

"THE STUDY OF THE RELATIONSHIP BETWEEN DIVIDENDS
DECLARATION AND STOCK PRICES IN AN EMERGING MARKET-
CASE OF FTSE BURSA MALAYSIA KLCI."



By:

Madiha Rafiq

01-221131-011

MBA

Supervisor:

Khalid Mumtaz

Department of Management Sciences (GS)

Bahria University Islamabad
2014.

ABSTRACT

Purpose: The aim of this study is to explore the impact of dividends declaration on share prices of Malaysia from time period of 2012 to 2013 in FTSE KLCI. A total of 17 companies were selected as a sample for the study. A 15 trading days were defined as event window, including the day of dividends declaration, in which 7 days before and 7 after the event day were chosen.

Approach/Methodology/Design: A typical event study methodology was adopted to achieve the desired research objectives. FTSE KLCI was taken as a market index to calculate expected returns with the help of market model. A 60 trading days were defined as estimation window, to find out actual returns for both market index and companies. The abnormal return was then generated by taking difference of actual and expected returns for the defined event window. Similarly weighted average abnormal returns and CAR's were calculated for 17 firms. The t-tests were used to check the significance of abnormal returns and CAR.

Findings: The results indicate that dividends declaration in Malaysia carry significant information regarding decision of shareholders on stock prices. In addition this shows that Malaysian stock index investors depend upon the signal generated by dividends declaration in taking investment decisions, therefore it showed a positive relationship between dividends declaration and stock prices of companies listed in KLCI. The results are consisted with recent studies of Dasilas et al. (2008); Akbar & Baig (2010); Sare, Akuoko & Esumanba (2013) among others.

Originality/Value: To relate economic conditions of the country with the efficiency of their stock market index with respect to dividends declaration impact on stock prices. This proposed study is an attempt to deal with a much needed research in emerging market like Malaysia, whereas previously focus was on developed markets.

Keywords: Efficient market hypothesis, stock prices, dividends declaration, event study, Malaysia.

Table of Contents

CHAPTER 1	1
INTRODUCTION	1
1.1 CAPITAL MARKET OF MALAYSIA: FTSE BURSA MALAYSIA KLCI.....	7
1.2 RATIONALE OF THE STUDY.....	10
1.3 RESEARCH SIGNIFICANCE AND CONTRIBUTION	11
CHAPTER 2	12
2.1 literature review	12
2.1.1 Dividend irrelevance theory.....	13
2.1.2 Bird in hand theory	14
2.1.3 Information Content Hypothesis	15
2.1.4 Cash flow hypothesis.....	18
2.1.5 Free Cash Flow Hypothesis	19
2.1.6 Coarse Dividend Signaling Theory.....	20
2.1.7 Tax Preference Hypothesis	20
2.1.8 Tax Clientele Effect Hypothesis	21
2.2 Overview of empirical studies	23
2.3 Research problem.....	32
2.4 Research questions.....	33
2.5 Research objectives.....	34
2.6 Theoretical framework.....	34
2.7 Research hypothesis.....	35
CHAPTER 3	36
METHODOLOGY	36
3.1 Research Design.....	36
3.2 Variables	36

3.3 Data and sample	37
3.4 Sources of Data Collection	38
3.5 Method and Procedure	38
3.6 Limitations	44
CHAPTER 4	45
FINDINGS AND DATA ANALYSIS	45
CHAPTER 5	50
CONCLUSION AND RECOMMENDATIONS	50
REFERENCES	52
APPENDIX A.....	67

LIST OF TABLES

Table 1.	FTSE Bursa Malaysia Index series	13
Table 2.	Descriptive Statistics for Daily Abnormal Returns.....	49
Table 3.	Summarized Results for Event Firms of FTSE KLCI	50

LIST OF ACRONYMS

FTSE KLCI	Financial Times Stock Exchange Kuala Lumpur Composite Index
ETF	Exchange Funds Transfer
AMMB	Arab-Malaysian merchant bank
CIMB	Commerce International Merchant Banker
IHH	Institute for Health and Healing
IOI	Industrial Oxygen Incorporated
MISC	Malaysia International Shipping Corporation
PPB	Perlis Plantations Berhad
RHB	Rashid Hussain Berhad (bank)
UMW	United Motor Works
EMH	Efficient Market Hypothesis
EMAS	Exchange Main Board All-Shares index
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
AABR	Average Abnormal Return
CAR	Cumulative Abnormal Return
CAAR	Cumulative Average Abnormal Return

LIST OF APPENDICES

Appendix A.	List of companies with market capitalization.....	71
--------------------	---	----