



**RELATIONSHIP BETWEEN SHARE PRICE AND DIVIDEND
POLICY: EVIDENCE ON MALAYSIA'S COMMERCIAL
BANKS**

**NORSUZILA BINTI BASIRAN
2013451214**

**BACHELOR OF BUSINESS ADMINISTRATION
(HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SEGAMAT, JOHOR.**

JUNE 2016

ACKNOWLEDGEMENT

Foremost, I wish to count my blessings and thanked Allah S.W.T for providing me with the mental and physical faculties as well as other positive attributes notably perseverance to complete this challenging research paper. Special mention goes to my research advisor for her guidance, supervision and support. His constructive comments and suggestions greatly assist in the successful completion of this project paper. In addition, special thanks to En. Syamsul Samsudin for his guidance and advice towards the completion of this project paper.

Last but not least, I would like to extend my appreciation to each and every one of you who have assisted in one way or another in order for me to complete this research paper. Sincere thanks to all my friends and office colleagues for their understanding, kindness and moral support during the testing time undertook to complete this assignment. Lastly, my deepest gratitude to my beloved parents for their unwavering support, invaluable assistance and sincere blessing.

Thank you.

Abstract of the topic:

Issue/Problem: Some of the shareholders think that dividend policy is irrelevant as they only concern about the return of investment.

Objective: The purpose of this study was to examine the relationship between dividend policy and the share price of commercial bank listed in Bursa Malaysia from year 2010 until 2015.

Variables: The independent variables used in this research are dividend yield, earning per share, net income after tax, and also return on equity, whereas the dependent variable is the share price of each commercial bank in Malaysia.

Data/ Sample Description: The data collected from bank's annual report and website of Bursa Malaysia regarding to the share price and dividend policy of 8 commercial bank in Malaysia for the period from 2010 until 2015.

Statistical/Econometric Method: This study use panel least square and correlation method to examine to relationship between all those variables. The data will be analyzed by using Economic E-Views 8.0.

Table of Contents

TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
ACKNOWLEDGEMENT	iiiv
ABSTRACT	v
CHAPTER 1: INTRODUCTION	1
1.1 Background of Study	1
1.2 Problem Statements	4
1.3 Research Objectives.....	5
1.3.1 Main Research Objective.....	5
1.3.2 Specific Research Objectives.....	5
1.4 Research Questions.....	6
1.4.1 Main Research Question.....	6
1.4.2 Specific Research Questions.....	6
1.5 Significant of Study	7
1.6 Limitation of Study.....	8
1.7 Scope of Study.....	9
1.8 Summary	9
CHAPTER 2: LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Literature Review on Dividend Policy	10
2.3 Literature Review on Relationship Between Share Price and Dividend Yield.....	12
2.3 Literature Review on Relationship Between Share Price and EPS.....	13
2.4 Literature Review on Relationship Between Net Profit and ROE On Share Price.....	14
CHAPTER 3: RESEARCH METHODOLOGY	15
3.1 Introduction	15
3.2 Sample and Data.....	15
3.2.1 Population and sample.....	15
3.2.2 Data collection	16
3.2.3 Variables.....	17
3.3 Theoretical Framework.....	18
3.3.1 Hypothesis statement.....	19

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY.

The relationship between the dividend policy and the share price have been debatable since 1961 by Miller & Modigliani (1961), they have mentioned that in the perfect market, that shareholders' wealth was not influenced by the dividend policy of a company. In Malaysia, the relationship between dividend policy and share price have become the issue by Pandey (2001) where he investigate the relationship between both variable of 248 companies which are listed on Kuala Lumpur Stock Exchange (KLSE).

From the study by Ponsian, Prosper, Yuda, & Samwel (2015), they claimed that the share price is strongly influenced by the dividend policy in Tanzania. In contradictory, Masum (2014) also mentioned that it was due to the irrelevance of dividend policy where the shareholder do not concern about the types of reward that they will earn as long as they receive a return whether in the form of dividend or capital gain and it was similar from the researches by Miller & Modigliani (1961). The company will issue the share to the investors when they need a capital for starting a business or for the purpose of expansion of their company. The company must decide to distribute their profit as a dividend to the shareholders or maintain as a retained earnings. Dividend is a sum of money paid by the firm to the shareholders which is the person that contribute their money as a capital to the firm.

Firm will be periodically paid the dividend to their shareholders and there are two main type of dividend which is cash dividend or share dividend. Cash dividend is the most general for the firm where the firm will distribute some of the profit to their shareholders in the form of cash or