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“DETERMINANTS OF DIVIDEND PAYOUT RATIO
A CASE OF CHEMICAL AND PHARMACEUTICAL SECTOR IN PAKISTAN”



By:

(Waleed Ahmad)(01-222152-037)

Supervisor:

(Sir Shahzad Butt)

DEPARTMENT OF MANAGEMENT SCIENCES

Bahria University Islamabad

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Name: Waleed Ahmad Enrollment No.01-222152-037

Class:MBA

Approved by:

Supervisor: **Sir Shahzad Butt**

Examiner-I **Madam Aamina Ihsan**

Examiner-II **Dr. Muhammad Ali Saeed**

Dr. Sarwar Zahid
Research Coordinator

Dr. Muhammad Ali Saeed
Head of Department - Management Sciences

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ABSTRACT

The dividend policy is one of the central issues in the today's world of corporate finance. Some academics have also termed dividend policy of the companies as an unsolved and mysterious puzzle. Although an extensive amount of the research has been conducted in this field and on this topic but still there are some questions left to be answered regarding what are the determinants of the dividend payout ratios? We in this regard decided to conduct a research on this topic to cover the limitations of previous studies and to enhance the knowledge about the key factors which influence the dividend policies of Pakistani non-financial firms. The aim of our study is to determine whether there is any relation between the numbers of companies selected factors (ROA, ROE, profit and sales growth) and the dividend payout ratio of the companies. Secondly, we want to know what is the effect of profitability and efficiency of companies on the dividend payment policies of the companies. For this purpose, chemical and pharmaceutical sector's companies of Pakistan were selected as a sample and the data of different variable of six years from 2010 to 2015 was taken to test the results. We therefore did a review of the previous studies and literature to come up to a conclusion which factors potentially can influence the dividend payout policies of the firms.

The study is following a quantitative and descriptive research method with a deductive approach and our study is based on different dividend theories and past research work done on this topic. To determine whether there is any relation between the companies selected factors and the dividend payout policies of the companies we have used the linear regression model to test our results of the study.

(The company selected factors in our research are ROA, ROE, profit and sales growth.) From the results, it can be concluded that some factors have an impact on the dividend payout policies of the companies whereas some factors do not impact the dividend payout policy that much. Profit shows a positive and significant relationship with the dividend payout ratio while ROA, ROE and sales growth how a significant but negative relationship with dividend payout ratio.

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