurance. The P-value is 0.000, which is less than 0.01. A significant relationship exists between MPS and EPS, DPS, P/E Ratio, DPR with a 99% confidence interval. The ANOVA table indicates that the fitted model or R square is highly significant ($F(4, 85) = 7.425$, $p = 0.000$). It means that the model is fit.
- Table 4.10 depicts a regression analysis of financial variables and market price per share (MPS). After all variables are zero, the constant term, 331.775, indicates a baseline MPS and is statistically significant. There is a statistically significant negative correlation between MPS and the independent variable Dividend Per Share (DPS) (-6.026). When all other parameters remain unchanged, a higher DPS reduces MPS. Nonetheless, there is a positive correlation of 55.698 for the Dividend Payout Ratio (DPR), but this association is not statistically significant (p-value = 0.590), indicating that DPR has no effect on MPS. A strong and positive correlation has been shown between greater Price-to-Earnings (P/E) Ratios and higher MPS. A correlation of 2.105 indicates that MPS rises with increased Earnings Per Share (EPS). In general, MPS is greatly impacted by DPS and P/E Ratio but not by DPR. EPS positively impacts MPS as well.
- The findings indicate that MPS is significant effect by DPS, P/E Ratio, and EPS, while DPR is not. It means that there is significant relationship which was statistically significant at the 0.05 level (2-tailed) ($p < 0.05$).

4.6 Discussion

The analysis of the relationship between Market Price Per Share (MPS) and a variety of dividend policy (i.e. DPS, DPR, P/E Ratio, EPS) presents useful insights into the value of stocks. The correlation coefficients suggest that there are positive relationships between MPS and earning per share (EPS) ($r = 0.427$), price-to-earnings (P/E) ratio ($r = 0.427$), dividend per share (DPS) ($r = 0.223$), and dividend payout ratio (DPR) ($r = 0.30$). These correlations indicate that higher EPS and P/E Ratios are generally associated with higher MPS, which is consistent with the Earnings Response Coefficient (ERC) theory and the Gordon Growth

Model, which assert that earnings and growth expectations contribute to stock prices (Ball & Brown, 1968; Gordon, 1962). Nevertheless, the regression analysis provides a more complex perspective. The coefficient for DPS is -6.026, which suggests that a substantial negative effect on MPS is present. This suggests that higher dividend payouts may indicate lower growth prospects, which could result in a decrease in the stock price. Modigliani and Miller (1961)'s Dividend Irrelevance Theory posits that stock prices are not influenced by dividend policies in a perfect market, but in real-world scenarios, excessive dividends may be perceived negatively.

This finding is consistent with this theory. The positive influence of growth expectations and earnings on stock valuation is confirmed by the significant positive impacts of the P/E Ratio and EPS on MPS, with coefficients of 8.902 and 2.105, respectively. In contrast, the Dividend Payout Ratio (DPR) has a coefficient of 55.898, but it is not statistically significant, indicating that DPR does not have a significant impact on MPS. This analysis substantiates the established financial theories and underscores the significance of earnings and growth prospects in stock valuation, as it confirms that MPS is substantially influenced by DPS and P/E Ratio, but DPR does not, and EPS has a positive impact on MPS.

CHAPTER-V
SUMMARY AND CONCLUSION

The initial chapter of this study provides a brief introduction. The second chapter covers a review of the literature, including an examination of relevant concepts, hypotheses, and research findings. The third chapter details the research methodology related to dividend decisions. The current chapter aims to offer a concise overview of the study, summarizing the key findings and conclusions. It is structured into three sections: the first provides a summary of the study and an overview of the research findings, while the second section presents the conclusions and implications of the study.

5.1 Summary

The primary aim of this research study is to evaluate how dividend policy influences the stock prices of life insurance companies in Nepal. To address this objective, various literatures on dividend policy and related variables have been reviewed. Dividends, which represent a portion of a company's net earnings distributed to shareholders, play a significant role in compensating investors for their investments. The dividend decision affects both the operation and success of the organization. Dividends can serve as a powerful tool for attracting new investors and retaining existing ones, though some argue that the uncertainty surrounding dividend policy can impact a company's value. Factors influencing dividend payments include investors' preferences and the financial institution's need for funds for potential investments. While the dividend decision affects the company's financial structure, it also provides valuable information to investors and impacts the share price.

The primary focus of this study is to examine the standard dividend distribution practices employed by publicly traded companies, with a particular emphasis on understanding the dividend policies of various microfinance institutions. In Nepal, it is common for companies to exhibit instability in dividend payments and inconsistent payout ratios. This research investigates the relationship between dividends and stock prices by analyzing variables such as earnings per share, price-to-earnings ratio, cash dividends per share, bonus dividends per share, dividend payout ratio, book value per share, and market price per share. To ensure the reliability of the findings, additional analyses are conducted to determine the appropriate

relationship between market price and other influencing variables, with statistical tests performed at a 5% significance level.

