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ADDIS ABABA UNIVERSITY
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
MBA PROGRAM

“DIVIDEND POLICY AND SHARE PRICES”

(The case of Private Banks in Ethiopia)

By: Berhane Teame

**A thesis submitted to School of Business and Public Administration
of Addis Ababa University in partial fulfillment of the requirement
for a Master of Business Administration**

Advisor: Venakati Polanna (PhD)

June, 2011

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Approved by board of examiners

1. Examiner

2. Advisor

Signature

DECLARATION

I Berhane Teame declare that this research, titled “Dividend Policy and Share Prices” – the case of private banks in Ethiopia, is done with my own effort. I have produced it independently except for the guidance and suggestions of my research supervisor. I assure this study has not been submitted for any scholarly award in this or any other university.

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CERTIFICATE

This is to certify that student Berhane Teame has carried out his research work on the topic titled “Dividend policy and share price” – the case of private banks in Ethiopia, under my supervision. This work is original in nature and it is appropriate for submission for the partial fulfillment of the requirement for Masters of Business Administration.

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Acronyms

ADR – Automatic Dividend Reinvestment

BOA – Bank of Abyssinia

DIV – Dividends

DRIP – Dividend Reinvestment Plans

EPS – Earnings per share

G. C. – Gregorian Calendar

NBE – National Bank of Ethiopia

NPV – Net Present Value

P – Share Price

PV – Present Value

Abstract

Effort was made to see any association between dividends and share prices by observing six private banks in Ethiopia. Data was taken for six years (2005 – 2010 G.C.) and descriptive statistics employed with the objective of examining the presumed association between dividends and share prices. The dividend discount model was used to calculate ideal share prices at the banks. The results show there is a strong association between the crude measures of dividends and share prices. Earnings per Share are also strongly correlated with share prices. The Pearson's moment correlation coefficients are statistically significant at 95% confidence level. However, evidence did not support the association between the real measures of dividends and share prices. Also, the actual share prices are a bit higher than model determined share prices for all the six banks. With much decision regarding the dividends and share premiums left to the general meetings of shareholders', it is not clear whether dividends or EPS or other variables determines the share prices of *Ethiopian private banks*.

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1. Introduction

It is generally recognized that the particular choice of dividend payout by a business at a given point of time has important implications for a variety of considerations of significance to management, particularly those of future investments and attraction of new equity capital. Dividend, because of its nature of cash disbursement, is normally thought of as contributing to the opportunity for getting attention of current and potential investors.

Given these facts, the question of optimal dividend payout ratio arises. Allen et.al. (2000) put this dividend question as “Dividends remain one of the thorniest puzzles in corporate finance.” Previous studies conducted in the area, though resemble to agree, did not bring convergent results because of the context they were conducted and the underlying assumptions taken. (Miller & Modigliani, (1963), Lintner (1956), Ross, (1973)). For instance, one of the major criticisms of Modigliani and Miller empirical work was that they go on to maintain that their proposition can be extended to situations that encompass a variety of imperfections, provided that investors satisfy a postulate which they label "symmetric market rationality."

This assumption means that every participant in the market for shares is an efficient wealth maximizer who is indifferent between receiving dividends or their equivalent in capital gains, and that s/he believes the same thing to be true of all other participants in the market. From this, MM deduce that each investor should expect dividends to be irrelevant to all other investors and that therefore dividends should be irrelevant to his/her own security trading decisions.

Many Researchers in the field would like to argue now that in some circumstances there is reason to question the plausibility of MM's basic assumption.

Many authors do point out that, in the real world, dividend policy is not totally irrelevant. (Kalay & Michaeli, (2000), Chaplinsky & Seyhun, (1990), William et.al. (1998)). Contrary to widely held opinion, it is rational to favor low payout shares in a perfect foresight world. In a frictionless world without taxes or transaction costs, dividends and capital gains are equivalent. If dividends are taxed more heavily than capital gains, as is the case in the United States and many other countries, capital gains are apparently superior to dividends. (Allen et.al. 2000)

This is so because investors in low dividend firms are subject to capital gains rather than income taxation and because costs which would be incurred by the company in floating new issues to finance their investments are thereby avoided. However, many argue that with market imperfections, it is likely to arise out of investors' anticipations about one another, the reverse is also possible-that the market can sometimes rationally favor high dividend shares.

The intent of this survey is to see if dividend payout can be the determinant factor for share price movements in the context of the banking industry of Ethiopia.

1.2. Statement of the problem

There is an imperative gap in modern finance theory on the issue of corporate dividend policy. The theory should be able to explain why dividends signal both “good” and “bad” news. An intelligent appraisal of this and other considerations involved in the payout and retention decision presents management with a problem that is inherently one of the most difficult it has to face.

Ample ideas have been advanced to fill this gap. For years, the term "information content of dividends" has been frequently used in finance literature (Watts (1973), Laub (1976) and Venkatesh (1989)). The phrase refers to the hypothesis which states that dividends convey information about future earnings - information that enables market participants to predict future earnings more accurately.

Lintner (1956) was one of the first to suggest that current dividends depended on future as well as current and past earnings. Subsequently, a dispute over the dependence of a firm's market value on the rate at which dividends are paid out of earnings (dividend payout rate) developed in the literature.

Modigliani and Miller (1963) demonstrated, under the assumptions of perfect capital markets, rational behavior, and zero taxes, that the value of the firm does not depend on the firm's dividend payout rate.

Previous studies conducted on dividend payout do not agree that whether payouts signal positive or negative conditions about a corporation. (Kao & Wu (1994), Watts (1973), and Bullan et.al. (2007)). Also, prior empirical evidence regarding the impact of dividend taxes on firm valuation is mixed (Gentry et.al. 2003). The question arises as to whether the evidence among the group of Ethiopian private banks studied supports this reasoning.

With the fact that the banking sector is flourishing, it is imperative to study the issue in the Ethiopian context.

1.3. Objectives of the study

It is important to lay the foundations of common stock valuation with the dividend discount models. For this to develop, the effect of dividends on share prices should be weighed first. How much close are the current share prices from the ideal model output should also be gauged before approximating the valuation techniques.

Thus, the objectives of this study are:

- To see if there is any relation between dividends and share prices, and
- To evaluate how far the actual clearing share prices are set from the ideal model determined prices at private banks of Ethiopia.

1.4. Hypothesis

It is the aim of the study to see if there is any association between dividends and share prices. Hence, the alternate and null hypotheses are stated as follows.

H₀: there is no association between the stated variables. ($r_{DP} = 0$)

H₁: dividends and share prices have some association. ($r_{DP} \neq 0$)

1.5. Purpose of the study

It is not the purpose of this survey to lay out comprehensive and rigorous analysis of corporate payout and its impact on share price. Neither the necessary data, nor the techniques have been developed for a working model that could be applied to this case. Moreover, many of the factors involved make it difficult to make conclusions without proper control. Rather the purpose is to carry such an analysis as far as it seems practical to go using accounting data that is readily derived from conventional financial records of sample companies and some primary data. At the same time, however, this approach although relatively rough by any rigorous standards, is intended to be logically sound.

The intent of this survey thus is to test the implied theories of Miller and Modigliani (and many researchers' for and against) that relates corporate payout and share prices for selected private commercial banks in Ethiopia. It is the major aim of this survey to see the effect of dividend payout, as measured by the ratio of dividend per share, on share price of a given private bank at a time and make comparison of these variables among selected private banks.

The effect of variation in paid up capital among banks is controlled by putting them on common-size basis – both Dividends per share and earnings per share figures are stated as percentages of par values. General Market conditions, Interest rate and Inflation rate are assumed to affect all banks equally.

1.6. Research design

1.6.1. Data collection methods:

Private commercial banks were approached on the basis of their record of dividend payouts and share price registrations. These records were used for banks that were in operation before 2005 G.C. Financial reports of selected banks were the major data source.

All relevant statements of banks (income statement, balance sheet and statement of cash flows to shareholders account) were used to see any correlation between the variables of interest. Interviews with staff were the only credible information source regarding share prices.

Reports of the board of directors and national banks' regulatory manuals are referred before concluding on results.

1.6.2. Data analysis procedures:

The financial reports are used to examine and compare variables of interest (Earnings, Dividends declared, and estimated share Prices) among banks.

The effect of the extraneous variable - market conditions is presumed to shake all studied banks in somewhat parallel manner. The confounding variable, which distorts the results if it had not been controlled, was the par value of shares of the banks. All the variables of interest were stated as a percentage of the Par.

1.7. Scope and limitations of the study

It must be emphasized at the outset that this survey cannot answer the question: “what payout ratio will push share price up?” The reason for this is that the share price of a given company at any point in time is a function of a number of factors.

This study is based on accounting data. The defect of accounting data is that the accounting practices used for determining the profits and valuing assets may differ between firms and may not confirm to economic principles. Nevertheless, it is important to mention here that accounting data, in spite of their defects, represent in most cases the best available indication for investors, decision makers and the financial community at large.

Market data is not available for the very nature of business in Ethiopia. Moreover, the fact that banking is among the highly regulated sectors in Ethiopia, make it reliable to use accounting data. Note that reporting procedures and requirements for all banks are stipulated by the National Bank of Ethiopia (NBE).

Many statistical problems make the empirical testing of the relationship between the dividend payout ratios and price of shares a difficult task. First, there is a problem of identifying those explanatory variables which in one way or the other influence the level of payout or share price or both. Also, the factors affecting the variables of interest may be different for different banks. The results will be distorted if any significant variable is omitted. The second problem relates to the empirical measurement of variables, especially share prices are amongst the difficult ones to determine in countries where there is no auctions stock market.

It is obvious that the quality of this survey would have been greatly enhanced if it was not delineated to consider few factors prevailing in few private banks. This study is framed to observe if there is any association between dividend payouts and share prices of selected private banks longitudinally for six consecutive years and cross-sectionally (to make comparison among banks).

Banks usually differ in size, quality of management, market served, stability, earnings power and many other things. This fact makes it difficult to answer the above basic questions and thus set standard on optimal payout ratio for banks.

CHAPTER TWO

LITERATURE REVIEW

Brealey and Myers (2005) list dividends as one of the top ten important unresolved issues in the field of advanced corporate finance. Allan et.al (2000) wrote that Dividends remain one of the thorniest puzzles in corporate finance. Allen and Michaely (2003) conclude in their empirical work that much more empirical and theoretical researches on dynamics and determinants of dividend policy are required before consensus can be reached.

