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CONTENTS

IMPACT OF DIVIDEND PAYOUT AND EARNINGS PER SHARE ON COMPANY SHARE PRICE: A STUDY OF LISTED INSURANCE COMPANIES IN NIGERIA

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Abstract
This study aims at determining how, and to what extent, dividend payouts and earnings correlate with the fluctuations in the market price of ordinary shares of listed Nigerian insurance companies. American International Insurance Company is used as proxy for the sector. The study covers the period from 2005 to 2014. The Ordinary Least Squares statistical technique is utilized for carrying out the empirical analysis. The results disclose that, although statistically insignificant, both earnings per share and dividend per share had positive effect on the fluctuations of the market price of ordinary shares during the study period. In addition, the correlation between earnings per share and stock price is observed to be much higher than it is between dividend per share and stock price. The implications of the findings are that an increase in earnings and/or dividend payout has the tendency of causing some increase in the market price of ordinary shares and there exist other factors that are responsible for the fluctuations in the market price of ordinary shares in the Nigerian insurance sector. It is, therefore pertinent that quoted insurance companies desiring to enhance their stock price should adopt measures that will boost their earnings and dividend payouts.

Keywords: Dividends, Earnings, Insurance, Nigeria, Share.

1. Introduction
The principal aim of a firm should be to maximize the value of its stock price (Umar and Musa, 2013). According to Remi (2005), the success or failure of every management decision is measurable mostly from how it impacts on its firm's stock price. One of the major components of firm performance is earnings per share; another is dividend payout. However, the exact nature of the relationship between each of these concepts and stock price has remained a subject for debate among researchers for a long time. For example, one group of researchers asserts that stock prices are not directly determined by earnings per share (EPS) but by the balance between demand and supply of firm's stock. The second group, however, argues that EPS does not determine stock price (Kopcke, 2000). Ikenberry, Lakonishok and Vemaelen (1995, 2000) complain that not much work has been done to ascertain the exact impact of dividends on stock price. According to Attah Bochwey (2014) dividend policy has remained a controversial topic in corporate finance for a long time but its general theory continues to be elusive. For Lin, Hus and Liao (2005), dividend policy is related to the cost of capital and the market value of stock, Miller and Modigliani (1961) consider dividend to be irrelevant in stock valuation. Concerning the relationship between dividends and firm earnings, Ohlson (1995) opines that dividends reduce book value but do not affect earnings. The case of EPS is not different. Controversies also abound on the true nature of its relationship with stock price. One group of scholars believes that EPS has some predictive power on stock price; another group maintains that EPS does not affect stock price. A third group of researchers posits that there is an inverse relationship between EPS and stock price while the fourth group asserts that, where a relationship exists between the two, it is weak and exists only for some time.

1.1   Statement of the Problem

In spite of the difficult choice situation often faced by the management of corporate organizations in emerging markets in determining the type of dividends and earnings retention policies to adopt that would maximize shareholders' wealth, there is yet no consensus on the true effects of dividend payouts and earnings per share on firm stock price. For example, while researchers like Umar and Musa (2013) postulate the absence of a predictive power of EPS on stock price, others like Inyiama and Ozouli (2014) observe a strong unidirectional causal relationship between EPS and stock price. The same kind of controversy and absence of a general theory on the effect of dividend payout on firm stock price exists. Considering the magnitude of importance of dividend and earnings per share to policy-makers and other stakeholders of corporations, this paper has the aim of unraveling the exact nature of the relationship that exists between each of the two variables and the stock price of Nigerian insurance companies. American International Insurance Plc is chosen as case study.

2.   Review of Related Literature

2.1   Conceptual and Theoretical Framework

The concept of stock price originated from the early discussions on the random walk theory. Christopher, Rufus and Jimoh (2009) postulate that stock prices could be determined by some micro and macroeconomic factors which include book value of the firm, dividend per share, earnings per share, price-earnings ratio and dividend cover. Gomper, Joy and Andrew (2003) share the same view with Christopher, Rufus and Jimoh (2009). For Moore and Beltz (2002), the stock price of a firm is influenced by the firm's beta factor (i.e. its market value to book value). This line of thinking by Moore and Beltz (2002) is challenged by Hordahi and Frank (2007). The latter argue that stochastic discount factor and future payoffs are the determinants of stock prices. In the contrary, Corwins (2003) views uncertainty and asymmetric information as a strong influence in firm stock pricing. Glen et al (1995) finds dividend policy in emerging markets as different from those in developed markets. Their observation is that the dividend payout ratios in developing economies are about two-thirds of those of developed economies.