The study primarily aims to assess the impact of dividends on market stock prices. It utilizes secondary data from ten insurance companies listed on the NEPSE, covering the period from 2014/15 to 2022/23. The reliability of the study's conclusions hinges on the accuracy of this secondary data. The analysis revealed a positive correlation between Market Price per Share (MPS) and Earnings per Share (EPS), Dividend per Share (DPS), Dividend Payout Ratio (DPR), and Price-to-Earnings (P/E) Ratio, with statistical significance at the 0.05 level. The independent variables account for 25.90% of the variability in the dependent variable. The findings indicate that MPS is significantly influenced by DPS, P/E Ratio, and EPS, while DPR does not have a significant impact, with these relationships being statistically significant at the 0.05 level.

5.2 Conclusions

The study concludes that the market price per share (MPS) is not solely influenced by any single financial indicator. Instead, the significance of each financial indicator in determining MPS varies across different companies. Based on the data analysis, it has been determined that while some indicators have a significant impact on MPS for certain companies, they may not be significant for others. The conclusions are drawn in alignment with the study's objectives, and relevant comparisons are made where applicable.

The study examined dividend policies and market pricing patterns among Nepalese life insurance companies, revealing substantial differences in Dividend Per Share (DPS) and Market Price Per Share (MPS). The analysis demonstrated that dividend policies and stock valuations vary significantly across companies. Correlation research found a positive relationship between MPS and dividend-related variables, including DPS, Dividend Payout Ratio (DPR), Earnings Per Share (EPS), and Price-to-Earnings (P/E) Ratio, with the P/E Ratio showing a notable correlation.

Regression analysis revealed that while DPS negatively impacts MPS, suggesting that higher dividends might signal lower growth potential, EPS and the P/E Ratio positively influence MPS, underscoring their importance in company valuation. Conversely, DPR did not have a

statistically significant effect on MPS. The findings highlight that investors place considerable emphasis on earnings and valuation metrics when evaluating market prices, alongside dividend policies, for life insurance companies in Nepal.

The study aimed to explore the impact of dividend policy on stock prices. It found a positive correlation between Market Price Per Share (MPS) and Earnings Per Share (EPS), Dividend Per Share (DPS), and Dividend Payout Ratio (DPR), with these relationships being statistically significant. The analysis concluded that MPS is significantly influenced by DPS, P/E Ratio, and EPS, while DPR does not have a significant effect. The ANOVA table showed that the fitted model is highly significant, indicating a good fit for the model.

5.3 Implications

Based on the study's findings, it is recommended that companies adhere to a consistent dividend distribution policy to potentially enhance stock market prices. In contrast, firms that retain profits without distributing dividends may experience a decrease in stock value. Although there is a positive relationship between Market Price Per Share (MPS) and Earnings Per Share (EPS), Dividend Per Share (DPS), and Dividend Payout Ratio (DPR), this relationship is significant. Research indicates that dividend policies can have varying impacts even in economically advanced and stable countries (Garrett & Priestley, 2000). Given that the financial sector in Nepal is still developing and growing slowly, predicting the dividend policies of microfinance institutions remains challenging and uncertain. Shareholders may not always make rational decisions based on company indicators. Nonetheless, with the financial sector expanding and more institutions emerging, there is an opportunity to examine dividend policies and recommend improvements to enhance the sector's development. Investors should also thoroughly review available company data to ensure secure investments and achieve attractive returns. Owners and managers may each receive counsel regarding the factors that affect stock market prices and factors that investors deem important when making investment decisions as they are interested in changes in stock market price. Besides, this study also pinpoints key elements for directors in framing dividend policy. This reading has several restrictions. The limitations of this work may open up opportunities for future, more advanced research in the same field.

Since this study relies exclusively on secondary data and does not account for external factors such as the investment climate, economic growth, the development of the financial system, and other relevant variables, it is recommended to conduct a more comprehensive study to analyze market price behavior in Nepal. Utilizing advanced statistical methods could enhance the validity and reliability of results across different business sectors. Therefore, there is significant potential for further research to achieve a broader understanding and provide deeper insights into the factors influencing market prices.

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APPENDIX

Insurance	F.Y	EPS	DPS	P/E Ratio	DPR	MPS
ALICOL	2014/15	41.43	18.93	23.82	0.73	563
	2015/16	43.46	15.87	23.78	0.52	698
	2016/17	49.15	17.34	28.93	0.67	690
	2017/18	39.04	23.11	22.09	0.65	654
	2018/19	36.66	22.23	23.16	0.62	577
	2019/20	39.38	17.22	21.97	0.56	550
	2020/21	44.14	13.54	24.69	0.66	590
	2021/22	41.81	15.54	24.21	0.62	638
	2022/23	44.63	14.34	22.34	0.67	667
ALICL	2014/15	32.34	15	26.19	0.78	669
	2015/16	32.08	2.63	25.73	0.61	755
	2016/17	34.48	17.63	21.94	0.87	762
	2017/18	36.39	15	25.31	0.85	753
	2018/19	29.29	10	25.61	0.68	783
	2019/20	32.16	15	17.13	0.87	607
	2020/21	24.91	14	24.77	0.82	548
	2021/22	31.22	15.05	32.92	0.71	574
	2022/23	11.94	18.16	22.39	0.69	345
CLICL	2014/15	24.58	21.32	21.68	0.72	479
	2015/16	22.17	22.32	22.94	0.75	403
	2016/17	25.01	11.05	29.99	0.69	546
	2017/18	27.27	27.68	27.12	0.76	648
	2018/19	23.92	25.79	25.76	0.79	436
	2019/20	26.67	22.71	17.67	0.78	574
	2020/21	29.51	20.42	20.76	0.89	470
	2021/22	31.84	21.13	22.25	0.71	471
	2022/23	27.54	19.87	24.47	0.73	490