In this chapter the theoretical and empirical works of scholars in the area of dividend payouts and valuation of common stock is presented. The first part introduces dividends and dividend policy. In this section the question whether dividend payouts matters for corporations will be answered. In trying to put the dividend controversy in perspective, three viewpoints are reviewed; the dividend irrelevance, reasons for low payout (taxes, flotation costs and dividend restrictions) and justification for high payout (taxes, rational preference for current

income and uncertainty about the future). The information content of dividends and the clientele effect are also discussed. The end of this part will be a discussion on the approaches for the determination of dividend payouts. Empirical findings of researchers are presented latter to enable shape the discussion.

The second part is a review of the relevant techniques in pricing common stocks. This section presents the mechanics to determine the price of a stock by incorporating dividends and show how the price might be affected by dividend changes.

2.1. Dividend policy

The term dividend usually refers to cash paid out of earnings. If a payment is made from sources other than current or accumulated retained earnings, the term “distributions” is used.

Dividends come in several different forms. According to Ross et. al. (2008), the basic types of cash dividends are: regular cash dividends, extra dividends, special dividends, and liquidating dividends.

The most common type and thus the concern of this research is a cash dividend. Commonly, public companies in the world pay regular cash dividends four times a year; usually once per year in Ethiopia (Annual reports of private banks). As the name suggests, these are cash payments made directly to shareholders, and they are made in the regular course of business.

Dividends are a major cash outlay for many corporations. According to Allen et.al. (2000), dividends continue to be a substantial proportion of earnings. With this fact comes the heart

of the dividend payout question as to whether the firm should pay out money to its shareholders, or should the firm take that money and invest it for its shareholders.

Brigham (2010) put this basic question as comprising three slices; "... profitable companies regularly face three important questions: (1) How much of its free cash flow should it pass on to shareholders? (2) Should it provide this cash to stockholders by raising the dividend or by repurchasing stock? (3) Should it maintain a stable, consistent payment policy, or should it let the payments vary as conditions change? ..."

Baker and Wurgler (2004) put dividends as a highly relevant to share value, but in different directions at different times.

When deciding how much cash to distribute to stockholders, financial managers must keep in mind that the firm's objective is to maximize shareholder value. Consequently, the target payout ratio — defined as the percentage of net income to be paid out as cash dividends — should be based in large part on investors' preferences for dividends versus capital gains.

Firms initiating/increasing their dividends attract new clientele. Firms omitting/decreasing their dividends lose their clientele and attract new ones (Allen et.al. 2000). Do investors prefer (1) to have the firm distribute income as cash dividends or (2) to have it either for repurchase of stock (which are not considered in this study) or else plow the earnings back into the business, both of which should result in capital gains?

Note here that capital gains are just the share price appreciations. The preference above can be considered in terms of the constant growth stock valuation model in which the growth component shows the trade-off between high payouts and reinvestment.

2.2. Theories on dividends

Ross et.al. (2008), put the dividend policy issue in the following way; “... Much research and economic logic suggest that dividend policy does not matter. In fact, it turns out that the dividend policy issue is much like the capital structure question. The important elements are not difficult to identify, but the interactions between those elements are complex and no easy answer exists ...”

Ross et.al. (2008) believes, all other things being the same, of course dividends matter. Dividends are paid in cash, and cash is something that every rational person likes.

To decide whether or not dividend policy matters, first what dividend policy is all about should be clarified. As the question is whether the firm should pay out cash now or invest the cash and pay it out later, dividend policy can be thought of as the time pattern of dividend payout.

As stated earlier, the main objective in mind regarding dividend payouts, and hence every financial decision has to be maximization of shareholders' wealth. One way of looking at the wealth of an investor is the explicit dividends received (cash payouts) and the other is concerned with the movements in the price of the shares of common stock s/he owns (capital gains or even losses). Based on these premises, researchers in the area advanced conflicting “theories” on dividend payouts.

One advanced by Merton Miller and Franco Modigliani (1961) state the irrelevance of dividend policy; another given by John Lintner (1956) supports the high payout and one advanced by “the leftists” for low payout. These positions, with their background assumptions are discussed in the coming section.

2.2.1. Dividend irrelevance theory

The principal proponents of the dividend irrelevance theory are Merton Miller and Franco Modigliani (1961). They argued that the firm’s value is determined only by its basic earning power and its business risk. In other words, Miller and Modigliani (MM) argued that the value of the firm depends only on the income produced by its assets, not on how this income is split between dividends and retained earnings. They showed that dividend policy has no effect on either the price of a firm’s stock or its cost of capital.

Their basic question was: Do companies with generous distribution policies consistently sell at a premium over those with niggardly payouts? Is the reverse ever true?

They began by examining the effects of differences in dividend policy on the current price of shares in an ideal economy characterized by perfect capital markets, rational behavior, and perfect certainty. Still within this analytical framework they go on to consider certain closely related issues that appear to have been responsible for considerable misunderstanding of the role of dividend policy. In particular, their writings focused on the long-standing debate about what investors “really” capitalize when they buy shares; and on the much proposed relations between price, the rate of growth of profits, and the rate of growth of dividends per

share. They dropped the assumption of certainty after the fundamentals have been established.

To understand MM's argument that dividend policy is irrelevant, recognize that any shareholder can in theory construct his or her own dividend policy. For example, if a firm does not pay dividends, a shareholder who wants a 5 percent dividend can "create" it by selling 5 percent of his or her stock. Conversely, if a company pays a higher dividend than an investor desires, the investor can use the unwanted dividends to buy additional shares of the company's stock. If investors could buy and sell shares and thus create their own dividend policy without incurring costs, then the firm's dividend policy would truly be irrelevant.

Any two investors are able to transform the corporation's dividend policy into a different policy by buying or selling on their own. The result is that investors are able to create a **homemade dividend policy**. This means that dissatisfied stockholders can alter the firm's dividend policy to suit themselves. As a result, there is no particular advantage to any one dividend policy the firm might choose.

Many corporations actually assist their stockholders in creating homemade dividend policies by offering automatic dividend reinvestment plans (ADRs or DRIPs).

Dividend policy by itself cannot raise the dividend at one date while keeping it the same at all other dates. Rather, dividend policy merely establishes the trade-off between dividends at one date and dividends at another date. After considering for time value, the present value of the dividend stream is unchanged. Thus, in a simple world, dividend policy does not matter,

because managers choosing either to raise or to lower the current dividend do not affect the current value of their firm. (Ross et.al.2008)

However, this simplified case ignored several real-world factors that might lead to a different view of dividends. Note for instance that investors who want additional dividends must incur brokerage costs to sell shares, and investors who do not want dividends must first pay taxes on the unwanted dividends and then incur brokerage costs to purchase shares with the after-tax dividends. Since real world factors like taxes, brokerage costs etc. certainly exist, dividend policy may well be relevant.

2.2.2. Justifications for a low payout

Taxes

Taxes affect dividend policy in a number of ways. Kalay and Michaely (2000) put the tax consideration; “The tax advantage of capital gains over dividend income is an important aspect of dividend policy that should affect both corporate considerations and investors' demand for dividends.

Consider a given country where dividend income and capital gains are taxed at a different rate. In many countries, effective tax rates on dividend income are higher than the tax rates on capital gains for individual shareholders. Dividends received are taxed as ordinary income. Capital gains are taxed at somewhat lower rates, and the tax on a capital gain is deferred until the stock is sold. This second aspect of capital gains taxation makes the effective tax rate much lower because the present value of the tax is less.

A firm that adopts a low-dividend payout is assumed to reinvest the money instead of paying it out. In a normal business setting, this reinvestment increases the value of the firm and of the equity. All other things being equal, the net effect is that the expected capital gains portion of the return will be higher in the future. So, the fact that capital gains are taxed favorably (like in U.S.A., and Germany) may lead the firm prefer this approach. But, note that to be eligible for lower tax rates on capital gains than on dividends, investors must hold a stock for a minimum period of one year. (Kalay and Michaely (2000)).

This tax disadvantage of dividends doesn't necessarily lead to a policy of paying no dividends. Suppose a firm has some excess cash after selecting all positive NPV projects (this type of excess cash is frequently referred to as free cash flow). The correct dividend payout will depend upon the individual tax rate and the corporate tax rate. Also, individuals attempt to reduce the tax liability of investment income. Individuals reduce the tax liability of dividends by choosing to receive substantial amounts of dividends through tax-exempt and tax-deferred investments. (Chaplinsky and Seyhun, 1990)

For any firm with extra cash, the dividend payout decision will depend on personal and corporate tax rates. Allen et.al (2000) confirm that it is the tax difference between institutions and retail investors that determines dividend payments, not the absolute tax payments. All other things being the same, when personal tax rates are higher than corporate tax rates, a firm will have an incentive to reduce dividend payouts. However, if personal tax rates are lower than corporate tax rates, a firm will have an incentive to pay out any excess cash in dividends.

Han and Khaksari (1996) conclude that Taxpayers prefer to accrue capital gains rather than dividends under differential taxation, thus demanding a tax premium on high yield stocks. This indicates a positive relationship between dividend yields and stock returns.

Flotation Costs

In illustrating that dividend policy doesn't matter, Miller and Modigliani (1963), show that the firm could sell some new stock if necessary to pay a dividend. Selling new stock can be very expensive. If flotation costs are included in their argument, then it will be apparent that the value of the stock decreases as new stocks are sold out.

More generally, imagine two firms identical in every way except that one pays out a greater percentage of its cash flow in the form of dividends. Because the other firm plows back more, its equity grows faster. If these two firms are to remain identical, then the one with the higher payout will have to periodically sell some stock to catch up. Because this is expensive in real world, a firm might be inclined to have a low payout. (Ross et.al. 2008)

Dividend Restrictions

In some cases, a corporation may face restrictions on its ability to pay dividends. For example, a common feature of a bond indenture is a covenant prohibiting dividend payments above some level. Also, a corporation may be prohibited by state law from paying dividends if the dividend amount exceeds the firm's retained earnings. Considering the case in Ethiopia, banks are required to deposit a statutory reserve at the national Bank. All of the private banks of Ethiopia should put up a capital reserve of 25 % of their annual net profit

after tax until the reserve equals their paid-up capital. Such restrictions limit or sometimes prohibit a corporation's payout.

2.2.3. Justifications for a high payout

Following are reasons why a firm might pay its shareholders higher dividends. The high payout advocates (Gentry et.al., 2003 and Watts, 1973) have argued that firms should generally have high dividend payouts because:

1. "The discounted value of near dividends is higher than the present worth of distant dividends."
2. Between "two companies with the same general earning power and same general position in an industry, the one paying the larger dividend will almost always sell shares at a higher price." Gentry, Kemsley, & Mayer (2003) find that firm value is positively related to tax basis, suggesting that future dividend taxes are capitalized into share prices.

Two additional factors favoring a high-dividend payout are the desire for current income and uncertainty about the future.

