



**A STUDY OF NET INCOME AND RETURN ON
SHAREHOLDER EQUITY IN MALYSIA**

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ABSTRACT

This Study is conducted to determine if there is any significant correlation between net income and earning per share, dividend per share and dividend payout ratio. Five samples from each five different sectors i.e. consumer products, properties, industrial products, trading/services and finance are randomly selected for the study. The sample period is from January 1999 to December 2002, a period after the Malaysian economy has recovered from recurrence of the 1997-1998 Asian economic crisis.

In this study, net income has been chosen as a dependent variable and earning per share, dividend per share and dividend payout ratio as independent variables.

CHAPTER ONE

1.1 INTRODUCTION

The performance of the Malaysian economy in 2001 has been adversely affected by the greater-than-expected slowdown in the world economy, particularly in the United States (US) as well as the continuing weak performance of the Japanese economy. The September 11th 2001 attack on the US has led to greater uncertainties with respect to the severity and duration of the recovery in the US. There are concerns on the risks of the US economy entering into a recession and its contagion on other industrialized and developing economies.

In the light of the more difficult environment, real GDP growth of the Malaysian economy is projected to grow by 1 – 2% for 2001. Following the lower growth in

CHAPTER TWO

2. LITERATURE REVIEW

In an essay written by Sam Vaknin⁷ believed Investors are supposed to discount the stream of all future income from the share (using one of a myriad of possible rates - all hotly disputed). Only dividends constitute meaningful income and since few companies engage in the distribution of dividends, theoreticians were forced to deal with "expected" dividends rather than "paid out" ones. The best gauge of expected dividends is earnings. The higher the earnings - the more likely and the higher the dividends. Even retained earnings can be regarded as deferred dividends. Retained earnings are re-invested, the investments generate earnings

⁷ Sam Vaknin, Sam Vaknin's Psychology, Philosophy, Economics and foreign Affairs Web Sites, The Myth of the Earnings Yield.