Dividend, as a concept, has been severally defined. Bieman (2001) defines dividends as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital'. According to Uwuigbe, Jafaru and Ajayi (2012), dividends are compensation distributions to equity shareholders for both time and investment risks carried by them. Pandey (2010) considers dividend as a portion of a firm's net earnings which the directors of a company recommend to be distributed to their shareholders. Dividends are usually expressed as a percentage of the nominal value of the firm's ordinary share capital or as a fixed amount per share (Enekwe, Nweze and Agu, 2015). Zakaria, Muhammad and Zulleifi (2012) consider dividend payment as a major component of stock return to shareholders. They also share the opinion that dividend payout is capable of providing a signal to investors that the company is complying with good corporate governance practices. Enekwe et al (2015) define dividend payout as the amount of cash that a company sends to its shareholders in the form of dividends, Zhou and Ruland (2006) posit that high dividend payout firms tend to experience strong future earnings but a relatively low past earnings growth. According to Murekefu and Ovma (2012), cash dividend announcement conveys useful information which shareholders lack about management's assessment of firm's future profitability. The forms of dividends that companies pay out include cash dividends, bonus shares, stock dividends, share dividends, share split, bond dividends and property dividends, *et cetera*.

Earnings per share (EPS), also called net income per share, is a market prospect ratio that measures the amount of money which each equity shareholder would receive assuming that all the profits were to be distributed to the outstanding shareholders at the year-end (Enekwe et al, 2015). EPS is the part of a firm's profit which is allocated to each outstanding ordinary share. It is also a calculation which shows how profitable a company is on shareholder basis. Higher EPS is preferable to a lower ratio as higher EPS implies that the firm is more profitable and has more profits to distribute to its shareholders.

2.2.   Empirical Review

The first set of studies related to dividends and share price fluctuations were predominantly carried out in the United States. Included among such studies are Hurkavy (1953), Friend and Puckett (1964), Litzenberger and Ramaswamy (1982), Fama and French (1988), Baskin (1989), and Ohlson (1995). These studies emerged with mixed results and were non-conclusive. For example, while the work of Friend and Puckett (1964) observe a positive effect of dividend on share price movements, Baskin (1989) notes an inverse correlation between dividend yield and stock price fluctuation. The studies conducted in the later years in different developed and emerging economies also provides conflicting results. While Kalay and Lowenstein (1985) Ventatesh (1989), Kim and Verrechia (1991) and Mitra and Owers (1995) find the volatility of share price as responding to dividend announcements, Allen and Rachim (1996) do not see any evidence supporting the belief that dividend yield influenced share price movements in Australia. After conducting a similar study in Bangladesh, Rahman (2008) agree with Allen and Rachim that dividend payout policy play no role in stock risk. Manakyan and Carroll (1991) have a similar observation. The studies carried out by Mestel and Gurgal (2003), Gurgul et al (2003), Docking and Koch (2005), and Fargher and Weigand (2009) link the increase in stock return movements with the announcement of bad news and the increase in uncertainty among investors. Ohlson (1995) postulates that dividends are paid out of book -value and not out of current earnings. Ohlson maintains that current year dividends reduce future earnings. Onyinlola, Onyinlola and Adeniran (2014) find a positive relationship between EPS and dividend per share. They maintain that there is a significant relationship between dividend payout and organizational performance in the Nigerian Brewery sub-sector. Rashid and Rahman (2008) observe a positive but insignificant relationship between the volatility of share price and the dividend yield for 104 non-financial firms listed in the Dhaka Stock Exchange during the period 1999-2006. Nazir, Musarat, Waseem and Ahmed (2010) and Zakaria et al (2012) both present results which suggest the existence of a significant relationship between dividend payout and a firm's share price volatility. After using simple regression on a panel of 140 Nigerian firms from a population of 216 quoted firms, Umar and Musa (2013) obtain a result which indicates that EPS has no predictive power on stock prices and ought not be relied upon for predicting the behavior of stock prices in Nigeria. Hemadiyya and Devi (2013) used regression and correlation analyses to carry out a similar study on the manufacturing sector. They discover that stock market price is significantly affected by changes in EPS. Other studies which have similar findings include Malakar and Gupta (2012), Tuli and Millal (2001), Durutropolis and Asterion (2009), Kethari and Zimmerman (1995), Frorahemi and Challengani (2011). The result of the study of Chang and Wang (2008) is that, for a firm having a high growth rate, EPS has less predictive power on stock price; and, vice versa for a firm with low level growth rate. The following studies find a direct positive (linear) relationship between earnings per share and stock price: Lev (2001), Docking and Koch (2005), Zhao (2000) and Lee (2002). However, while Lee (2002) observes that firm EPS and stock price do not have a stable relationship, Spyrou (2001) argues that EPS has negative relationship with stock price up to 1995 after which their relationship becomes insignificant. Harasty and Roulet (2000) observe that there is an inverse relationship between EPS and stock price. On the side of Hsing (2004), the argument is that even if there is a relationship between EPS and stock price, the relationship is weak.