GLICL	2014/15	31.71	12.63	21.07	0.85	663
	2015/16	35.77	13.1	25.12	0.91	655
	2016/17	37.18	11.58	36.02	0.67	683
	2017/18	37.14	14.04	34.35	0.81	648
	2018/19	35.26	22.11	22.62	0.93	544
	2019/20	37.57	15.53	27.68	0.85	464
	2020/21	25.12	17.68	27.13	0.78	457
	2021/22	30.14	21.55	22.81	0.64	427
	2022/23	28.79	22.34	21.48	0.78	387
IMELICL	2014/15	81.68	20	17.5	0.58	469
	2015/16	92.04	18	18.63	0.39	467
	2016/17	46.37	16	27.39	0.69	470
	2017/18	40.55	18	23.28	0.73	400
	2018/19	30.26	15	28.59	0.71	467
	2019/20	27.54	14	16.01	0.78	469
	2020/21	16.75	17	25.1	0.83	445
	2021/22	37.72	19	29.77	0.66	463
	2022/23	32.13	21	19.65	0.87	489
JLICL	2014/15	32.2	23	12.94	0.58	318
	2015/16	37.12	19	16.32	0.49	303
	2016/17	23.48	20	27.35	0.52	685
	2017/18	23.04	18	28.7	0.5	558
	2018/19	28.19	14	18.18	0.54	665
	2019/20	27.44	16	12.97	0.59	589
	2020/21	20.27	14	30.62	0.51	566
	2021/22	22.77	16	22.8	0.64	586
	2022/23	23.65	11	24.12	0.71	487

LICN	2014/15	21.71	19	22.07	0.65	563
	2015/16	25.77	16	24.12	0.71	555
	2016/17	27.18	17	26.02	0.81	583
	2017/18	28.14	20	24.35	0.86	548
	2018/19	25.26	21	22.62	0.73	584
	2019/20	30.57	19	25.68	0.82	564
	2020/21	29.12	18	23.13	0.79	457
	2021/22	26.14	21	22.81	0.74	487
	2022/23	24.79	16	22.48	0.88	494
MLICL	2014/15	31.43	18.93	21.82	0.75	663
	2015/16	33.46	20.87	22.78	0.72	598
	2016/17	39.15	17.34	26.93	0.68	620
	2017/18	39.04	23.11	23.09	0.75	654
	2018/19	36.66	22.23	24.16	0.73	560
	2019/20	39.38	17.92	22.97	0.76	580
	2020/21	34.14	19.54	24.69	0.69	600
	2021/22	31.81	16.54	23.21	0.72	638
	2022/23	34.63	18.34	20.34	0.67	610
NLICL	2014/15	24.34	15.23	16.19	0.78	469
	2015/16	22.18	22.63	15.73	0.61	455
	2016/17	24.48	17.63	14.34	0.87	462
	2017/18	26.39	15.65	15.67	0.85	453
	2018/19	27.15	10.13	15.32	0.68	483
	2019/20	25.76	15.1	17.13	0.87	307
	2020/21	24.91	14.87	19.67	0.82	348
	2021/22	23.22	15.05	18.22	0.71	374
	2022/23	21.94	18.54	22.87	0.69	345

NLIC	2014/15	14.34	15.23	16.19	0.73	569
	2015/16	12.98	16.63	17.73	0.75	495
	2016/17	14.38	15.63	19.34	0.81	562
	2017/18	16.39	17.65	15.67	0.85	453
	2018/19	17.25	16.13	16.32	0.78	422
	2019/20	15.46	15.78	17.13	0.67	400
	2020/21	14.51	13.67	16.67	0.72	380
	2021/22	13.62	15.65	17.22	0.68	374
	2022/23	16.14	16.54	18.87	0.64	360

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ii STRACT This study aims to analyze the impact of dividend policy on the stock price of Life insurance companies in Nepal. The study investigates the connections between different dividend policy indicators and stock prices using secondary data from ten insurance companies spanning an eight-year period, from 2014/15 to 2022/23. Market price per share (MPS) and important financial indicators, such as earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR), and price-to-earnings (P/E) ratio, are found to positively correlate, according to the investigation. For these associations, statistical significance is reported at the 0.05 level. The analysis of the dividend policy components shows that the regression model has a moderate explanatory power, as it accounts for 25.90% of the variance in MPS. The results indicate