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RELEVANCE OF DIVIDEND POLICY TO VALUATION OF SHARES OF NIGERIAN BANKING SECTOR

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Abstract

The purpose of the study is to investigate the relevance of dividend policy to the valuation of shares of Nigerian banking sector. The data were gathered from a sample of First bank Plc and Zenith bank Plc annual reports and accounts for (10) ten years (20008-2017). The research work made use of multiple regression method. Dividend Yield (DY), Dividend per share (DPS) and Dividend payout Ratio are used as proxy for dividend policy, while share price (SPZ) was used as a measure of share valuation using multiple regression technique, E-view 9.0 software package. The study shows that Dividend Yield (DY), Dividend per share (DPS) and Dividend payout Ratio has significant effect on share price of Nigerian Banking sector. The extent of effect of the independent variables on the dependent variable is positive and significant. This result is consistent with existing literature which points out positive effect of dividend policy on the share price of Nigerian banks. Based on the findings of this study, the researcher recommends that; Companies should consider all pertinent issues before issuing dividends. Investors should be mindful of a firm's earnings quality property and its earnings management practices as these property and practices provide value relevant information that are useful to equity market participants in the valuation process. Banks should view the payout ratio and the retained earnings ratio as the indicators of the amount of earnings that have been ploughed back in the business.

Keywords: Dividend policy, Valuation of Shares, Nigerian, Banking Sector

1.1 Introduction

Dividends are per-share payments designated by company's board of directors to be distributed among shareholders. For preferred shares, it is generally a fixed amount. For common shares, the dividend varies with the fortunes of the company and the amount of cash on hand. It may be omitted if the business is poor or the directors withhold earnings to invest in plant and equipment (Garver, 2011). Since most closely held companies do not pay dividends, when using dividend capitalization valuators must first determine dividend paying capacity of a business. Dividend paying capacity based on average net income and on average cash flow is used (Husseman, 2010).

To determine dividend paying capacity, near term capital needs, expansion plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated. After analyzing these factors, percentage of the net income of average cash flow that can be used for the payment of dividend can be estimated. What also must be determined is the dividend yield, which can best be determined by analyzing comparable companies. As with the price earnings ratio method, this usually produces a subjective result (Husseman, 2010).

The securities exchange is part of the securities segment of the capital market. Investments that represent evidence of debt, ownership of a business, or the legal right to acquire or sell an ownership interest in a business are called securities. The most common types of securities are stocks, bonds and options. Securities markets are the mechanisms that allow suppliers and demanders of funds to make transactions. They also allow transactions to be made quickly and at a fair price (N.S.E, 2007).

Dividends are relevant because they have informational value. Financial signaling theory implies that dividends may be used to convey information. Information, rather than dividends itself, affects share prices (Brigham and Gapenski, 2004). The payment of dividends conveys to shareholders that the company is profitable and financially strong.

This in turn causes an upsurge in demand for the firm's shares causing a rise in their market prices.
When a firm changes its dividends policy, investors assume that it is in response to an expected change in the firm's profitability which will last long. An increase in payout ratio signals to shareholders a permanent or long term increase in firm's expected earnings. Accordingly, the prices of shares are affected by changes in dividends policy. This, therefore call for studies to be conducted in the area of dividend policy and how this policy affects market prices of shares (Husseman, 2010).

The Nairobi Securities Exchange which was formed in 1954 as a voluntary organization of stock brokers is now one of the most active capital markets in Africa. The administration of the Nairobi Securities Exchange Limited is located on Exchange Building, Westland's Nairobi. As a capital market institution, the Securities Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents.

Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The Exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares (N.S.E, 2007). A stock market is a place where securities are traded. These securities are issued by listed companies and by the government, with the aim of raising funds for different purposes such as to fund expansion for the former, and development and finance budget deficits for the latter. Common securities traded on a stock exchange include company shares, corporate bonds, and government debt in the form of treasury bonds (N.S.E, 2010).