Desire for Current Income

There are people who have high current consumption than their income (e.g. retirees and students). Then, the current-income argument may have relevance in the real world. Here the sale of low-dividend stocks would involve brokerage fees and other transaction costs. These direct cash expenses could be avoided by an investment in high-dividend securities. It can be

said then this group is willing to pay a premium to get a higher dividend yield. If this is true, then it lends support to the second claim made above.

Uncertainty about the future

It was just pointed out that investors with substantial current consumption needs will prefer high current dividends. In another treatment, it can be argued that a high-dividend policy also benefits stockholders because it resolves uncertainty.

According to “the rightists”, investors price a security by forecasting and discounting future dividends. They then argue that forecasts of dividends to be received in the distant future have greater uncertainty than do forecasts of near-term dividends. Tax based dividend models of capital asset pricing assume that dividends are known at the time prices are set (Morgan, 1982). Because rational investors dislike uncertainty, the stock price should be low for those companies that pay small dividends now in order to remit higher, less certain dividends at later dates.

Such an argument is essentially a “bird-in-hand” story. A \$1 dividend in a shareholder’s pocket is somehow worth more than that same \$1 in a bank account held by the corporation. But, with the above simplified assumption, a shareholder can create a bird in hand very easily just by selling some of the stock.

Tax Benefits from High Dividends

Earlier, it was pointed that dividends were taxed unfavorably for individual investors. This fact is a powerful argument for a low payout. However, there are a number of other investors

who do not receive unfavorable tax treatment from holding high-dividend yield, rather than low-dividend yield securities.

Corporate Investors: In most operating economies (U.S.A., Germany and France), a significant tax break on dividends occurs when a corporation owns stock in another corporation. A corporate stockholder receiving either common or preferred dividends is granted a 70 percent (or more) dividend exclusion. Since the 70 percent exclusion does not apply to capital gains, this group is taxed unfavorably on capital gains.

As a result of the dividend exclusion, high-dividend, low-capital gains stocks may be more appropriate for corporations to hold. This tax advantage of dividends also leads some corporations to hold high-yielding stocks instead of long-term bonds because there is no similar tax exclusion of interest payments to corporate bondholders. If dividends are taxed more heavily than capital gains, the pretax return during the ex-dividend period will exceed the pretax returns during other periods. In this case, time-series risk-adjusted return variations are evidence of a dividend tax effect. Kalay and Michaeli (2000).

Tax-Exempt Investors: Earlier, it was pointed out both the tax advantages and the tax disadvantages of a low-dividend payout. Of course, this discussion is irrelevant to those in zero tax brackets. Again in a developed economy, this group includes some of the largest investors such as pension funds, endowment funds, and trust funds.

Overall, individual investors (for whatever reason stated above) may have a desire for current income and may thus be willing to pay the dividend tax. In addition, some very large

investors such as corporations and tax-free institutions may have a very strong preference for high-dividend payouts.

2.3. Another view of dividends and dividend payouts

In the previous sections, some of factors that favor low-dividend payouts and others that favor high-dividend payouts were presented. The coming section is a discussion about two important concepts related to dividend payouts: the information content of dividends and the clientele effect.

2.3.1. Information Content of Dividends

If one wants to decide which of the above discussed positions is the right one, an obvious way to get started would be to look at what happens to stock prices when companies announce dividend changes. S/he would find with some consistency that stock prices rise when the current dividend is unexpectedly increased, and they generally fall when the dividend is unexpectedly decreased. But, Khang and King (2006), imply that dividends may convey information, but they are not an effective signal that reduces information asymmetry. What does this imply about any of the three positions just stated above?

When MM (1961) set forth their dividend irrelevance theory, they assumed that everyone - investors and managers alike - has identical information regarding the firm's future earnings and dividends. In reality, however, different investors have different views on both the level of future dividend payments and the uncertainty inherent in those payments, and managers have better information about future prospects than public stockholders. But, Rimbey and

Officer (1992) argue that given the separation of ownership from control of the firm, managers are seen to be in possession of information not available to outside shareholders

Khang and King (2006) show that evidence do not support traditional dividend signaling models. Rather, firms with the highest dividends have the lowest levels of information asymmetry.

It has been observed that an increase in the dividend is often accompanied by an increase in the price of a stock, while a dividend cut generally leads to a stock price decline. This could indicate that investors, in the aggregate, prefer dividends to capital gains.

Kao and Wu (1994) support the contention that dividend changes reflect both expected and unexpected permanent earnings changes. The results in this study show that dividends are strongly related to a firm's permanent earnings estimates. Their results also show that dividend changes signal changes in management's views of the firm's future earnings prospects. The abnormal (unexpected) dividend, which is the difference between the current dividend and the conditional expectation of the current dividend, has on average a significant positive relation with the unexpected changes in the firm's permanent earnings.

Conversely, a dividend reduction, or a smaller-than-expected increase, is an indication that management is forecasting poor earnings in the future. Thus, MM argued that investors' reactions to changes in dividend policy do not necessarily show that investors prefer dividends to retained earnings. Rather, they argue that price changes following dividend actions simply indicate that there is important **information, or signaling, content** in dividend announcements. Like most other aspects of dividend policy, empirical studies of

signaling have had mixed results. Some of the empirical studies are discussed in a separate section latter.

The hypothesis made was that dividends convey information in addition to the information conveyed by earnings. If the hypothesis is correct, the additional information must be reflected in the difference between actual current dividends and the conditional expectation of current dividends (conditional on current earnings). This difference, the unexpected change in dividends, is estimated and used in the test, future earnings changes are regressed on unexpected changes in dividends, and the relationship is found to be positive, but weak. (Watts, 1973)

Contemporary research in finance has advanced signaling theory as a possible explanation for the market's response to announced changes in dividend payouts. Rimbey and Officer (1992). Firms pay out funds only if managers expect future funds to be abundant. Otherwise, the firms might face future fund shortages and have to forego valuable investment opportunities or raise costly external funds. Thus, payouts convey information because the uses of funds are constrained by the sources of funds; regardless of whether managers deliberately use payouts as signaling mechanisms. (Lie, 2005)

There may be some information content in dividend announcements. However, it is difficult to tell whether the stock price changes that follow increases or decreases in dividends reflect only signaling effects or both signaling and dividend preference. Still, signaling effects should definitely be considered when a firm is contemplating a change in dividend policy.

Theoretical models differ in their description of the exact nature of the information conveyed by dividend announcements. (Venkatesh, 1989)

Since its exposition by Miller and Modigliani (1963), the information hypothesis has been frequently noted in both articles and texts on financial management as a possible explanation of observed relationships between dividends and stock prices. As it was important to test whether dividends do convey information, Watts (1973), approached the subject with a postulate which read; “If there is potential information in dividends, the positive unexpected dividend changes should be accompanied by positive stock return residuals, or positive unusual rates of return. Similarly, negative unexpected dividend changes should be accompanied by negative stock return residuals.”

Ross et.al. (2008) has also suggested that managers can use capital structure as well as dividends to give signals concerning firms’ future prospects. For example, a firm with good earnings prospects can carry more debt than a similar firm with poor earnings prospects. This theory, called incentive signaling, rests on the premise that signals with cash-based variables (either debt interest or dividends) cannot be imitated by ineffective firms since such firms do not have the future cash generating power to maintain the announced interest or dividend payment. Thus, investors are more likely to believe a shining verbal report when it is accompanied by a dividend increase or a debt-financed expansion program.

2.3.2. The Clientele Effect

In the discussion earlier, it has been said that some groups (wealthy individuals, for example) have an incentive to pursue low-payout (or zero payout) stocks. Other groups (corporations,

for example) have the motivation to chase high-payout stocks. Companies with high payouts will thus attract one group, and low-payout companies will attract another. Baker and Wurgler (2004) argue that the decision to pay dividends is driven by prevailing investor demand for dividend payers. Managers cater to investors by paying dividends when investors put a stock price premium on payers, and by not paying when investors prefer nonpayers.

The different groups of investors are called clienteles, and what has been described is a clientele effect. The clientele effect argument states that different groups of investors desire different levels of dividends. When a firm chooses a particular dividend policy, the only effect is to attract a particular clientele. If a firm changes its dividend policy, then it just attracts a different clientele.

According to Ross et.al. (2008), what is left over afterwards will be a simple supply and demand argument. He explained the fact with an example; suppose 40 percent of all investors prefer high dividends, but only 20 percent of the firms pay high dividends. Here the high-dividend firms will be in short supply; thus, their stock prices will rise. Consequently, low-dividend firms will find it advantageous to switch policies until 40 percent of all firms have high payouts. At this point, the dividend market is in equilibrium. Further changes in dividend policy are pointless because all of the clienteles are satisfied. The dividend policy for any individual firm is now irrelevant.

However, Chaplinsky and Seyhun (1990) find that investors do respond to the tax code in making their choices between dividends, long-term capital gains, and other investment income. Dividend-averse investors substantially reduce their receipt of tax-disadvantaged

dividends relative to realized long-term capital gains as their marginal tax rates increase. Potentially constrained investors show little aversion to dividends. For dividend-exclusion investors, tax rate is only marginally positively related to the receipt of dividends. Taken together, their results demonstrate that individuals rationally respond to specific provisions of the tax code in attempting to reduce the tax liability of investment income.

2.4. Establishing a dividend policy

This section presents the approaches firms actually follow to determine the level of dividends they will pay at a particular time. As discussed previously, there are good reasons for firms to pay high dividends, and there are good reasons to pay low dividends. As outlined by Ross et. al. (2008), firms can follow one of the three approaches discussed below.

2.4.1. Residual Dividend Approach

If a firm wishes to avoid new equity sales, then it will have to rely on internally generated equity to finance new positive NPV projects. Dividends can only be paid out of what is left over. This leftover is called the residual, and such a dividend policy is called a **residual dividend approach**.

With a residual dividend policy, the firm's objective is to meet its investment needs and maintain its desired debt-equity ratio before paying dividends.

Given the discussion thus far, it is obvious to expect those firms with many investment opportunities to pay a small percentage of their earnings as dividends and other firms with fewer opportunities to pay a high percentage of their earnings as dividends. This result

appears to occur in the real world. Young, fast-growing firms commonly employ a low payout ratio, whereas older, slower-growing firms in more mature industries use a higher ratio. Khang and King (2006) supported that the firms with the highest dividend payout also tend to be large, mature firms with lots of free cash flow and few growth opportunities

2.4.2. Stable dividends

The key point of the residual dividend approach is that dividends are paid only after all profitable investment opportunities are exhausted. Of course, a strict residual approach might lead to a very unstable dividend policy. If investment opportunities in one period are quite high, dividends will be low or zero. Conversely, dividends might be high in the next period if investment opportunities are considered less promising.

