

**DIVIDEND CHANGE AND FUTURE PROFITABILITY  
OF SELECTIVE LISTED COMPANIES**

**A THESIS**

**Submitted By:  
Amar Shrestha**

Nepal Commerce Campus  
T.U Regd. No-7-2-421-52-2002  
Campus Roll No-239/062  
Exam Roll No-1943/064

**Submitted To:**  
Office of The Dean  
Faculty of Management  
Tribhuban University

In partial Fulfillment of the Requirements for the  
Master's Degree of Business Studies (MBS)

New Baneshwor, Kathmandu  
May, 2009

# RECOMMENDATION

This is to certify that the thesis

Submitted By:

**Amar Shrestha**

Entitled:

**DIVIDEND CHANGE AND FUTURE PROFITABILITY OF SELECTIVE LISTED  
COMPANIES**

has been prepared as approved by this department in the prescribed  
format of Faculty of Management. This thesis is forwarded for  
examination.

.....  
(Prof. Dr. Bihari Binod Pokharel)  
Head of Research Department  
&  
Thesis Supervisor

.....  
(Mr. Diwakar Pokhrel)  
Campus Chief

.....  
(Mr. Dipesh Bhatta)  
Thesis Supervisor

Date: .....

# VIVA -VOCE SHEET

We have conducted the viva-voce examination of thesis

Presented by

**Amar Shrestha**

Entitled:

**DIVIDEND CHANGE AND FUTURE PROFITABILITY OF SELECTIVE LISTED COMPANIES**

and we found the thesis to be the original work of the student written according to the prescribed format. We recommended this thesis to be accepted as partial fulfillment of the requirements for the Master's Degree of Business Studies (M.B.S).

## Viva-Voce Committee

Chairperson (Viva-Voce Committee) :.....

Member (Thesis Supervisor) :.....

Member (Thesis Supervisor) :.....

Member (External Expert) :.....

Date: - .....

## DECLARATION

I hereby declare that the work reported in this thesis entitled **Dividend Change and Future Profitability of Selective Listed Companies** submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies under the supervision of Prof. Dr. Bihari Binod Pokharel, Head of Research Department and Mr. Dipesh Bhatta of Nepal Commerce Campus.

May, 2009

.....

Amar Shrestha

T.U. Regd. No.: 7-2-421-52-2002

Campus Roll No: 239/062

Exam Roll No: 1943/064

# ACKNOWLEDGEMENTS

As the partial fulfillment of the MBS degree, I have prepared this report. During the course, I worked with sincerity, honesty and diligently, as far as possible. But beside my continual efforts, I also got unforgettable support from different people and parties. I am extremely grateful and overwhelmed by their support while completing my work.

I would like to express cordial gratitude to all my teachers, who taught me up to now. For this dissertation, I would like to extend special thanks to thesis supervisor, Prof. Dr. Bihari Binod Pokharel, Head of Research Department as well as Mr. Dipesh Bhatta of Nepal Commerce Campus. Despite his busy schedule, he has made significant contribution for preparing this thesis. I am extremely indebted by his efforts.

This is a study on banking sector. This study has been undertaken to present report on the practical operation of bank in Nepal in its proper perspective.

I would also like to express my gratitude to all other members of Nepal Commerce Campus, especially, staffs from MBS department, libraries staffs as well as all known and unknown people who supported as well as inspired me to complete this thesis. My next thanks go to all the staffs of Nepal Stock Exchange for providing me sufficient materials and suggestions.