Companies can also raise extra finance essential for expansion and development. To raise funds, a new issuer publishes a prospectus which gives all pertinent particulars about the operations and future prospects and states the price of the issue (Green, 1993). A stock market also enhances the inflow of international capital by directing capital to productive uses. The savers (governments, businesses, and people who save some portion of their income) invest their money in capital markets like stocks and bonds. The borrowers (governments, businesses, and people who spend more than their income) borrow the savers' investments that have been entrusted to the capital markets (Lonie, 1990).

These members of the NSE transact business mainly on the floor of Nairobi stock market which is in Exchange Building, Westland's Nairobi, with a limited proportion of business conducted in foreign securities through overseas agents. The stockbrokers act as financial advisers to their clients and carry out their orders. The Nairobi Stock Exchange deals in both variable income securities and fixed income securities. Variable income securities are the ordinary shares, which have no fixed rate of dividend payable, as the dividend is dependent upon both the profitability of the company and what the board of directors decides. The fixed income securities include treasury and corporate bonds, preference shares, debenture stocks - these have a fixed rate of interest/dividend, which is not dependent on profitability (N.S.E, 2007).

In the view of Anyanzwa (2008).listing is the process of taking a privately owned organization and transforming it, into a publicly owned entity whose securities (equity or debt) can be traded on a securities exchange. As at February 2015, there are 64 companies listed in NSE; agricultural 7, automobiles and accessories 3, banking 10, commercial and services 9, construction and allied 5, energy and petroleum 5, insurance 6, investment 3, investment services 1, manufacturing and allied 9, telecommunication and technology 1 and growth and enterprise segment 4. The stock market consists of both the primary and secondary markets. In the primary or new issue market, shares of stock are first brought to the market and sold to investors. In the secondary market, existing shares are traded among investors (Ross, Westerfield and Jaffe, 2003).

In Nigeria, most of the firms listed in the stock exchange pay dividends semiannually. There is no legal requirement that firms adopt a specific dividend policy schedule, however dividend distribution do face legal restrictions for instance they should not be paid out of capital unless liquidating. The dividends and dividend policy have been subject of many studies for many years from past to present (Lintner, 1956; Gordon, 1959; Miller and Modigliani, 2011; Mancinelli and Ozkan, 2006).

Karanja (2007) studied dividend practices of publicly quoted companies and found out that there are many reasons why firms pay dividends. One reason is lack of investment opportunities, which promises adequate returns. Firm's cash position was the most important consideration of timing of dividends. Onyango (2009) noted that shareholders tend to receive higher cash dividends after bonus issue. Njoroge (2001) examined relationship between dividend payout and some financial ratios such as return on assets. The results obtained were that the most significant variable in making dividend decisions is return on assets while return on equity and growth in assets are not considered in making dividend decisions.

It has however remained a puzzle whether a company's dividend policy really affect the firm's share market prices. Some scholars argue that dividend policy is irrelevant (Miller and Modigliani, 2011) whereas others view it otherwise. Hence the study was set to determine whether there existed a causal relationship between dividend policy and the share prices of a firm. Since there is difficulty in linking dividend policy directly to share prices (NLI Research, 2006). This study aimed at filling the knowledge gap that exists in determining the effect of dividend policy on share prices.

1.2 Statement of the Problem

Dividend Policy remains a source of controversy despite years of theoretical and empirical research including share price. Payment of dividend has information content to the public, the decision to pay or not to pay dividend because of investible opportunities is a serious problem that management will have to contend with, if management is going to reduce the amount of dividend or ignore payment of dividend altogether, reasons must be given so that it will not have negative effect on the shareholders perception of the performance of the company. There is legal restrictions for instance dividend should not be paid out of capital unless liquidating.