Corporate officials generally agree that a stable policy is in the interest of the firm and its stockholders, so the stable policy would be more common. Garrett and Priestley (2000), show that there exists a target dividend level toward which managers adjust. In our model, there are costs associated with adjusting dividends and with deviating from the target dividend payout ratio. Managers optimize by setting dividends to minimize these costs.

2.4.3. A Compromise Dividend Policy

In practice, many firms appear to follow what amounts to a compromise dividend policy. Such a policy is based on five main goals: (Lintner, 1956)

1. Avoid cutting back on positive NPV projects to pay a dividend.
2. Avoid dividend cuts.

3. Avoid the need to sell equity.
4. Maintain a target debt-equity ratio.
5. Maintain a target dividend payout ratio.

These goals are ranked more or less in order of their importance. In the strict residual approach, it is assumed that the firm maintains a fixed debt-equity ratio. Under the compromise approach, the debt-equity ratio is viewed as a long-range goal. It is allowed to vary in the short run if necessary to avoid a dividend cut or the need to sell new equity.

In addition to having a strong reluctance to cut dividends, financial managers tend to think of dividend payments in terms of a proportion of income, and they also tend to think investors are entitled to a “fair” share of corporate income. (Lintner, 1956)

This share is the long-run target payout ratio, and it is the fraction of the earnings the firm expects to pay as dividends under ordinary circumstances. Again, this ratio is viewed as a long-range goal, so it might vary in the short run if this is necessary (Garrett and Priestley 2000). As a result, in the long run, earnings growth is followed by dividend increases, but only with a lag.

A corporation can minimize the problems of dividend volatility by creating two types of dividends: regular and extra. For companies using this approach, the regular dividend would most likely be a relatively small fraction of permanent earnings, so that it could be sustained easily. Extra dividends would be granted when an increase in earnings was expected to be temporary. Because investors look on an extra dividend as a bonus, there is relatively little discontent when an extra dividend is not reported.

As stated at the beginning of this chapter dividend policy is the most debatable area in the finance literature. Different viewpoints advanced by scholars with further reference to empirical works of researchers were presented. Still to date, there is no single best dividend policy that can be followed by managers to boost the value of the firm. The approaches followed when valuing a common stock are presented in the next section.

After watching the theories on dividends and the payout approaches followed by companies, it is time to slot in dividends to the valuation of common stocks.

2.5. Common stock valuation

Three facts make the valuation of a share of common stock more difficult in practice than a bond. First, the promised cash flows are not known in advance. Second, since common stock has no maturity, the life of the investment is essentially forever. Third, it is not easy to observe the rate of return that the market requires. However, scholars developed abstractions by which the present value of the future cash flows for a share of stock and hence its value determined.

Scholars have managed to explain today's stock price (P_0) in terms of the dividend (DIV_1) and the expected stock price next year (P_1). But future stock prices are not easy to forecast directly. A formula that requires tomorrow's stock price to explain today's stock price is generally without avail.

One approach is to push the problem of coming up with the stock price off into the future forever. It is important to note that no matter what the stock price is, the present value is essentially zero if the sale of the stock is far enough away. Eventually, the current price of

the stock can be written as the present value of the dividends beginning in one period and extending out forever: (Brealey, et.al. 2001)

2.5.1. The dividend discount model

As it goes with a polished model, a stock's value can be expressed as the present value of all the forecast future dividends paid by the company to its shareholders without referring to the future stock price. This is the **dividend discount model**:

P_0 = present value of ($DIV_1, DIV_2, DIV_3, \dots, DIV_t, \dots$)

$$= \frac{DIV_1}{1+r} + \frac{DIV_2}{(1+r)^2} + \frac{DIV_3}{(1+r)^3} + \dots + \frac{DIV_t}{(1+r)^t} + \dots$$

How far out in the future to look? In principle, 40, 60, or 100 years or more - corporations are hypothetically immortal. However, far-distant dividends will not have significant present values.

For example, the present value of birr 1 received in 30 years using a 10 percent discount rate is only birr 0.057. Most of the value of established companies comes from dividends to be paid within a person's working lifetime.

By looking at increasingly long investment horizons, it is conceivable to get from the one-period formula $P_0 = (DIV_1 + P_1)/(1+r)$ to the dividend discount model. Consider investors with different investment horizons. Each investor will value the share of stock as the present value of the dividends that s/he expects to receive plus the present value of the price at which the stock is eventually sold. Unlike bonds, however, the final horizon date for stocks is not specified—stocks do not “mature.” Moreover, both dividends and final sales price can only

be estimated. But the general valuation approach is the same. For a one-period investor, the valuation formula looks like this: (Brealey, et.al. 2001)

$$P_0 = \frac{DIV_1 + P_1}{1 + r}$$

In words, the value of a stock is the present value of the dividends it will pay over the investor's horizon plus the present value of the expected stock price at the end of that horizon.

This doesn't mean though investors of different horizons will all come to different conclusions about the value of the stock. Irrespective of the investment horizon, the stock value will be the same. This is because the stock price at the horizon date is determined by anticipations of dividends from that date forward. Therefore, as long as the investors are consistent in their assessment of the prospects of the firm, they will reach at the same present value.

If the horizon is infinitely far away, then an investor can forget about the final horizon price - it has almost no present value - and simply say Stock price = PV (all future dividends per share). This is the dividend discount model.

2.5.2. The constant-growth dividend discount model

The dividend discount model requires a forecast of dividends for every year into the future, which poses a problem for stocks with potentially infinite lives. Scholars and investors must therefore use simplifying assumptions to reduce the number of estimates. The simplest simplification assumes a no-growth perpetuity which works for no-growth common shares.

If dividends grow at a steady rate, then instead of forecasting an infinite number of dividends, the forecast needed will only be the next dividend and the dividend growth rate.

Although there is infinite number of terms, each term is proportionately smaller than the preceding one as long as the dividend growth rate g (the growth rate) is less than the discount rate r (**the required rate of return**). Because the present value of far-distant dividends will be ever-closer to zero, the sum of all of these terms is finite despite the fact that an infinite number of dividends will be paid.

The sum can be shown to equal

$$P_0 = \frac{DIV_1}{r - g}$$

This equation is called the **constant-growth dividend discount model** or the Gordon growth model after Myron Gordon, who did much to popularize it.

Few real companies are expected to grow in such a regular and convenient way. Nevertheless, in some mature industries, growth is reasonably stable and the constant-growth model approximately valid. In such cases the model can be turned around to infer the rate of return expected by investors.

2.5.3. Non-constant growth dividend discount model

Many companies grow at rapid or irregular rates for several years before finally settling down. Obviously we can't use the constant-growth dividend discount model in such cases.

However, scholars have already looked at an alternative approach. Set the investment horizon

(Year H) at the future year by which the company's growth is expected to settle down.

(Brealey, et.al. 2001)

Calculate the present value of dividends from now to the horizon year. Forecast the stock price in that year and discount it also to present value. Then add up to get the total present value of dividends plus the ending stock price. The formula is

$$P_0 = \underbrace{\frac{DIV_1}{1+r} + \frac{DIV_2}{(1+r)^2} + \dots + \frac{DIV_H}{(1+r)^H}}_{\text{PV of dividends from Year 1 to horizon}} + \underbrace{\frac{P_H}{(1+r)^H}}_{\text{PV of stock price at horizon}}$$

The stock price in the horizon year is often called terminal value.

Notice that this expected return comes in two parts, the dividend and capital gain:

Expected rate of return = expected dividend yield + expected capital gain

When the stock is priced correctly (that is, price equals present value), the expected rate of return on a company's stock is also the rate of return that investors require to hold the stock.

At each point in time all securities of the same risk are priced to offer the same expected rate of return. This is a fundamental characteristic of prices in well-functioning markets. It is also common sense.

2.6. Empirical evidences

Following is chronological presentation of experimental researches on the area of dividend payouts and share prices.

In the mid-1950s John Lintner conducted a classic series of interviews with corporate managers about their dividend policies. His findings of how dividends are determined are summarized as follows:

1. Firms have long-run target dividend payout ratios. Mature companies with stable earnings generally pay out a high proportion of earnings; growth companies have low payouts (if they pay any dividends at all).
2. Managers focus more on dividend changes than on absolute levels. Thus, paying a \$2.00 dividend is an important financial decision if last year's dividend was \$1.00, but no big deal if last year's dividend was \$2.00.
3. Dividend changes follow shifts in long-run, sustainable earnings. Managers "smooth" dividends. Transitory earnings changes are unlikely to affect dividend payouts.
4. Managers are reluctant to make dividend changes that might have to be reversed. They are particularly worried about having to rescind a dividend increase.

Mantripragada (1972) studied the case of stable dividends in more detail. One among the questions raised in the study was: Is it true that shares which pay dividends in stable dollar amounts will have higher prices than those that pay the same average dollar dividend but in a fluctuating pattern?

No consistent support for the Hypothesis was found when the instability was interpreted in the customary sense. There was little support for the view that the market prefers stability in

the rate of growth of dividend. In most cases the instability in capital gains was positively correlated with share prices, and the relationship was statistically significant.

The study concludes that the predominance of stable dividend policy in practice must be interpreted as the preference of management rather than of the market.

On the other hand, Kane et. al. (1984) examined abnormal stock returns surrounding concurrent earnings and dividend announcements in order to determine whether investors evaluate the two announcements in relation to each other. Under the assumption that either favorable earnings or dividend announcements can, by themselves, induce positive abnormal stock returns, they find that there is a statistically significant interaction effect. The abnormal return corresponding to any earnings or dividend announcement depends upon the value of the other announcement. This evidence suggests the existence of a supportive relationship between the two announcements.

They conclude that investors give more weight to unanticipated dividend increases or decreases when earnings are also above or below expectations, and vice versa.

Venkatesh (1989) showed that the initiation of dividends is an important economic event that results in visible impacts on the characteristics of stock price behavior.

Michaely, et.al. (1995) also argued in their study that when a firm initiates the payment of a cash dividend, or omits such a payment, the firm is making an extremely visible and qualitative change in corporate policy. To see what effect such abrupt changes have on

returns, they investigate both the immediate (three-day) reaction to initiation or omission announcements and the long-term post-announcement price performance.

They found that in the year following the announcements, prices continue to float in the same direction, though the float following omissions is stronger and more robust. This post-dividend initiation/omission price drift is distinct from and more definite than those following earnings surprises.

