

**DIVIDEND POLICY
AND
IT'S EFFECT ON STOCK PRICE
(A case Study of NABIL and HBL)**

Submitted By:
Rajendra Dhungana
**Central Department of Management
T.U. Regd. No.: 7-2-482-11-2004
Second Year Symbol No.: 280442
Campus Roll No. : 310/064**

A Thesis Submitted to:
**Office of the Dean
Faculty of Management
Tribhuvan University**

***In Partial Fulfillment of the Requirements for the degree Of
Master of Business Studies (MBS)***

**Kirtipur, Kathmandu
February 2013**

RECOMMENDATION

This is to certify that the thesis

Submitted by

Rajendra Dhungna

Entitled

Dividend Policy and It's Effect on Stock Price

(A case Study of NABIL and HBL)

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

.....
Asso. Prof. Ajay Prasad Dhakal
(Thesis Supervisor)

.....
Pro. Dr. Balkrishna Shrestha
(Head of Research Department)

.....
Pro. Dr. Balkrishna Shrestha
(Head-Central Dept. of Mgmt.)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

By

Rajendra Dhungana

Entitled

Dividend Policy and It's Effect on Stock Price

(A case Study of NABIL and HBL)

*And found the thesis to be the original work of the student and written according to the prescribed format. We recommended this thesis to be accepted as a partial fulfillment of the requirements for the **Master Degree of Business Studies (MBS).***

Viva-Voce Committee

Head of Research Department

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Central Department of Management

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Dividend Policy and It's Effect on Stock Price**: A case Study of NABIL and HBL submitted to office of the Dean, 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 (MBS) under the supervision and guidance of Mr. Ajay Prasad Dhakal, Lecturer of Central Department of Management, Kirtipur, Katmandu.

Date: February 2013

.....
Rajendra Dhungana
Researcher

ACKNOWLEDGEMENT

Dividend decision is major financial decision of the financial management. This thesis entitled "Dividend Policy and It's Effect on Stock Price (A case study of NABIL and HBL)". This research has been prepared to fulfill the partial requirement for the degree of Master of Business studies (MBS).

For this research work, I would like to express my heart-felt gratitude to my respected supervisor **Ajay Prasad Dhakal**, Lecturer of Central Department of Management, TU, Kirtipur. His Valuable Guidance and Instruction for preparing this thesis. This thesis has been appeared in this form only because of his valuable suggestions and Supervision.

I would like to express my profound gratitude to all my teachers of Central Department of Management, TU, Kirtipur, Staff of library and administration of the Campus and all my colleagues who helped me directly and indirectly for completion of this thesis.

Finally, I would like to extend my hearty thanks to all my family member and relatives who inspired me in many ways to cope during the entire period of study.

Rajendra Dhungana

TABLE OF CONTENTS

| |
|-----------------|
| Recommendation |
| Viva-Voce Sheet |
| Declaration |
| Acknowledgement |
| Contents |
| List of Tables |
| List of Figures |
| Abbreviation |

| CHAPTER – I: INTRODUCTION | Page No. |
|--|-----------------|
| 1.1 Background of the Study | 1 |
| 1.2 Focus of Study | 6 |
| 1.3 Statement of Problem | 7 |
| 1.4 Objectives of the study | 8 |
| 1.5 Significance of the Study | 8 |
| 1.6 Limitation of the Study | 9 |
| 1.7 Organization of the Study | 10 |
| CHAPTER – II: REVIEW OF LITERATURE | |
| 2.1. Conceptual Framework | 11 |
| 2.1.1 Meanings of dividend | 11 |
| 2.1.2 Theories of dividend | 12 |
| 2.1.3 Forms of dividend | 13 |
| 2.1.4 Dividend policy | 15 |
| 2.1.5 Factors influencing dividend policy | 17 |
| 2.2. Review of related studies | 18 |
| 2.2.1 Review of Major Empirical Studies | 18 |
| 2.3 Summary and focus of previous studies as per time period | 26 |
| 2.3.1 Review of Journals and Article | 26 |
| 2.3.2 Review of Previous Thesis: | 28 |
| 2.4 Research Gap | 30 |

CHAPTER – III: RESEARCH METHODOLOGY

| | |
|-------------------------------|----|
| 3.1 Research Design | 32 |
| 3.2 Sources of Data | 33 |
| 3.3 Population and Sample | 33 |
| 3.4 Data Processing Technique | 35 |
| 3.5 Data Analysis Tools | 35 |
| 3.5.1 Financial technique | 35 |
| 3.5.2 Statistical tools | 39 |