2.3.   Review Summary

Table 1 discloses a summary of the findings of some of the major researches done earlier on the topic of this study as well as the statistical techniques used by them. This study joins researchers like Fama and French (2002) and Zhao (2000) in the use of linear regression to carry out the analysis. The justification for towing the line of those previous studies by adopting the ordinary least squares regression technique is that the latter is considered generally as possessing optimal qualities among all other statistical techniques. It is the best linear estimator for carrying out parametric tests like the one this study intends to embark on. In line with Enekwe, Nweze and Agu (2015) and Botchwey (2014) the *ex post facto* research design is adopted for the study. This research design has to be used because the study would be dealing mostly with historical data. Our empirical analysis is anchored on some firm-level data of American International Insurance Plc, one of the biggest insurance outfits in Nigeria, during the period 2005-2014.

3.   Methodology

This study relates stock price empirically with both dividend payout and earnings per share. It is relying basically on historical data as the data used were generated from the annual financial reports of AIICO Insurance Plc for 10 years (2005-2014). The data used for the study were extracted from the published annual financial statements of AIICO Insurance Plc. for the sampled years. To analyze the collected data, descriptive statistics, Pearson Correlation and Ordinary Least Squares linear regression are used. Pearson correlation has to be calculated after the descriptive statistics because it is useful for describing the strength of the interrelationship between the measurements (Xi and Yi) in a collection of data. In this study, three variables are analyzed, viz: Dividend Payout (DP) (independent variable), Earnings Per Share (EPS) (Independent variable) and Market Price Per Share (MPPS) dependent variable. The Simple Linear Regression (SLR) technique will be used to run the regression after carrying out the relevant diagnostic tests to confirm the normality and stationarity of the time series data. This statistical tool will enable the researchers to examine the relationship of the independent variables (X1, X2) with the dependent variable (Y1) and find out the impact of each dependent variable on the dependent variable.

3.1   Model Specification

In order to test the hypotheses of this study, MPPS is postulated to be a linear function of DP and EPS. While carrying out the study, a compact form of model is specified as follows: $Y_{it} = b_o + b_i X_{it} ... + \sum it$ .... (1) Where, Y = Dependent Variable, X = Independent variable, b_o = Intercept of x variables (constant), b_1 = Coefficient (slope) of the independent variables, and $\sum e_{it}$ = error term .The model specification for the regression analysis, therefore, becomes: $MPPS_{it} = b_o + b_1 DP_{it} + b_2 EPS_{it} + \sum e_{it}$ ....(2)
The variables are described as follows; MPPS = Market price per share; DP = Dividend payout; EPS = Earnings per share; $\sum e_{it}$ = Error term; t = year 1, 2, 3, ... 10th year.

3.2. Key variables and their expected signs/impact on the market price per share.

The key variables of the study and their expected signs are displayed as follows.

Variable	Type	Expected Sign of Coefficient	Rationale
DP	Independent Variable	Positive	DP $\uparrow \rightarrow$ MPPS$\uparrow$
EPS	Independent Variable	Positive	EPS $\uparrow \rightarrow$ MPPS$\uparrow$

3.3   The Hypothesis of the Study:

The hypotheses are stated as follows:
1. H_o1: There is no significant impact of dividend payout on the market price per share of AIICO Insurance Plc.