Dividend theories imply that changes in dividends have information content about the future earnings of the firm. Benartzi et.al. (1997) investigate this implication and find only limited support for it. Firms that increase dividends in year 0 have experienced significant earnings increases in years -1 and 0, but show no subsequent unexpected earnings growth. Also, the size of the dividend increase does not predict future earnings. Firms that cut dividends in year 0 have experienced a reduction in earnings in year 0 and in year -1, but these firms go on to show significant increases in earnings in year 1.

However, consistent with Lintner's model on dividend policy, firms that increase dividends are less likely than non-changing firms to experience a drop in future earnings. Thus, their increase in concurrent earnings can be said to be somewhat "permanent." In spite of the lack of future earnings growth, firms that increase dividends have significant (though modest) positive excess returns for the following three years.

They also find some evidence that dividend-increasing firms are less likely to have subsequent earnings decreases than firms that do not change their dividend despite similar

earning growth. In this sense, changes in dividends do signal something about the present: the current increase in earnings is permanent.

The researchers argued that changes in dividends mostly tell us something about what has happened. Earnings have gone up quickly in year -1 and 0, and dividends are adjusted to reflect that. If there is any information content in this announcement, it is that the concurrent change in earnings is permanent rather than temporary.

The conclusion they draw from this analysis was that Lintner's model of dividends remains the best description of the dividend setting process available.

Kania et.al. (2005) showed with evidence the importance of dividend cash flow as a signaling device to stockholders. The explanation they gave was that the firm is willing to increase debt to fund increasing dividends. The firms in the sample behave as anticipated by the literature since increasing dividends reduces liquidity, and the higher the return on equity, the greater the firm's retained earnings for reinvestment or the lower is the dividend payout. Also affirmed was that a higher EPS growth allows a greater capacity for the firm to increase dividends.

Ahmed et.al. (2009) examined the dynamics and determinants of dividend payout policy of 320 nonfinancial firms listed in the Karachi Stock Exchange during the period of 2001 to 2006. They used the extended model of Lintner, Fama and Babiak.

Their results show that Pakistan's listed firms rely more on the current earnings than past dividend to fix their dividend payments. In this way the dividends tends to be more sensitive

to current earnings and also on the prior dividends. The variability in the earnings of the firms reflected on the level of dividends.

The results showed that the firms having high profitability with stable earnings can afford larger free cash flows, thus pay out larger dividends. The firms with larger investment opportunities can easily influence and play important role to determine dividend payout policies in Pakistan.

The researchers also found that the corporate ownership structure has a major impact to determine the dividend payout policy in Pakistan. The firms with the major inside share holdings pay more dividends to their shareholders in Pakistan which means that the firms with high inside ownership or major inside shareholding pay dividend to reduce the cost associated with agency conflict. Moreover, the growth of the firms does not have any impact on the dividend payout and does not agree with the informative content of dividends.

As was mentioned at the beginning, dividends are the most debatable concerns of modern corporate finance. No single best way to pay out or retain exist. In this paper, the three well known (yet divergent) viewpoints with their background assumptions were presented. Also provided are views concerning dividends (signaling effect and clientele effect of dividends). Then, the paper goes on to the determination of the stock price and discuss three notable approaches of doing so.

The aforementioned studies somehow agree that dividends are the primary cash inflows that investors discount when making their investment decisions. But there is no definitive answer for what Ethiopian investors look for when buying ownership shares of private banks.

As can be inferred, the intention was to lay the ground for the investigation of the relationship between dividends and share price in Ethiopian private banks by incorporating dividends in to the methods used for the valuation of shares. As a practical limitation however, chapter four gives more analysis to the examination of association between dividends and share prices.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Data

Data for 6 years (2005-2010 G.C.) was taken for 6 private banks. The criteria for selection are the banks' willingness to provide data, positive EPS and dividends in all the six years. Data reported earlier than 2005 is not taken to match all the 6 banks for mutual six years for which data was obtained.

Among the six banks observed, one bank changed its reporting year from a previous January 1st- December 31st to July 1st-June 30th as per the direction by National bank of Ethiopia. A convention is used to push each reporting year up to bring the previous years to common fiscal years.

The dividend paid each year constitutes cash dividends and capitalization in investors' equity holdings. Dividends paid in cash and the dividends capitalized to shareholders equity are both taken as "dividends" as shareholders' return is maximized with both ways. This is based

on the assumption that shareholders can get the equivalent of the capitalized dividend in cash if they choose so.

The weighted average number of shares outstanding during the year was taken to calculate Earnings Per Share (EPS) and dividends per share. It is important to take the average number of shares outstanding since the number of shares outstanding during a year varies day by day.

The dividend per share and Earnings per Share (EPS) figures are stated relative to par values of the respective banks for the reason that the banks set varied par values for their stocks. To determine the rate of return on 1 birr invested, it is compulsory to state the return variables as a percentage of the par value of shares.

The clearing share prices were obtained from the registry of buy/sell transactions of investors. Interviews were conducted to get the average clearing prices all over each year. For those stocks, the ownership transfer among investors is infrequent, the share premium (as set by management or the general meeting of shareholders) was added to the par value to arrive at the potential clearing price (the price at which the shares were sold to new investors).

3.2. Analysis

As stated in the literature review, three facts make the valuation of a share of common stock more difficult in practice than a bond. First, the promised cash flows are not known in advance. Second, since common stock has no maturity, the life of the investment is essentially forever. Third, it is not easy to observe the rate of return that the market requires.

The first problem relates to the fact that none of the banks selected for study paid stable dividends. This means there was no way to know in advance the stream of cash flows associated with their common stock.

The second problem gets even worse in countries where there is no stock market. In such countries, the future price of the stock, which is added to the stream of dividends in most valuation models, is heavily dependent on the will of management of the corporation. In this study, the share premium (as set by management or the general meeting of shareholders) was added to the par value to arrive at the potential clearing price (the price at which the shares were sold to new investors).

The third problem also gets worse in developing nations like Ethiopia. The fact that investment is low and the absence of functioning securities market (both stock and bond), makes it difficult to compare and infer the rate of return among investments. According to the national bank of Ethiopia, for every birr invested in the banking sector, there was about 39 cents of return in the years between 2005 and 2009 (NBE 2009). This 39% return is used as a required rate return for the valuation of common stock in this study. After calculating the dividends per share as a fraction of par values for the six banks, a 21% rate of return is also used to determine ideal share prices.

None of the models developed for the valuation of common stock appeal for the Ethiopian banking industry. The Dividend growth model could not be used for the obvious reason that the banks studied did not experience so far a constant dividend growth.

The non-constant dividend model cannot be used for the same reason. The banks didn't pay steady dividends that would cease after some time. Some are even paying dividends less than their prior years' payouts.

The resolution is to discount the dividends and the share price just one year backward to arrive at the price of previous year (which is, according to the theory, what the price should be) and compare it with the actual price as registered by the bank. Retrospective prices are calculated using the one period dividend discount model.

$$P_0 = \frac{DIV_1 + P_1}{1 + r}$$

The interest here about the valuation of the shares in retrospect is to see whether dividends were the major factors that push share prices up or down.

Pearson's correlation coefficients are calculated between dividends per share and share prices, dividends per share stated in terms of par and share prices per par, EPS and share prices per par, EPS per par and share prices per par.

CHAPTER FOUR

DATA ANALYSIS

It is believed that the banking sector of Ethiopia is one of the most profitable businesses. With the smallest bank/people served ratio, there is still a room for potential entrants. For every birr invested, there was about 39 cents of return in the years between 2005 and 2009 (NBE 2009). This 39% return is used as a discount rate for the valuation of common stock later in this section.

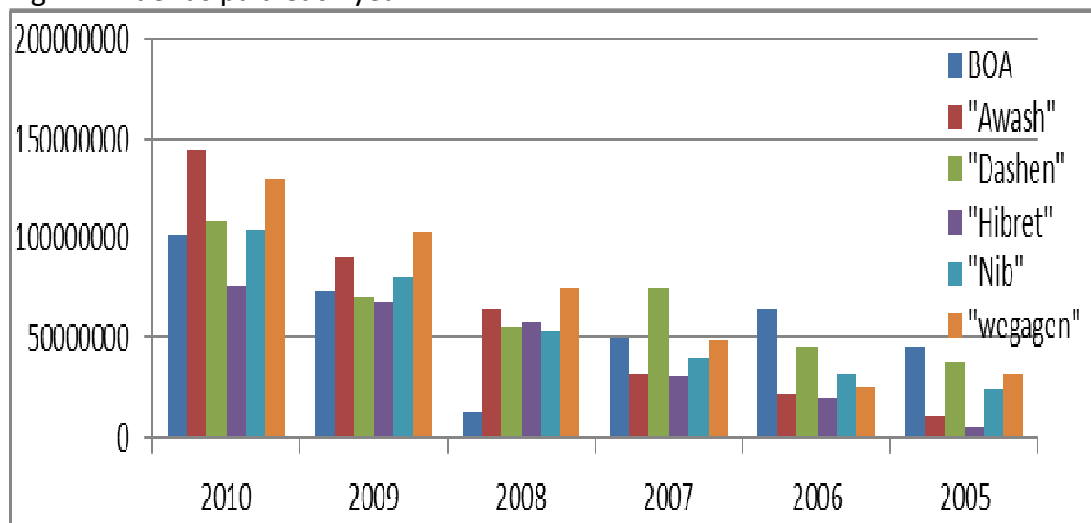
In this section the analysis of performance measures; Earnings Per Share (EPS), dividends, and share prices of private banks are presented to see if the previous two are the major factors that investors look when making their investment decisions.

4.1. Data presentation and discussion

The following are the raw data pertaining to the sample banks for the years 2005-2010 G.C.

Below is a graph showing the dividends paid by each bank for six years covered in this study. The bars in all the graphs stand in alphabetic order beginning with the Bank of Abyssinia all the way to Wegagen bank.

Fig. 1 Dividends paid each year



Crude dividends paid each year vary bank to bank for the reason beyond the scope of this study. Overall Awash and Wegagen paid higher dividends (birr) than the rest of the banks studied.

As can be seen from the tables that follow, BOA leads with maximum number of shares outstanding followed by Hibret bank. This is due to the fact that these banks set minimum par values. i.e. 25 birr for BOA and 100 birr for Hibret. Nib set its par at birr 500, while the rest have 1,000 birr par values.

Below each of the tables that follow, the correlation coefficients of the variables of interest are stated bank by bank basis. Specific facts of each bank will also be stated under the tables with the brief discussion of the findings. Later in this section, the aggregate analysis of the data for the six banks will be presented.

The bank of Abyssinia is the first one to be studied, then Awash international bank, then Dashen bank, all the way alphabetically to Hibret bank, Nib bank and Wegagen bank.

Before presenting the tables, it is important to put the description of the table columns as follows:

Column 1 is the reporting year of the banks in Gregorian calendar. The years 2005-2010 are taken for this study.

