

Major: FIN

F. No. (4)

“(The stock market reaction to stock dividends in Pakistan
and their information content)”



By:

(Muhammad Usman Khan (01-221162-059))

Supervisor:

(Dr. Taqadus Bashir)

Department of Management Sciences

Spring 2018

Bahria University Islamabad
Spring-2018

FINAL PROJECT/THESIS APPROVAL SHEET

Viva-Voice Examination

Date 25/06/2018

Viva Date

Topic of Research:

The stock market reaction to stock dividends in Pakistan and their information content.

Names of Student(s):

Name: Muhammad Usman Khan

Enrollment No: 01-221162-059

Class: MBA (1.5)

Approved by:

Supervisor

Dr. Taqadus Bashir

Examiner-I

Khalid Hussain

Examiner-II

Hina Samdani

Dr. Sarwar Zahid

Research Coordinator

Dr. Faisal Aftab

Head of Department - Management Sciences

Abstract

This research study aimed to investigate the reaction of stock prices to dividend announcement and their information content in listed companies of Pakistan. The study was carried in the context of pharmaceutical companies listed at Pakistan Stock Exchange. It was intended to analyze all the 12 pharmaceutical companies listed at Pakistan Stock Exchange; however, a sample of 9 companies was selected, since three of the companies were omitted due to insufficient data availability. A total of 6473 observations were collected for the period of three years from January 1st, 2015 to December 31st, 2017. Almost there are 48 events occur during this period. The study computed actual returns, market returns, abnormal returns and cumulative abnormal returns. Event study mythology and t-test were used to generate the results. The analysis included an event window of 20 days, -10 days and +10 days from the announcement date. Results of the study showed mixed outcomes some evidences of semi-strongly market efficiency or other cases in which market did not react abnormally to the dividend announcement.

Table of Contents

1.1 Background.....	7
1.2 Problem Statement.....	10
1.3 Significance of the Study.....	10
1.4 Aim of Research Study.....	11
1.5 Research Questions.....	11
1.6 Objectives.....	11
1.7 Limitations of the Study.....	12
1.8 Structure of the Study.....	12
Chapter 2 Literature Review.....	13
2.1 Efficient Market Hypothesis.....	13
2.2 Dividend Announcement and Stock Prices.....	15
2.3 Dividend Relevance Theory.....	17
2.4 Agency Theory.....	18
2.5 Dividend Signaling Theory.....	19
2.5 Signaling Models.....	20
2.5.1 Akerlof's Signaling Model.....	21
2.5.2 Bhattacharya Signaling Model.....	21
2.5.3 John and Williams Signaling Model.....	21
2.5.4 Miller and Rock Signaling Model.....	22
2.6 Attention-getting Hypothesis.....	22
2.7 Cash Substitution Hypothesis.....	23
2.8 Normal Trading Range Hypothesis.....	23
2.9 The Liquidity Hypothesis.....	24
2.10 Dividend Announcement and Stock Price Reaction in Pakistan.....	24
2.11 Empirical Review on Information Content of Dividend and Stock Price Reaction.....	27
Chapter 3 Methodology.....	33
3.1 Introduction.....	33
3.2 Data Sources and Sample Population.....	33
3.3 Sector Chosen for Analysis.....	33
3.4 Period of Analysis.....	33
3.5 Procedure.....	34

Chapter 4.....	36
Results and Discussion	36
4.1 Results.....	36
Table 1 Ferozsons Laboratories Limited	36
Table 2 GlaxoSmithKline (Pakistan) Limited	37
Table 3 Highnoon Laboratories	38
Table 4 IBL HealthCare Limited	39
Table 5 Macter International Limited	40
Table 6 Sanofi-Aventis Pakistan Limited	41
Table 7 The Searle Company Limited	42
Table 8 Wyeth Pakistan Limited.....	43
Table 9 Abbot Laboratories (Pakistan) Limited	44
4.2 Discussions	45
Chapter 5.....	46
Conclusion	46
References.....	47