Amar Shrestha

# TABLE OF CONTENTS

Chapter	Page No.
<b>VIVA-VOCE SHEET</b>	
<b>RECOMMENDATION</b>	
<b>DECLARATION</b>	
<b>ACKNOWLEDGEMENTS</b>	
<b>TABLE OF CONTENTS</b>	
<b>LIST OF TABLES</b>	
<b>LIST OF GRAPH</b>	
<b>ABBREVIATIONS</b>	
<b>CHAPTER- I</b>	
<b>INTRODUCTION</b>	<b>1-9</b>
1.1 Background of the Study	1
1.2 Statement of Problem	5
1.3 Objectives of the Study	8
1.4 Limitations of Study	8
1.5 Organization of the Study	9
<b>CHAPTER -II</b>	
<b>LITERATURE REVIEW</b>	<b>10-45</b>
2.1 Conceptual Framework	10
2.1.1 Forms of Dividend	14
2.1.2 Stability of Dividend	15
2.1.3 Factor Influencing Dividend Policy	16
2.2 Theories of Dividend	19
2.2.1 The Basic Irrelevance Thesis	19
2.2.2 High Dividends Increase Stock Value (Bird-In-The-Hand Hypothesis)	20
2.2.3 Low Dividends Increase Stock Value (Tax-Effect Hypothesis)	21
2.2.4 Clientele Effects of Dividends Hypothesis	22
2.2.5 Tax-Induced Clientele-Effects	23
2.2.6 Transaction Cost-Induced Clientele	24
2.2.7 The Information Content of Dividends (Signaling) Hypothesis	25

2.2.8	Agency Costs and Free Cash Flow Hypothesis of Dividend Policy	27
2.3	Review of Related Studies	28
2.3.1	Review of Empirical Works Prior To 1980	31
2.3.2	Review of Empirical Works During 1985 To 1999	38
2.3.3	Review of Empirical Works During 2000 To 2008	41
2.4	Concluding Remark	44

### **CHAPTER- III**

	<b>RESEARCH METHODOLOGY</b>	<b>46-53</b>
3.1	Research Design	46
3.2	Population and Sample	46
3.3	Source of Data	48
3.4	The Model	48
3.5	Variables Definition	51

### **CHAPTER -IV**

	<b>PRESENTATION AND ANALYSIS OF DATA</b>	<b>54-73</b>
4.1	Dividend Change and Future Earning Changes	54
4.2	Dividend Policy and Stock Price Volatility	60
4.3	Dividend Change and Future Earning Changes: A Survey	64
4.3.1	Major Aspects of Corporate Dividend Policy	64
4.3.2	Priority for Dividend Decision	65
4.3.3	Important Dividend Decision	66
4.3.4	Motive of Stock Dividend	68
4.3.5	Determining of Firms' Dividend Policy	69
4.3.6	Issues Involving Corporate Dividend Policy	70
4.3.7	Suggestion and Recommendation Regarding Dividend Policy	71
4.4	Major Findings of the Study	73

### **CHAPTER-V**

	<b>SUMMARY CONCLUSION AND RECOMMENDATIONS</b>	<b>74-78</b>
5.1	Summary	74
5.2	Conclusion	77
5.3	Recommendations	77

## **BIBLIOGRAPHY**

## **APPENDIX**

## LIST OF TABLE

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	Review of Empirical Workers Prior to 1980	31
2.2	Review of empirical works during 1985 to 1999	38
2.3	Review of empirical works during 2000 to 2008	41
3.1	Sample Company for Secondary Data	47
4.1	Description of Sample	55
4.2	Correlations Matrix	56
4.3	Summary Statistic from Regression of Future Earnings Change, Deflated by Price on the Dividend Change	57
4.4	Summary Statistic from Regression of Future Earnings Change, Deflated by Book Value, on the Dividend Change and Control variables	58
4.5	Summary Statistic from Regression of Future Profits on the Dividend Change, Instruments for Expected profits and Current Profits	59
4.6	Descriptive Statistics Mean Std. Deviation	61
4.7	Correlations	61
4.8	Summary Statistic from Regression of Price Volatility on Dividend Yield, Price Earning Ratio, Debt to Assets Ratio and Growth in Assets	62
4.9	Summary Statistic from Regression of price volatility on Price Earning Ratio, Debt to Assets Ratio and Growth in Assets	63
4.10	Priority for Dividend Decision	65
4.11	Responses on Major Aspects of Other Dividend Policy	66
4.12	Motives of Stock Dividend	68
4.13	Determining of Firms' Dividend Policy	69
4.14	Issues Involving Corporate Dividend Policy	71
4.15	Suggestion Regarding Dividend Policy	72
4.16	Recommendation regarding Dividend Policy	72

## **ABBREVIATIONS**

CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRSP	Center for Research in Security Prices
DPR	Dividend Payout Ratio
DPS	Dividend per Share
e.g.	For example
EPS	Earning per Share
et al.	and others
FPL	Florida Power & Light
FY	Fiscal Year
i.e.	That is
M&M	Miller and Modigliani
NEPSE	Nepal Stock Exchange