Column 2 is the total dividends paid.

Column 3 states the weighted average number of shares outstanding each year.

Column 4 lists the dividends per share for each year. This is simply total dividends divided by the weighted average number of shares outstanding for each year.

Column 5 is the dividends per share as a percentage of the par value.

Column 6 lists the Earnings per Share (EPS) for each year.

Column 7 is the EPS stated in terms of the par value.

Column 8 is a list of share clearing prices as registered by the bank. These clearing prices are taken as market prices for the shares.

Column 9 is the clearing share prices expressed in terms of the par value.

Table 1 Dividends, EPS and share prices of BOA

Bank of Abyssinia, Par=25								
1	2	3	4 = 2/3	5 = 4/Par	6	7=6/Par	8	9=8/Par
10	102,750,000	12600000	8.15	0.33	11.18	0.45	38.31	1.53
9	73,490,000	12525600	5.87	0.23	8.02	0.32	35.59	1.43
8	12,490,000	12502800	1.00	0.04	1.45	0.06	32.6	1.30
7	49,730,000	10600000	4.69	0.19	6.26	0.25	33.3	1.33
6	65,460,000	10588400	6.18	0.25	10.76	0.43	31.75	1.27
5	45,790,000	6629200	6.91	0.28	10.08	0.40	31.29	1.25
Sum	349,710,000	65,446,000	32.80	1.31	47.74	1.91	202.84	8.11
Mean	58285000.00	10907667	5.47	0.22	7.96	0.32	33.81	1.35

Correlation (4 with 9) = 0.409

Correlation (7 with 9) = 0.248

With higher dividends per share per par and the highest share price per par, the correlation coefficients tell that Abyssinia's share prices are not that associated with dividends and EPS.

Awash Bank, Par=1000

1	2	3	4 = 2/3	5 = 4/Par	6	7=6/Par	8	9=8/Par
10	145,127,956	502146	289.02	0.29	493	0.49	1500	1.5
9	90,236,082	383237	235.46	0.24	558	0.56	1425	1.425
8	64,986,832	240776	269.91	0.27	526	0.53	1350	1.35
7	32,935,518	179898	183.08	0.18	529	0.53	1250	1.25
6	22,129,395	147999	149.52	0.15	302	0.30	1250	1.25
5	11,100,000	124382	89.24	0.09	279	0.28	1100	1.1
Sum	366,515,783	1,578,437	1,216.22	1.22	2,687	2.69	7,875	7.88
Mean	61085963.83	263072.91	202.70	0.20	447.83	0.45	1312.50	1.3125

Table 2 Dividends, EPS and share prices of Awash bank

Correlation (4 with 9) = 0.936

Correlation (7 with 9) = 0.720

Awash has the next highest price per par ratio with moderate dividends per par. Also, as can be seen from the table below, the association of these performance measures is high. Correspondingly not to forget is the positive relationship between EPS and share prices at Awash.

Table 3 Dividends, EPS and share prices of Dashen bank

Dashen Bank, Par=1000								
1	2	3	4 = 2/3	5	6	7=6/Par	8	9=8/Par
10	109,128,200	591,860	184.38	0.18	609	0.61	1000	1
9	70,595,500	528,512	133.57	0.13	550	0.55	1000	1
8	55,000,000	453,993	121.15	0.12	846	0.85	1000	1
7	75,000,000	282,210	265.76	0.27	1,001	1.00	1000	1
6	46,000,000	156,190	294.51	0.29	956	0.96	1000	1
5	38,000,000	100,000	380.00	0.38	712	0.71	1000	1
Sum	393,723,700	2,112,765	1,379	1.38	4,674	5	6,000	6
Mean	65620616.67	352127.50	229.90	0.23	779	0.78	1000	1

Note that the clearing prices for stocks of Dashen bank are the same as the par value for each year since the shares are not traded between investors and the bank didn't register any share premiums to date. Therefore, the correlation coefficient between variables and share prices was not calculated. The relationship between dividends and share prices is not clear at this point.

Table 4 Dividends, EPS and share prices of Hibret bank

Hibret Bank, par=100								
1	2	3	4	5	6	7=6/Par	8	9=8/Par
10	76,335,000	3654896	20.89	0.21	47.73	0.48	165	1.65
9	68,148,089	3458424	19.70	0.20	27.06	0.27	140	1.4
8	59,128,006	3084929	19.17	0.19	29.51	0.30	125	1.25
7	31,852,935	1791870	17.78	0.18	35.87	0.36	110	1.1
6	20,774,921	1050098	19.78	0.20	41.60	0.42	105	1.05
5	4,689,396	890305	5.27	0.05	34.73	0.35	105	1.05
Sum	260,928,347	13,930,523	102.58	1.03	216.5	2.17	750.00	7.50
Mean	43488057.83	2321753.7	17.10	0.17	36.08	0.36	125.00	1.25

Correlation (4 with 9) = 0.517

Correlation (7 with 9) = 0.274

With the preliminary test, no significant associations are observed between dividends and share prices. Nor do associations seen for the EPS and share prices at Hibret.

Compared with the six banks studied, Hibret paid moderate dividends, dividends per share and EPS. It has the most shares outstanding after BOA, but with a par value of 100 birr, there is no observable co-movement between dividends paid and the clearing share prices recorded.

Table 5 Dividends, EPS and share prices of Nib bank

Nib Bank, par=500								
1	2	3	4	5	6	7	8	9
10	104,188,066	1068546	97.50	0.20	188	0.376	650	1.3
9	80,445,179	906226	88.77	0.18	170	0.34	500	1
8	53,786,837	702105	76.61	0.15	161	0.322	500	1
7	40,271,366	472648	85.20	0.17	160	0.32	500	1
6	32,479,560	351231	92.47	0.18	161	0.322	500	1
5	24,711,071	285786	86.47	0.17	160	0.32	500	1
Sum	335,882,079	3,786,540	527.0	1.1	1,000	2	3,150	6.3
Mean	55980346.50	631090	87.84	0.18	166.6	0.33	525.00	1.05

For Nib bank, the only Share premiums were registered in reporting year of 2010.

Correlation (4 with 9) = 0.669

Correlation (7 with 9) = 0.939

For Nib, a very strong correlation between the EPS and share prices with a moderate association between dividends and share prices were observed in the above table. Later, the aggregate associations between these variables will be presented.

Table 6 Dividends, EPS and share prices of Wegagen bank

Wegagen bank, par=1000								
1	2	3	4	5	6	7	8	9
10	129,603,747	558,519	232.05	0.23	379.5	0.38	1200	1.2
9	103,169,706	464,089	222.31	0.22	389.15	0.39	1200	1.2
8	74,837,357	308,943	242.24	0.24	449.4	0.45	1050	1.05
7	48,971,612	193,677	252.85	0.25	572.99	0.57	1050	1.05
6	25,554,795	128,172	199.38	0.20	552.87	0.55	1050	1.05
5	33,018,759	99,846	330.70	0.33	477.83	0.48	1050	1.05
Sum	415155976	1753246	1479.52	1.48	2821.74	2.82	6600	6.6
Mean	69192662.67	292207	246.59	0.25	470.29	0.47	1100	1.1

Correlation (4 with 9) = -0.334

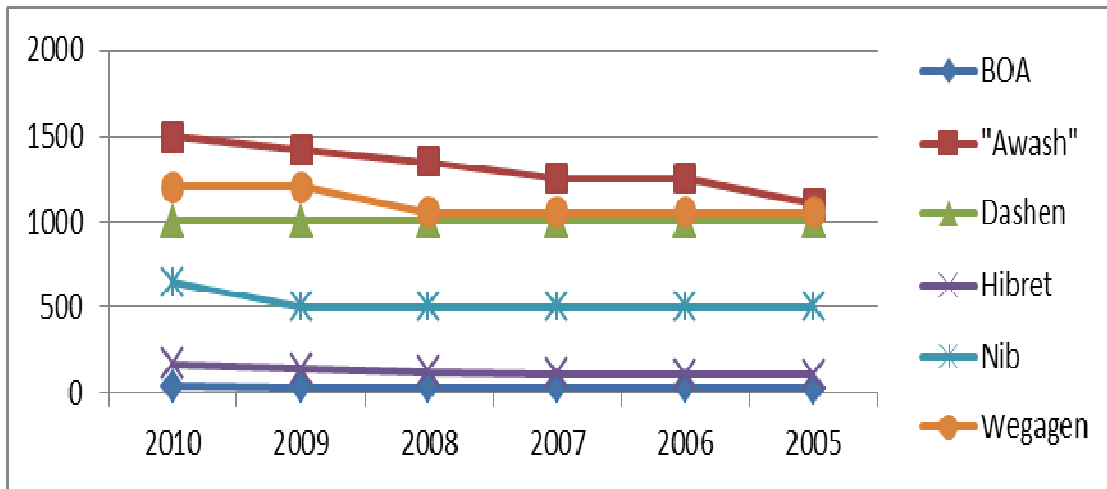
Correlation (7 with 9) = -0.824

Bizarre association between the dividends and share prices and as well the relationship between EPS and share prices was seen in the case of Wegagen. A negative correlation between these variables is a weirdest thing one could ever expect.

One explanation for such an inverse relation could be the fact that share premiums are set for new investors after the preemptive rights of existing shareholders are settled and management's strong desire to boost company image even though dividends per share is declining.

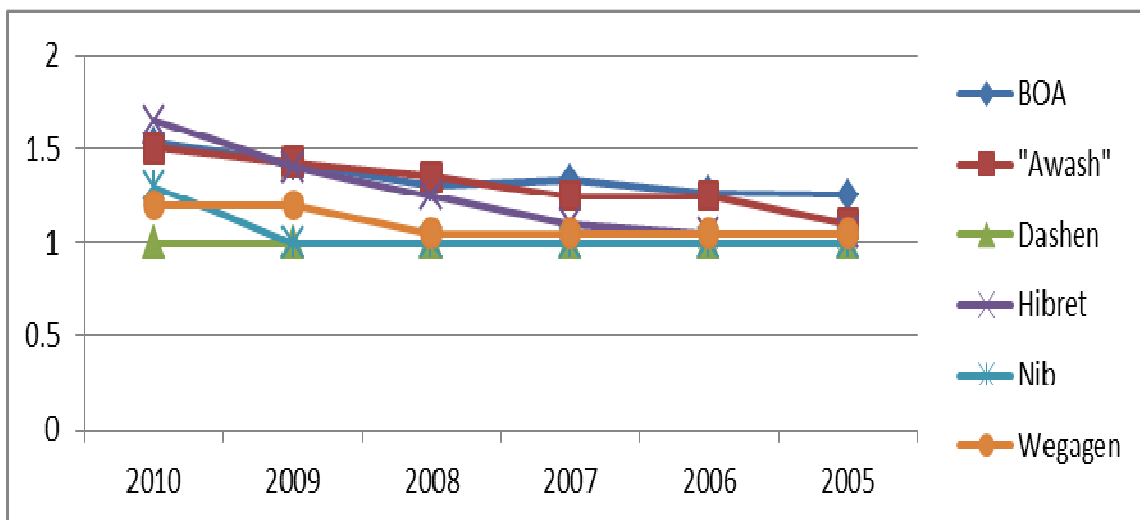
Next displayed is a chart portraying the share prices to help evaluate the premiums set.

