IMPACT OF DIVIDEND POLICY ON SHAREHOLDERS' WEALTH: AN INTENSIVE STUDY ON INDUSTRIAL INDUSTRY AND SERVICE INDUSTRY IN MALAYSIA

BY

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A research project submitted in partial fulfillment of the requirement for the degree of

BACHELOR OF BUSINESS ADMINISTRATION (HONS)
BANKING AND FINANCE

UNIVERSITI TUNKU ABDUL RAHMAN

FACULTY OF BUSINESS AND FINANCE

DEPARTMENT OF FINANCE

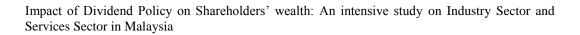
MAY 2012

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DECLARATION

We	hereby	dec	lare	that:

- (1) This undergraduate research project is the end result of our own work and that due acknowledgement has been given in the references to ALL sources of information be thy printed, electronic, or personal.
- (2) No portion of this research project has been submitted in support of any application for any other degree or qualification of this or any other university, or other institutes of learning.
- (3) Equal contribution has been made by each group member in completing the research project.
- (4) The word count for this research project is <u>38194</u>.

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ACKNOWLEDMENT

First and foremost, we would like to record our deepest gratitude to our dear supervisor for this research paper, Cik Zuriawati binti Zakaria for guiding and motivating us throughout our research project. Despite encountering numerous difficulties and challenges during our research, Cik Zuriawati has been able to provide constructive guidance and support in helping us solving our troubles.

Other than that, to all our beloved family members and friends, who have been constantly generating useful ideas to help us in our research, we owe you all great thanks. Special thanks to our seniors as well, who provide useful advice and share their experience doing research project.

Last but not least, we wish to pay our gratitude to the other lecturers of Universiti Tunku Abdul Rahman. They have indirectly guided us to the correct path through their comprehensive lectures and tutorials.

DEDICATION

We would like to sincerely thank all of those who have assisted us to make this dissertation successfully. Throughout this research project we had learnt many things, and the experience captured along the progress are valuable in our life. It helps us to explore to many new ideas and knowledge about doing the real world research and analysis.

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LIST OF ABBREVIATIONS

ATURN Asset Turnover

BSE Bombay Stock Exchange

CASHF Cash Flows

CIA The World Factbook

D1 Dividend

DEA Data Development Analysis

DEQT Debt to Equity

DPS Dividend per Share

EPS Earning per Share

FPL Florida Power & Light

G Growth

GCC Gulf cooperation Council

GDP Gross Domestic Product

ISI Import substitution industrialization

IT Information Technology

K Cost of Equity

KLSE Kuala Lumpur Stock Exchange

M&M Modigliani and Miller

Impact of Dividend Policy on Shareholders' wealth: An intensive study on Industry Sector and Services Sector in Malaysia

MCOM Malaysian Chamber of Mines

MIDA Malaysia Investment Development Authority

MITI Ministry of international trade and inductry

MKSHR Market per Share

Nasdaq National Association of Securities Dealers

Automated Quotations

NSE National Stock Exchange

NXE Nigerian Stock Exchange

NYSE New York Stock Exchange

P0 Share Price

PLCs Public Listed Companies

RE Random Effects

REITs Real Estate Investment Trust

ROA Return on Asset

ROE Return on Equity

ROIC Return on Invested Capital

Rs Rates

SAIL Steel Authority of India Limited

SFA Stochastic Frontier Analysis

STS Single Tier Tax System

TAST Total Asset

TISCO Tata Iron and Steel Company Limited

Impact of Dividend Policy on Shareholders' wealth: An intensive study on Industry Sector and Services Sector in Malaysia

TQM Total Quality Performance

UK United Kingdom

US United States

USA United States America

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PREFACE

This research project is submitted in partial fulfillment of the requirement for Bachelor of Business Administration (Hons) Banking and Finance. Our supervisor on the project is Cik Zuriawati Bin Zakaria. The final year project is made solely by the authors yet it is based on the research of others and the resources are quoted as in references.

There are a lot of researches and studies conducted on this topic but yet, there is none of it doing studies about dividend determinants that affect shareholders' wealth of industrial and services sectors in Malaysia Listed Companies. We are interested to know more about the model of dividend policy in Malaysia. Thus, we chose the topic 'Impact of dividend policy on shareholder wealth: a case study in comparing industrial industry and service industry in Malaysia'.

Writing this thesis has been difficult but during the process we have learned how to deal with the conditions of some listed companies and their dividend policies. We strongly felt that the knowledge we learned from this research will help us in our future career.

ABSTRACT

This paper attempts to identify the impact of dividend determinants on shareholders' wealth in Malaysia. A sample of 52 listed companies in Industrial and Service Sectors is examined for a period from 2005 to 2009. The empirical estimation is based on a panel data regression analysis of the relationship between shareholders' wealth (market per share) and dividend determinants (efficiency, liquidity, profitability, growth, leverage and size). We have presented our result in the combination of industrial and service sectors, as well as the result for each particular industrial and service sectors. At first, the descriptive statistics for our entire variables were calculated and then correlation matrix was calculated to identify the preliminary relationship among all the variables, followed by regression analysis on panel data to examine the significance and coefficient of our variables. We found that the companies in Malaysia are widely practiced their dividend policies based on the theory of signaling effect. Firm size was found to have a positive impact on share price. On the other hand, the findings also revealed that liquidity and leverage indicators have no significant impact on shareholders' wealth in case of Malaysia. We determined that different sectors will behave differently towards dividend distributions. Efficiency and growth indicators are significant to our dependent variable in combined sectors and industrial sector, but insignificant in service sector. Profitability indicator, return on asset is significantly related to share price in combined sectors, however it is insignificant in particular industrial and service sectors.