2. H_o2: Earnings per share has no significant impact on the market price per share of AIICO Insurance Plc.

4.0 Data Analysis

4.1. Descriptive: For this study, the descriptive such as Mean, Median and standard deviation are presented in table 2.

Table 2: Descriptives

	MPPS	LOG(DP)	EPS
Mean	9.381000	16.27351	12.99400
Median	1.320000	16.12765	12.12500
Maximum	81.00000	17.34639	31.38000

	MPPS	LOG(DP)	EPS
Minimum	0.5000	15.14735	0.370000
Standard Deviation	25.18063	0.642835	8.465962
Skewness	2.660254	0.449717	6.752825
Kurtosis	8.090952	3.08951	3.477681
Jarque-Bera	22.59400	0.339806	1.03965Γ
Probability	0.000012	0.843747	0.594620
Sum	93.81000	162.7351	129.9400
Sum Square Deviation	5706.579	3.719136	605.9526
Observation	10	10	10

Source: Researcher's Computation with EViews software
Table 2 displays the descriptive of the dependent and independent variables for

AIICO Insurance Plc for the period (2005-2014). The mean ± standard deviation of the dependent variable (Stock price/MPPS) for the period studied is 9.381 ± 25.181. The mean ±standard deviation of LOG (Dividend Payout) [LOG (DP)] is 6.274 ± 0.643, while the mean± standard deviation of Earnings Per Share (EPS) is 12.994 ± 8.466. MPPS during the period ranged from 0.50 to 81, while the LOG (DP) and EPS ranged from 15.147 to 17.346 for LOG (DP) and from 0.370 to 31.38 for EPS. Both the dependent and independent variables have positive skewness and positive kurtosis. The values of all the variables are widely clustered about their mean. While the median of MPPS is far below its mean, the median of LOG (DP) and EPS is each very close to their mean-implying that their distributions are close to normal and that their curves are nearly of a bell-shape type. The standard deviation of MPPS (25.18063) indicates that the values in its data-set are widely dispersed about the mean. The situation is almost applicable to EPS whose standard deviation is 8.465962. On the contrary, the standard deviation of LOG (DP) (0.642835) indicates that the values of its data-set are closely dispersed about the mean of its distribution.

4.1.2 Correlation Analysis
Table 3: Correlation matrix of the variables in the data series

		MPPS	LOG(DP)	LOG(EPS)
MPPS	r	1.0000	0.576139	0.758457
	n	10	10	10
LOG(DP)	r	0.576139	1.0000	0.562609
	n	10	10	10
LOG(EPS)	r	0.758457	0.562609	1.0000
	n	10	10	10

Source: The Researcher's Computation with EViews software

The results in Table 3 show that MPPS has a strong positive correlation with LOG (DP) as well as EPS ($r > 0.50$). On the other hand, the relationship between the two independent variables (LOG (DP) and EPS) is also strong ($r > 0.50$)
4.1.3. Regression Analysis

Table 4: Regression of LOG (DP) and LOG(EPS) with Dependent Variable (MPPS}
Dependent Variable:
Method: Ordinary Least Squares
Date: 04/10/16
Time: 07:31

Sample: 2005-2014
Included Observations: 10

Variable	Coefficient	Standard Error	T-Statistic	Probability
C	- 154.5417	176.58640	- 0.875162	0.4105
LOG (DP)	8.563818	11.21352	0.763704	0.4700
LOG (EPS)	1.890064	0.851463	2.219785	0.0619
R-Squared	0.607925	Mean Dependent Variable		9.381000
Adjusted R-Squared	0.495904	S.D Dependent Variable		25.18063
S.E. of Regression	17.87818	Akaike info Criterion		8.818364
Sum of Square Resid	2237.404	Schwarz Criterion		8.939139
Log Likelihood	-41.24182	Hannan-Quinn Criterion		8.748783
F-Statistic	5.426874	Durbin-Watson Statistic		2.268096

Source: The Researcher's Computation with E -Views software.

Decision Rule: Accept the null hypothesis and reject the alternative hypothesis if the value of the t-statistic has a probability greater than 0.05, and vice-versa.