Fig. 2 The share prices of all the six banks for the years 2005-2010



The following line graph may help to see the fact that share premiums are rising even if the dividends per share are declining throughout the periods observed.

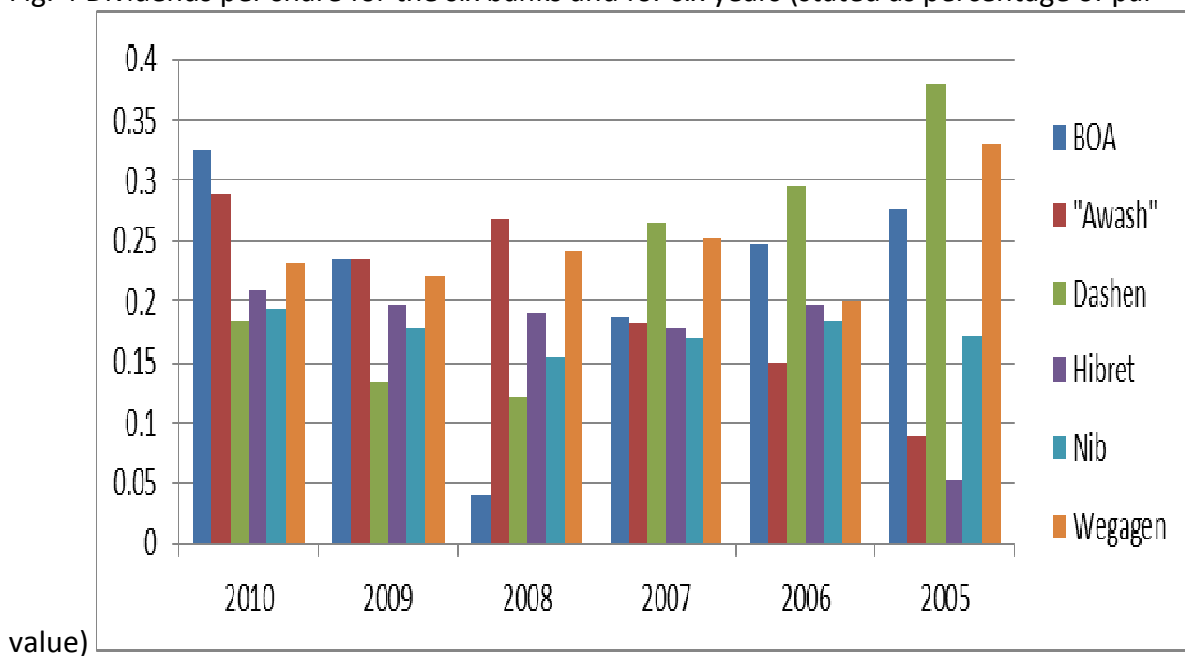
Fig. 3 share price per par



The association between the previous variables by consolidating the data for all the six banks is attached in the appendices. The table is the combined presentation of the previous column headings for the six banks with some measures of central tendency and measures of variation. The 10th, 25th, 50th, and 75th percentiles for each column are also calculated.

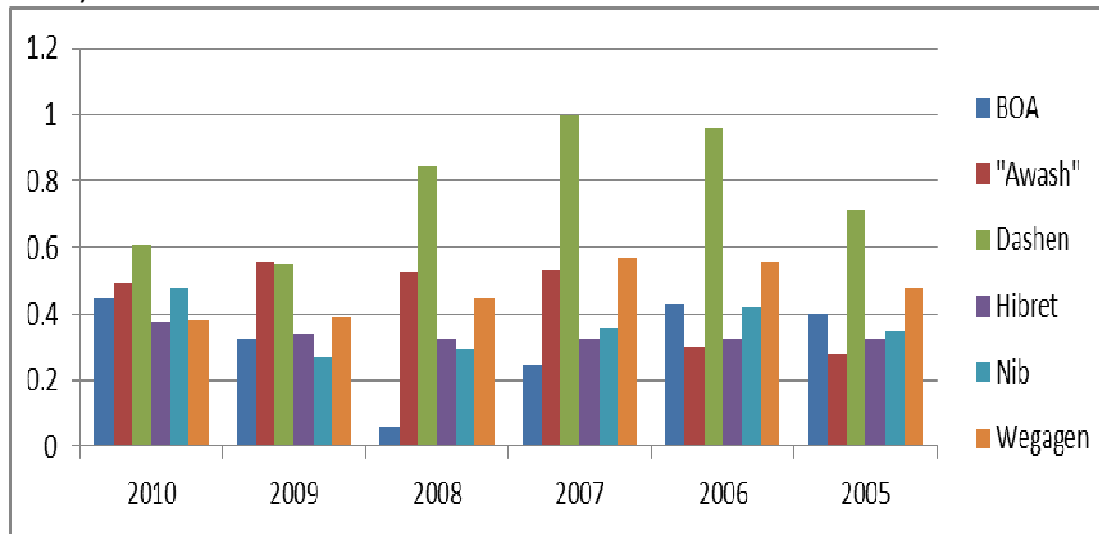
The data series for six banks each for six years will be considered as 36 cases (combinations of dividends/EPS and share prices). This will help to smooth out variations and see the general movement of the variables (dividends, EPS and share prices) in the industry as a whole. Following is a chart depicting the Dividends per share for the six banks. Just below the next graph, Earning per share per par is portrayed to make the search of any association easier.

Fig. 4 Dividends per share for the six banks and for six years (stated as percentage of par



With low birr dividends paid, BOA is paying high dividends per share per par except for the year 2008.

Fig. 5 Earnings per share for the six banks and for six years (stated as percentage of par value)



Throughout the years, Dashen was earning higher profits per share than any bank in this study. The fact that it is not paying the highest dividends per share indicates there is higher retention at Dashen. Wegagen and Awash follow with higher EPS.

Table 7 Correlation matrix of Dividends and EPS with Share prices

	dividends per share	dividends per share per par	EPS	EPS per par	Share price	Share price per par
dividends per share	1.000					
dividends per share per par	0.548	1.000				
EPS	0.843	0.319	1.000			
EPS per par	0.620	0.465	0.869	1.000		

Share price	0.867***	0.223	0.800***	0.485***	1.000	
Share price per par	-0.270	0.177	-0.392**	-0.283*	-0.193	1.000

* Significant at 90% confidence level

**Significant at 95% confidence level

***Significant at 99% confidence level

The aggregate correlation matrix for all the headings is presented in table 7 above. (The grand table from which aggregate correlations are calculated can be referred from the appendices). As can be seen, dividends and share prices seem to have a strong association. But, when it comes to the share prices per par values, they exhibit a negative association. The same is true for the association between EPS and share prices; it is a strong statistically significant association. Again, with the share prices stated in terms of par, the association becomes a weak negative.

The significance tests of the correlation coefficients are discussed in the appendices. So far, there is no strong association as to the real measures of dividends (dividends per share expressed as percentages of par) and share prices (share prices per par values).

With the vague associations and varied significances, the null hypothesis could not be rejected. The only thing that can be said is crude dividends and EPS are strongly correlated with share prices.

Next displayed is the association between the percent change in dividends and percent change in share prices.

Table 8 percentage change in dividends and percentage change in share prices during each year.

	BOA		Awash		Dashen		Hibret		Nib		Wegagen	
Year	% ch D	% ch p	% ch D	% ch p	% ch D	% ch p	% ch D	% ch p	% ch D	% ch p	% ch D	% ch p
2010	0.398	0.076	0.608	0.053	0.546	0.000	0.295	0.300	0.120	0.179	0.256	0.000
2009	4.884	0.092	0.389	0.056	0.284	0.000	0.496	0.000	0.153	0.120	0.379	0.143
2008	-0.749	-0.021	0.973	0.080	-0.267	0.000	0.336	0.000	0.856	0.136	0.528	0.000
2007	-0.240	0.049	0.488	0.000	0.630	0.000	0.240	0.000	0.533	0.048	0.916	0.000
2006	0.430	0.015	0.994	0.136	0.211	0.000	0.314	0.000	3.430	0.000	-0.226	0.000

Correlation between the percent change in dividends and share prices is 0.70. It can be said there is a strong association here. (If six rows can be considered enough to calculate the pearson's correlation).

Again, there is no enough evidence to reject the null hypothesis. Accordingly, it is now the right time to see how much the “real” prices should be for these shares of stock.

Table 9 the share prices during each period. (Both the model output with a 39% discount rate and actual prices registered are shown)

	BOA		Awash		Dashen		Hibret		Nib		Wegagen	
Year	calculated price	actual Price	calculated price	actual Price	calculated price	actual Price	calculated price	actual Price	calculated price	actual Price	Calculated price	actual Price
2009	31.78	35.59	1248.53	1425	815.52	1000	132.88	140	531.4	500	1023.24	1200
2008	26.32	32.60	1219.36	1350	806.58	1000	114.51	125	414.8	500	1037.58	1050
2007	26.83	33.30	1102.93	1250	910.62	1000	102.72	110	421.0	500	937.30	1050
2006	28.40	31.75	1006.85	1250	931.30	1000	93.37	105	426.2	500	898.83	1050
2005	27.81	31.29	963.48	1100	992.81	1000	79.33	105	421.9	500	993.31	1050

The dividend discount model is applied for the valuation of the shares and the actual clearing prices registered are stated along with those calculated prices in table 8 above.

Since the model, $P_0 = \frac{DIV_1 + P_1}{1+r}$ requires the use of next year's price, analysis was done in retrospect for the years 2005-2009 only.

If investors require the 39% return as claimed by the national bank, the prices of shares of these banks would have been the figure on the “calculated price” column in the above table. All the six banks have set their share price higher than the ideal price.

The previous explanation for the weak correlation between dividends and share prices comes again as management sets the prices for many other reasons than for the parity of investment (risk taking) and return.

A better approximation is to discount the numerator with a rate of 21% (1+21%). This is the mean dividends per share expressed as a percent of par values calculated. (This figure can be seen in the grand display of variables in the appendices section).