CHAPTER – IV: PRESENTATION AND ANALYSIS OF DATA

| | |
|---|----|
| 4.1. Analysis of Financial Indicators | 46 |
| 4.1.1. Earning per share | 46 |
| 4.1.2. Dividend per share | 48 |
| 4.1.3. Dividend payout ratio | 49 |
| 4.1.4. Dividend percent | 51 |
| 4.1.5. Market value per share | 52 |
| 4.1.6. Dividend Yield | 53 |
| 4.1.7. Net Worth per share | 55 |
| 4.1.8. MVPS and BVPS | 56 |
| 4.1.9. Price earning ratio | 58 |
| 4.1.10. Earning yield | 60 |
| 4.2. Company Wise Analysis | 61 |
| 4.2.1. NABIL Bank Ltd. | 62 |
| 4.2.2. Himalayan Bank Ltd. | 63 |
| 4.3. Statistical Tools | 64 |
| 4.3.1. Simple correlation and regression analysis | 64 |
| 4.4 Major Findings | 71 |

**CHAPTER – V: SUMMARY, CONCLUSIONS AND
RECOMMENDATIONS**

| | |
|---------------------|----|
| 5.1 Summaries | 74 |
| 5.2 Conclusions | 75 |
| 5.3 Recommendations | 76 |

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

| Table No. | Title | Page No. |
|------------------|---|-----------------|
| 3.1 | List of Licensed Commercial Banks | 34 |
| 4.1 | Earning Per Share of Concerned Banks | 46 |
| 4.2 | Dividend Per Share of Concerned Banks | 48 |
| 4.3 | Dividend payout ratio of Concerned Banks | 50 |
| 4.4 | Dividend percent ratio of Concerned Banks | 51 |
| 4.5 | Market value Per Share | 52 |
| 4.6 | Dividend Yield of Concerned Banks | 54 |
| 4.7 | Net worth per share of Concerned Banks | 55 |
| 4.8 | MVPS to BVPS of Concerned Banks | 57 |
| 4.9 | Price earning ratio of Concerned Banks | 58 |
| 4.10 | Earning Yield of Concerned Banks | 60 |
| 4.11 | NABIL Bank Ltd. | 62 |
| 4.12 | HBL | 63 |
| 4.13 | Correlation and regression between EPS and DPS | 65 |
| 4.14 | Correlation and regression between EPS and MVPS | 66 |
| 4.15 | Correlation and regression between DPS and MVPS | 67 |
| 4.16 | Correlation and regression between DPR and MVPS | 69 |
| 4.17 | Correlation and regression between DPS and NWPS | 70 |

LIST OF FIGURES

| Figure No. | Title | Page No. |
|-------------------|---|-----------------|
| 2.1 | Constant dividend per share | 15 |
| 2.2 | Constant pay out ratio | 16 |
| 2.3 | Earning Investment & new Financing | 20 |
| 4.1 | Earning Per Share of Concerned Banks | 47 |
| 4.2 | Dividend Per Share of Concerned Banks | 59 |
| 4.3 | Dividend payout ratio of Concerned Banks | 51 |
| 4.4 | Dividend percent ratio of Concerned Banks | 52 |
| 4.5 | Market value Per Share | 53 |
| 4.6 | Dividend Yield of Concerned Banks | 55 |
| 4.7 | Net worth per share of Concerned Banks | 56 |
| 4.8 | MVPS to BVPS of Concerned Banks | 58 |
| 4.9 | Price earning ratio of Concerned Banks | 59 |
| 4.10 | Earning Yield of Concerned Banks | 61 |

ABBREVIATION

| | | |
|-----------|---|-------------------------------------|
| MPS | : | Market Price per Share |
| EPS | : | Earning per Share |
| DPS | : | Dividend per Share |
| DPR | : | Dividend Payout Ratio |
| MVPS | : | Market Value per Share |
| BVPS | : | Book Value per Share |
| NWPS | : | Net Worth per Share |
| FV | : | Face Value |
| EY | : | Earning Yield |
| DY | : | Dividend Yield |
| Rs. | : | Rupees |
| No. | : | Number |
| P.E. | : | Probable Error |
| DP | : | Dividend Percent |
| C.V. | : | Coefficient of Variation |
| NEPSE | : | Nepal Stock Exchange |
| BOD | : | Board of Director |
| R/E | : | Retained Earning |
| P/E Ratio | : | Price Earning Ratio |
| B.S. | : | Bikram Sambat |
| FY | : | Fiscal Year |
| IPO | : | Initial Public Offering |
| K_e | : | Cost of Equity |
| r | : | Internal Rate of Return |
| k | : | Required Rate of Return |
| b | : | Retention Ratio |
| g | : | Growth Rate |
| a | : | Constant Related to Dividend Growth |
| MBS | : | Master of Business Studies |
| Ltd. | : | Limited |
| NRB | : | Nepal Rastra Bank |

| | | |
|-------|---|-------------------------|
| T.U. | : | Tribhuvan University |
| d.f. | : | Degree of Freedom |
| A.D. | : | Anno Domini |
| SD | : | Standard Deviation |
| SEBO | : | Security Board of Nepal |
| & | : | And |
| Ibid | : | Form the Same work |
| NABIL | : | Nabil Bank Limited |
| HBL | : | Himalayan Bank Limited |