Table 4 indicates that the probability value of the t-statistic for LOG (DP) is 0.4700. Consequently, the null hypothesis that there is no significant impact of Dividend Payout on the market price per share of AIICO Insurance Plc is hereby accepted. Table 4 equally reveals that the probability value of t-statistic for EPS is 0.0619. This is slightly above the 0.05 level of significance. Consequently, we hereby accept the null hypothesis that earning per share has no significant impact on the market price per share of AIICO Insurance Plc. Table 4 further reveals that, though insignificant statistically, the effect of each of the independent variables on the dependent variable is positive. The MPPS of AIICO Insurance Plc is predicted to increase by approximately 8.5 units when LOG (DP) goes up by 1 unit, given that other variables remain constant. In addition, the MPPS of AIICO Insurance Plc is predicted to increase by approximately 1.9 units when EPS goes up by 1 unit, given that all other explanatory variables remain constant. The P-value of the regression model, Prob (F-statistic, 0.038) is less than 0.05 level of significance. The implication is that the regression model as a whole is statistically significant. The R-squared coefficient of determination of the regression is 0.61. This means that approximately 61 percent of the changes in MPPS of AIICO Insurance Plc is explained by the variables in the regression model. In the model, the beta coefficient of LOG (DP) (8.56) is by far larger than that of EPS (1.89). The implication is that dividend payout would have a greater impact on MPPS than EPS, if all other explanatory factors should remain constant. This result confirms the bird – in – the hand dividend theory which hypothesizes that investors prefer dividend payout to capitalization of earnings. The Residual Sum of Squares which demonstrates how much of the dependent variable's variation has not been explained by the regression model is 2237.404. This figure is large and implies that there are other explanatory variables apart from dividend payout and earnings per share. The Durbin Watson value of 2.268, as shown by Appendix V, is above 2. This indicates that there may be some degree of autocorrelation. The model of the regression is estimated as follows:

MPPS = -154.54 + 8.56 LOG (DP) + 1.89 EPS + e..(3)

4.2   Discussion of Results

The findings of this study that both dividend payout and earnings per share have positive impacts on share price agree with most of the past studies. They are also in agreement with the findings hypothesized. However, the main difference between the findings of this study and those mentioned earlier is that, according to this study, the effects of dividend payout and earnings per share on stock price are statistically insignificant. Based on the regression results, we do not reject the null hypotheses at five per cent level of significance. The results of this study sharply disagree with some past studies which observe a negative effect of earnings per share on stock price. For example, studies like Spyou (2001) and Ropcke (2000) predict the absence of relationship between earnings and stock price. Further, Lee (2002) maintains that the relationship between earnings per share and stock price is unstable. Also, Hasing (2004) observes a weak relationship between the

two variables while Harasty and Roolet opine that there is an inverse relationship between them. For Miller and Modigliani (1961) and Ohlson (1995), dividend payout is irrelevant in determining predicting stock price movement.

5.0   Summary of Findings, Recommendation and Conclusion

The objective of this study is to determine the impact of dividend payout and earnings-per share on the company share price. This work is necessitated by the importance of dividend and earnings per share in corporate finance literature and the need to investigate the observed controversies on the effect of each of them on the price of an ordinary share. The study has extended the frontier of knowledge on this topic and has made a modest contribution by highlighting and creating more awareness on the role played by dividend payout and earnings per share as well as their respective effects on stock price movements. It has also confirmed the theory that dividend payout has a greater predictive power on corporate share price than earnings per share. It finds that both dividend payout and earnings per share have statistically insignificant but positive impact on stock price. An increase in dividend payout or earning per share is expected to result in an increase in the stock price, and vice versa. The findings agree with the null hypotheses that the effects of dividend payout and earnings per share on company share price are not statistically significant.   The implication is   that neither dividend payout nor earning per share, nor both, can alone be used for predicting stock price movements.

Based on the findings of this study, we suggest that both financial analysts and prospective investors should obtain information regularly on dividend payment and earnings per share of listed companies while predicting the behavior of stock prices. Further, the management of companies should focus on having more liberal dividend policies especially when those companies have high debt/equity ratios. More emphasis should equally be given to expansion and growth. Further research   should be carried out by expanding the scope of the study to include more insurance firms and cover longer period for the purpose of generalizing the results.

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