Table 10 the share prices during each period. (Both the model output at a 21% discount rate and actual prices registered are shown)

		BOA			Awash			Dashen			Hibret			Nib			Wegagen	
Year	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P	Cal. P	Actual P
2009	36.51	35.59	1434.26	1425	936.84	1000	152.65	140	610.55	500	1175.46	1200						
2008	30.24	32.60	1400.75	1350	926.57	1000	131.54	125	476.54	500	1191.93	1050						
2007	30.82	33.30	1267.01	1250	1046.08	1000	118.00	110	483.64	500	1076.74	1050						
2006	32.63	31.75	1156.63	1250	1069.85	1000	107.26	105	489.65	500	1032.54	1050						
2005	31.95	31.29	1106.81	1100	1140.50	1000	91.13	105	484.68	500	1141.07	1050						

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1. Summary

The question of optimal dividend payout ratio is the most debatable concern in the literature of finance. Previous studies conducted in the area, though resemble to agree, did not bring

convergent results because of the context they were conducted and the underlying assumptions taken.

The ideas of dividend irrelevance and the views of both the leftists and the rightists were presented in the literature review part. Also discussed are the settlement of dividend policy and the valuation of common stock.

Chapter three goes on to finding any relationship between dividends and the share prices of six private banks in Ethiopia. A comparison was made to see whether share prices are correlated with dividends or Earnings per Share. The ideal share prices were also calculated by employing the dividend discount model.

4.2. Conclusion

- The predictive ability of dividends is weak as the correlation coefficients between the real measures of dividends and share prices appear. The real measures of Earnings per share are also not significantly correlated with share prices per par. But, the crude measures (dividends per share and EPS) are good predictors of stock prices. The high correlation coefficients are statistically significant at 99% confidence level.
- What explains the price of shares is left to management. The fact that such important decisions are made at the general meetings of shareholders made it somewhat haphazard.
- As learned from the interviews with staff and management, in some banks, shareholders transfer stock certificates without letting the bank know the price paid for them. In such cases, the shares are considered as sold with par. This is one easy way of escaping capital gains tax.

The fact that there is no organized market for securities here makes it a difficult task to follow the month by month price movements. Management of corporations has to see the possible clearing prices for the shares and made important decisions based on the observed movements. It seems this is the only option it has at this point given the market participants and the obscure objective of value maximization.

Such and other factors surely hide the association between dividends and share prices even if there was some.

4.3. Recommendations

- Government and the banks shall craft a mechanism to facilitate the transfer of securities among investors. This will make it easier to assess and react to the changes in the market place. Without knowledge of matters like securities' prices and others, a corporation's financial decision will be ill positioned. Had it been for the functioning securities' market, government had got the capital gains tax it should have collected.

- Professionals in the area of finance have the responsibility of assisting investors and corporations in making major decisions. Unjustified share prices (if it can be concluded from the investigation made) are results of misguided demand and supply of the share certificates. Hence, professionals should act towards the fair pricing of assets.
- Researchers and fellow students of finance shall advance such studies with more corporations examined for many years possible and rigorous techniques developed.

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Appendices

Significance test for the correlation coefficients

Present value table

Grand display of variables for the six banks (2005 – 2010 G.C.)

Interview guide used to collect primary data

Statistical significance test for the correlation coefficients

Two tailed Student t distribution is used as a test statistics.

Variables (correlation between)	Coefficient of correlation	coefficient of determination	t-value obtained
r (sh p/ dps)	0.867***	0.751689	10.15
r (sh p p p/ dps)	-0.27	0.0729	-1.64
r (sh p / dps pp)	0.223	0.049729	1.33
r (sh p p p/ dps pp)	0.177	0.031329	1.05
r (sh p/eps)	0.8***	0.64	7.78
r (sh p p p/eps)	-0.392**	0.153664	-2.49
r (sh p/eps p p)	0.485***	0.235225	3.23
r (sh p p p/eps p p)	-0.283*	0.080089	-1.72

* Significant at 10% confidence level

**Significant at 5% confidence level

***Significant at 1% confidence level

Table key:

- r (sh p/ dps) is correlation between share prices and dividends per share
- r (sh p p p/ dps) is correlation between share prices per par value and dividends per share
- r (sh p / dps pp) is correlation between share prices and dividends per share per par value
- r (sh p p p/ dps pp) is correlation between share prices per par value and dividends per share per par value
- r (sh p/eps) is correlation between share prices and EPS
- r (sh p p p/eps) is correlation between share prices per par value and EPS
- r (sh p/eps p p) is correlation between share prices and EPS per par value
- r (sh p p p/eps p p) is correlation between share prices per par value EPS per par value

Note that: t value at 10% level of significance and df = 30 is 1.697

t value at 5% level of significance and $df = 30$ is 2.042

t value at 1% level of significance and $df = 30$ is 2.75

Note: df (degrees of freedom) of 30 is selected as the table values for more than 30 df are found only in multiples of 10. 36 cases were taken in this study (six banks and six years). And the most conservative approach is to select 30 df than 40.

Descriptive

Year	Dividends	shares (WA)	Div. per share	div./share/par	EPS	EPS/par	sh. Price	sh. Price/par
10-Jun	129,603,747.00	558,519.00	232.049	0.232	379.50	0.380	1,200	1.20
9	103,169,706.00	464,089.00	222.306	0.222	389.15	0.389	1,200	1.20
8	74,837,357.00	308,943.00	242.237	0.242	449.40	0.449	1,050	1.05
7	48,971,612.00	193,677.00	252.852	0.253	572.99	0.573	1,050	1.05
6	25,554,795.00	128,172.00	199.379	0.199	552.87	0.553	1,050	1.05
5	33,018,759.00	99,846.00	330.697	0.331	477.83	0.478	1,050	1.05
10	76,335,000.00	3,654,895.64	20.886	0.209	47.73	0.477	165	1.65
9	68,148,089.00	3,458,424.13	19.705	0.197	27.06	0.271	140	1.40
8	59,128,006.00	3,084,928.80	19.167	0.192	29.51	0.295	125	1.25
7	31,852,935.00	1,791,870.37	17.776	0.178	35.87	0.359	110	1.10
6	20,774,921.00	1,050,098.32	19.784	0.198	41.60	0.416	105	1.05
5	4,689,396.00	890,305.50	5.267	0.053	34.73	0.347	105	1.05
10	109,128,200.00	591,860.00	184.382	0.184	609.00	0.609	1,000	1.00
9	70,595,500.00	528,512.00	133.574	0.134	550.00	0.550	1,000	1.00
8	55,000,000.00	453,993.00	121.147	0.121	846.00	0.846	1,000	1.00
7	75,000,000.00	282,210.00	265.760	0.266	1,001.00	1.001	1,000	1.00
6	46,000,000.00	156,190.00	294.513	0.295	956.00	0.956	1,000	1.00
5	38,000,000.00	100,000.00	380.000	0.380	712.00	0.712	1,000	1.00
10	145,127,956.00	502,145.77	289.016	0.289	493.00	0.493	1,500	1.50
9	90,236,082.00	383,236.64	235.458	0.235	558.00	0.558	1,425	1.43
8	64,986,832.00	240,775.87	269.906	0.270	526.00	0.526	1,350	1.35
7	32,935,518.00	179,898.04	183.079	0.183	529.00	0.529	1,250	1.25
6	22,129,395.00	147,999.16	149.524	0.150	302.00	0.302	1,250	1.25
5	11,100,000.00	124,381.97	89.241	0.089	279.00	0.279	1,100	1.10
10	102,750,000.00	12,600,000.00	8.155	0.326	11.18	0.447	38.31	1.53
9	73,490,000.00	12,525,600.00	5.867	0.235	8.02	0.321	35.59	1.42
8	12,490,000.00	12,502,800.00	0.999	0.040	1.45	0.058	32.60	1.30
7	49,730,000.00	10,600,000.00	4.692	0.188	6.26	0.250	33.30	1.33
6	65,460,000.00	10,588,400.00	6.182	0.247	10.76	0.430	31.75	1.27
5	45,790,000.00	6,629,200.00	6.907	0.276	10.08	0.403	31.29	1.25
10	104,188,066.00	1,068,545.51	97.505	0.195	188.00	0.376	650	1.30
9	80,445,179.00	906,226.19	88.769	0.178	170.00	0.340	500	1.00
8	53,786,837.00	702,104.64	76.608	0.153	161.00	0.322	500	1.00
7	40,271,366.00	472,647.69	85.204	0.170	160.00	0.320	500	1.00
6	32,479,560.00	351,230.70	92.474	0.185	161.00	0.322	500	1.00
5	24,711,071.00	285,785.62	86.467	0.173	160.00	0.320	500	1.00
Sum	2,121,915,885	88,607,511.55	4,737.53	7.47	11,446.98	16.26	24,577.84	42.39
Mean	58,942,108	2,461,319.77	131.60	0.21	317.97	0.45	682.72	1.18
Max	145,127,956	12,600,000.00	380.00	0.38	1,001.00	1.00	1,500.00	1.65
Min	4,689,396	99,846.00	1.00	0.04	1.45	0.06	31.29	1.00
Median	54,393,419	515,328.88	94.99	0.20	233.50	0.41	825.00	1.10
St. Dev.	33,438,579	3,969,639.09	111.08	0.07	288.08	0.19	492.28	0.18
Percentiles								
10	18,289,444.70	127,034.99	5.69	0.11	9.46	0.28	33.09	1.00
25	32,593,549.50	251,134.41	19.30	0.17	35.02	0.32	113.75	1.00
50	54,393,418.50	515,328.88	94.99	0.20	233.50	0.41	825.00	1.10
75	76,001,250.00	2,761,664.19	234.61	0.25	544.75	0.54	1,050.00	1.30

statistics: Grand display of variables for the six banks (2005 – 2010 G.C.)

This simple questionnaire is designed to obtain the necessary data solely for an academic study. There are open ended questions which allow you to express your views in whatever ways you like. The questions relate to dividend payouts and share prices.

Name: _____

Designation: _____

Company: _____

E-mail address: _____

Thank you in advance!

1. Does your bank follow a strict “dividend policy”? If so, state the foundations of the policy.
2. Does your bank follow strict payout ratio? If so, what percent?
3. How did you set the payout ratio? (Steps or the methods followed to establish the ratio)
4. What major factors does your bank consider before dividends are declared? (Any preconditions for dividends)
5. Is there any way of determining the share price? If so, please state the valuation techniques used.
6. Since there is no stock market in Ethiopia, it is obvious that any shareholder who wants to sell his/her holdings should bring the certificates to your bank and shares of stock are sold to an investor at a clearing price. Please list the “clearing prices” on sale of shares for each year.

Thank you again!
Berhane T.