The Influence of Dividend Announcements and Interim Financial Statements on Share Price

(Special Reference to Listed Commercial Banks in Sri Lanka)

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Abstract- The market price of a security is its price on the Stock Exchange's trading market. The speed with which the market reacts to new knowledge about the company is a measure of the efficiency of its pricing process. This process is likely to be enhanced if market participants have unimpeded and costless access to all relevant information about the company's prospects and if high transaction costs do not constitute barriers to trading on the stock exchange. Here, the researcher has tried to find the influence of dividend announcement and interim finance statement on share price of the listed companies. There are 294 listed companies in the Colombo Stock Exchange as at 31st May 2015. There are 26 financial companies and it includes 15 foreign Banks and 11 Local Banks. Through them, here researcher has selected five local commercial banks as the sample for this study. Secondary data which have gained from annual reports and interim financial statements have been used to this study. In the case of analyzing the data Pearson's correlation analysis and regression analysis have been used. Researcher has found that there is a significant relationship between interim financial statements and share price and there is no significant relationship between dividend announcements and share price. And also, finally researcher has given valuable implication to further researchers.

Index Terms- Share price; Interim financial statements; Dividend announcements

I. Introduction

Share trading in Sri Lanka commenced a century ago in 1896. The Colombo Brokers Association commenced the trading of shares in limited liability companies, which were involved in the opening up of plantation in the country. A considerable body of finance theory has been built on the hypothesis is that, in an efficient market, prices fully and instantaneously reflect all available information. The efficient market hypothesis (EMH) is therefore concern with information and pricing efficiency. There are three levels or forms of efficiency have been defined. These are dependent on the amount of information available to the participant in the market.

- The Weak Form of Efficiency is where share prices reflect all historical information.
- Semi Strong Form of Efficiency is where share prices reflect all publicly available information
- Strong Form of Efficiency is where share prices reflect all information (Public and Internal) and is the perfect information environment.

On the other hand investors will buy shares to obtain an income from dividend s and /or to make capital gain from an increase in share prices. The market price of a share will depend on the return that investors expect to get from it. If the purpose of the investing is to earn a dividend income, an investor will try to buy shares which are expected to provide a satisfactory dividend in relation to their market value. Investments in shares, which occurs day to day on a stock market, means that an investor can improve his return by buying at the right time. The CSE regards timely disclosure of material information to be of prime importance in the operation of an efficient market. Timely disclosure (by way of corporate announcement) must be made of information which may affect the share price or influence investment decision. If the market is efficient share price should vary in a rational way to corporate announcement. Accordingly if the relationship between these announcements and the share price can be established then it will provide a mechanism for the investors, stock brokers, students, fund managers to predict the possible movement in share prices

II. LITERATURE REVIEW

Empirical studies have examined cross-sectional variation in dividend payout ratios and CAPM beta coefficients. Beaver et. al. (1970) estimated CAPM betas for 307 US firms and obtained significant correlation between beta and dividend payout. Rozeff (1982) found a high correlation between value line CAPM and betas and dividend payout for 1000 US firms. Fama (1991) and Fama and French (1992) focus on dividends and other cash flow variables such as accounting earnings, investment, industrial production etc to explain stock returns. Baskin (1989) takes a slightly different approach and examines the influence of dividend policy on stock price volatility, as opposed to returns. The difficulty in any empirical work examining the linkage between dividend policy and stock volatility or returns lies in the setting up of adequate controls for the other factors. For example, the accounting system generates information on several relationships that are considered by many to be measures of risk. Baskin (1989) suggests the use of the following control variables in testing the significance of the relationship between dividend yield and price volatility: operating earnings, size of the firm, level of debt financing, payout ratio and level of growth. These

TABLE 01 :Correlations

		SP	PL	DA
SP	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	40		
PL	Pearson Correlation	.208	1	
	Sig. (2-tailed)	.020		
	N	40	40	
DA	Pearson Correlation	-.290	.085	1
	Sig. (2-tailed)	.070	.600	
	N	40	40	40

variables have a clear impact on stock returns but also impact on dividend yield. Basu (1977), Banz (1981), Rosenberg, et. al. (1985), and Lakonishok, et. al. (1994) concludes that stock's return positively correlated with E/P, CF/P, and B/M. Meanwhile, stock's return is negatively correlated with size and sales growth. Findings in Biddle and Choi (2006) for income component sets reveal that, in general, with the introduction of more components in income reporting can enhance the usefulness of decision-making. While income reporting following the SFAS 130 exhibits the largest predictive ability of financial income statements. This study also finds that comprehensive income dominates other measures of income in explaining equity returns. Dhaliwal et al. (1999) find no clear evidence that comprehensive income is superior to net income in terms of explanatory power and as a measure of firm performance. The research is done through testing whether comprehensive income or net income can better reflect firm performance in stock returns. Dhaliwal et al. (1999) reject the assumption that comprehensive income has a stronger association with the market value of equity and future operation cash flow prediction.

III.METHODOLOGY

There are 294 listed companies in the Colombo Stock Exchange as at 31st May 2015. There are 26 financial companies and it includes 15 foreign Banks and 11 Local Banks. Through them, here researcher has selected five local commercial banks as the sample for this study. In this research have two independent variables and one dependent variable. Dividend announcements and interim Profit or Loss are the independent variables and share price is the dependent variable. The data has been collected Secondary data sources such as annual reports and interim financial statements (Related to 2013-2014). In the case of analyzing data, researcher has used correlation analysis and regression analysis. Researcher has tested following hypothesis through this study.

H1 – There is a significant relationship bet share price (SP) and interim profit and loss (PL)

H2 – There is a significant relationship between share price (SP) and dividend announcement (DA)

IV.FINDINGS AND DISCUSIONS

According to table 01, significance value (2 tailed) between share price and net profit ratio is 0.02.Therefore H_1 should be accepted under5% significance level. That means there is a significant relationship between share price and interim financial statements. According to Pearson correlation value (0.2), there is a weak positive relationship between share price and interim profit (interim financial statements). On the other hand, here significance value (2 tailed) between share price and dividend announcements is 0.07.Therefore H_2 should be rejected under5% significance level. That means there is no any significant relationship between share price and dividend announcements.

Through the regression analysis, following model have been tested by the researcher.

$\mathbf{SP=\beta+\beta_1PL+\beta_2DA}$ **-------------------->** Model 01

TABLE 2 :Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.136[a]	.018	.02	6.75484

a. Predictors: (Constant), DA, PL

Above summary (Table2) R2 value represents the impact of Interim financial statements and Dividend announcement, on Share price. In this summary R2value is .018. That means impact from the Interim financial statements and Dividend announcement on share price is 1.8%. The remaining 98.2% is affected by the other factors other than Interim financial statements and Dividend announcement. It Interpret that other factors are probably fond to be the better of Share price.

V.CONCLUSION

According to findings of this study there is a significant relationship between share price and interim financial statements (weak positive relationship). And also, there is not significant relationship between dividend announcements and share price.

The CSE is semi strong efficient market in which share prices includes all publicly available information. Interim financial statements (Profit/ loss) are significantly influence the market. Further the investors are preferred to make capital gain rather than short term dividend. The political stability and national policies of governments may be having huge influence on the share market. So, testing the influence of social factors such as political stability, national policies towards the share prices also will be vital.

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