1.3 Objectives of the Study

The broad objective of this study is to investigate the relevance of dividend policy to the valuation of shares of banks in Nigeria. The specific objectives of this research work include;
1. To determine the impact of dividend yield on share prices of Nigerian banks.
2. To determine the impact of dividend per share on share prices of Nigerian banks
3. To determine the impact of dividend payout ratio on share prices of Nigerian manufacturing

1.4 Research Questions

1. To what extent does dividend yield impact on share prices of Nigerian banks?
2. To what degree does dividend per share impact on share prices of Nigerian banks?
3. To what extent do dividend payout ratio influence share prices of Nigerian banks?

1.5 Statement of Hypotheses

1. There is no significant impact of dividend yield on share prices of Nigerian banks.
2. There is no significant effect of dividend per share on share prices of Nigerian banks
3. Dividend payout ratio does not significantly influence share prices of Nigerian banks

1.6 Significance of the study

The study will be of primary importance and benefit to the Nigerian banks in trying to establish a combination of dividend policies that offers optimal share price. Also the study will be of secondary importance to various interest groups: viz other researchers, financial and business analysts and potential investors as a reference material.

1.7 Scope of the study

The scope of this research is on the relevance of dividend policy to the valuation of shares of banks in Nigeria. This study focuses on two banks in Nigeria which include; First bank plc and Zenith bank Nigeria Plc. The selected banks have complete data for the period under study. The period covers 2008 to 2017 financial years of the annual report and accounts of the firms. The independent variables are; Dividend Yield (DY), Dividend per share (DPS) and Dividend payout Ratio. While dependent variable is Share Price (SPZ). The two banks were selected because the market share they control in the banking sector.

1.8 Limitations of the Study

The study is limited by the uncooperative attitude of workers of Nigeria Banks on answering questions on how to obtain financial statements for use in the research work. However, the problem was surmounted because the annual reports and accounts were publicly disclosed and available on the internet.

Review of Related Literature

2.1 Conceptual Framework
2.1.1 Dividend Yield

Abosede and Oseni,. (2011) opined that a financial ratio indicates how much a company pays out in dividends each year relative to its share price. Dividend yield is represented as a percentage and can be calculated by dividing the dollar value of dividends paid in a given year per share of stock held by the dollar value of one share of stock. The formula for calculating dividend yield may be represented as follows:

$$= \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}}$$

Yields for a current year are often estimated using the previous year’s dividend yield or by taking the latest quarterly yield, multiplying by 4 (adjusting for seasonality) and dividing by the current share price.

Abosede and Oseni. (2011) further states that Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position. In other words, it measures how much "bang for your buck" you are getting from dividends. In the absence of any capital gains, the dividend yield is effectively the return on investment for a stock.

Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields. Yet, high dividends may often come at the cost of growth potential. Every dollar a company is paying in dividends to its shareholders is a dollar that company is not reinvesting in it in an effort to make capital gains. While being paid for holding a stock is attractive to many, and for good reason, shareholders can earn high returns if the value of their stock increases while they hold it. In other words, when companies pay high dividends it may come at a cost.

Dividend yields are a measure of an investment’s productivity, and some even view it like an "interest rate" earned on an investment.

Acker,(1999) state that a security's dividend yield can also be a sign of the stability of a company and often supports a firm's share price. Normally, only profitable companies pay out dividends. Therefore, investors often view companies that have paid out significant dividends for an extended period of time as "safer" investments. Thus, should events occur which are detrimental to the share price, the allure of the dividend combined with the stability of the company can support the price somewhat.

2.1.2 Dividend policy

In the view of Adelegan, (2003) dividend is the distribution of a portion of the firm’s earnings to the shareholders and it is a distribution after tax. The attitude of shareholders to changes in the level of dividend paid must be balanced against the availability and cost of internal and external sources of finance. This is because the payment of dividend will reduce the amount of retained earnings as a form of internal funding for the projects that the firm may wish to invest on for higher profit margin and it is the cheapest funding of the firm, if the fund is insufficient, external funding may be required which will incur higher cost. The interest conflict arises were the shareholders prefer greater part of the profit to be distributed as dividend but managers may prefer retaining of the earnings for the future use. Therefore, the Dividend payout ratio becomes critical in order to balance up the shareholders wealth and growth.

