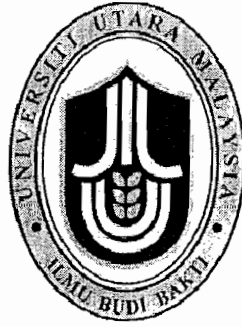


THE IMPACT OF DIVIDEND PAYOUT RATIO
ON FUTURE EARNINGS GROWTH:
EVIDENCE FROM MALAYSIA

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MASTER OF SCIENCE (FINANCE)
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THE IMPACT OF DIVIDEND PAYOUT RATIO ON FUTURE
EARNINGS GROWTH: EVIDENCE FROM MALAYSIA

by

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A Dissertation Submitted in Partial Fulfillment of the Requirements for
the Degree of
Master of Science (Finance) at the Graduate School of Management,
Universiti Utara Malaysia



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ABSTRAK

Nisbah pembayaran dividen dikatakan mempunyai kesan yang positif terhadap pertumbuhan keuntungan masa hadapan seperti yang dibuktikan oleh Arnott dan Asness (2003) dan Zhou dan Ruland (2006). Tujuan kajian ini adalah untuk menentukan impak daripada nisbah pembayaran dividen terhadap pertumbuhan keuntungan masa hadapan di Malaysia. Sehingga kini, masih tiada kajian di Malaysia yang menekankan kesan pembayaran dividen terhadap pertumbuhan keuntungan masa hadapan. Kajian ini menggunakan 97 syarikat yang tersenarai di Bursa Malaysia sebagai sampel, dengan sebanyak 485 pemerhatian direkodkan. Analisis regresi menunjukkan bahawa nisbah pembayaran dividen tidak memberi impak terhadap pertumbuhan keuntungan masa hadapan. Sifat pemilikan syarikat di Malaysia mungkin merupakan penjelasan bagi keputusan yang diperolehi.

Kata kunci: dividen, polisi dividen, pertumbuhan keuntungan masa hadapan

ABSTRACT

It is argued that the payout ratio has positive impact on future earnings growth as suggested by Arnott and Asness (2003) and Zhou and Ruland (2006). The aim of this study is to determine the impact of dividend payout ratio on future earnings growth in Malaysia. There was no study in Malaysia that emphasizes on the influence of dividend payout on future earnings growth. The study uses 97 listed companies on Bursa Malaysia as sample, with 485 company-year observations. The regression analysis shows that dividend payout ratio has no impact on future earnings growth. The nature of companies' ownership in Malaysia is the possible explanation for the results.

Keywords: dividend, dividend policy, future earnings growth

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TABLE OF CONTENT

DECLARATION	
PERMISSION TO USE	
ABSTRAK	i
ABSTRACT	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi
LIST OF FIGURE	vii
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Research Objectives	4
1.4 Research Questions	5
1.5 Significance of the Study	6
CHAPTER TWO: LITERATURE REVIEW	
2.0 Introduction	7
2.2 Theoretical Review	7
2.3 Empirical Review	9
CHAPTER THREE: METHODOLOGY	
3.0 Introduction	14
3.1 Development of the Hypotheses	14
3.1.1 Dividend Payout Ratio and Dividend Yield	15
3.1.2 Control Variables	18
3.1.2.1 Size	18
3.1.2.2 Return on Assets	18

3.1.2.3	Future Assets Growth	19
3.1.2.4	Beta	19
3.1.2.5	Debt Ratio	20
3.1.2.6	Earnings Yield	21
3.1.2.7	Current Earnings Growth	21
3.2	Theoretical Framework	22
3.3	Data and Sample Selection	22
3.4	Source of Data	23
3.5	Research Design	24
3.6	Data Analysis	25
3.6.1	Descriptive Statistics	25
3.6.2	Correlation Analysis	26
3.6.3	Regression Analysis	26
CHAPTER FOUR: RESULTS & FINDINGS		
4.0	Introduction	28
4.1	Descriptive Statistics	28
4.2	Correlation Analysis	34
4.3	Multicollinearity Test	35
4.4	Regression Analysis	36
CHAPTER FIVE: CONCLUSION & RECOMMENDATION		
5.0	Introduction	43
5.1	Overview of the Research Process	43
5.2	Summary of Findings	43
5.3	Suggestion for Future Research	44
REFERENCES		46
APPENDICES		

LIST OF TABLE

<i>Table 4.1:</i>	<i>Descriptive statistics of dependent variable</i>	29
<i>Table 4.2:</i>	<i>Descriptive statistics of independent variables</i>	30
<i>Table 4.3:</i>	<i>Pearson's correlation of variables (Group 1x)</i>	34
<i>Table 4.4:</i>	<i>Test for multicollinearity using variance inflation factor</i>	35
<i>Table 4.5:</i>	<i>Regression model: Methods use to analyze sample set of group 1x</i>	36
<i>Table 4.6:</i>	<i>Regression model: The best method for group 2x, 3x, 4x, and 5x</i>	40

LIST OF FIGURE

<i>Figure 3.1: Determinants of Future Earnings Growth Framework</i>	22
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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides a discussion on dividend in Malaysia. Knowledge about dividend policies in Malaysia is important especially to investors in helping them to make a better financial decision. Section 1.1 highlights the characteristics of dividend-paying companies and dividend policies in Malaysia. Section 1.2 provides the argument on the importance to conduct this research. Section 1.3 presents the research objectives of the study. The questions that need to be answered to achieve the research objectives are presented in section 1.4. The significance of the study is discussed in section 1.5.

1.1 Background of the Study

Dividend has been used as a mean to transfer excess funds from a company to its shareholders. Dividend payment can be in the form of cash dividend or stock dividend or both. Cash dividend involves outflow of funds from the company. Stock dividend on the other hand does not affect a company's cash level, but it will affect a company's number of shares outstanding. Shareholders who want to cash-in their stock dividend will have to sell a portion of their shares, hence reducing their percentage of shareholdings inside a company. Dividend payment is not an obligation for a company; it is however will affect a company value by affecting its

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