Dividend decisions play a very important role in order not to reflect negatively in the situation when firm operates with lower profit or loss.

Payment of dividends in shares is often associated with payment in cash; the effect of dividend policy in current stock prices is very relevant issue not only for the divided policy makers but also for the planning of investors about their financial portfolio.

2.1.3 Dividend Payout

In the view of Chirinko, and Philips, (2009) dividend payout is the amount of dividends paid to stockholders relative to the amount of total net income of a company dividend/Net income. The amount that is not paid out in dividends to stockholders is held by the company for growth. The amount that is kept by the company is called retained earnings. Net income shown in the formula can be found on the company's income statement. This formula is used by some when considering whether to invest in a profitable company that pays out dividends versus a profitable company that has high growth potential. In other words, this formula takes into consideration steady income versus reinvestment for possible future earnings, assuming the company has a net income.

Fama, (2011) Dividend payout is the fraction of net income a firm pays to its stockholders in dividends, Investors seeking high current income and limited capital growth prefer firms with high Dividend payout ratio. However investors seeking for capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to pay more of the earnings back to investors as dividend. Note that dividend payout ratio is calculated as DPS/EPS.

The retention ratio and the dividend payout ratio together equal 1 or 100% of net income. The premise is that whatever amount not paid in dividends is kept by the company to reinvest for expansion.

A simple example would be a company who pays out 100% of their net income in dividends. In this situation, net income would be equal to dividends. Using the formula for this example, the dividend payout ratio would be 1 or 100%. The retention ratio would be 0 or 0% as they do not retain and reinvest any of their earnings for growth. Using the alternative formula 1 - 0 would be 1.

Alternatively, a company that pays no dividends would have a 0 dividend payout ratio and a 1 retention ratio, which means that the company reinvests all of their net income for growth shaped by either the firm's need for funds or the shareholders' need for income (Nwankwo, 2002).

2.1.4 Dividend per share (DPS)

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued. A company's DPS is often derived using the dividend paid in the most recent quarter, which is also used to calculate the dividend yield.

Ahmed and Javid (2009) are of the view that dividend per share is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder, and the dividend per share is the most straightforward figure an investor can use to calculate his or her dividend payments from owning shares of a stock over time. Meanwhile, a growing DPS over time can also be a sign that a company's management believes that its earnings growth can be sustained.

DPS can be calculated by using the following formula, where the variables are defined as:

- D: Sum of dividends over a period (usually a quarter or year)
- SD: Special, one-time dividends in the period
- S: Ordinary shares outstanding for the period

$$DPS = \frac{D - SD}{S}$$

Ahmed and Javid (2009) states that dividends over the entire year, not including any special dividends, must be added together for a proper calculation of DPS, including interim dividends. Special dividends are dividends that are only expected to be issued once and are, therefore, not included. Interim dividends are dividends distributed to shareholders that have been declared and paid before a company has determined its annual earnings. If a company has issued common shares during the calculation period, the total number of ordinary shares outstanding is generally calculated using the weighted average of shares over the reporting period, which is the same figure used for earnings per share (EPS).

DPS is the amount of dividends that the shareholders of a company receive on a per-share basis. It is calculated using the total dividends paid out to shareholders over one fiscal year and the number of shares outstanding.

DPS can be calculated using the formula:
DPS = (total dividends paid out over a period - any special dividends) ÷ (shares outstanding).

Ali and Chowdhury (2010) state that dividend Per Share (DPS) is the total amount of dividend attributed to each individual share outstanding of a company. Calculating the dividend per share allows an investor to determine the amount of cash he or she will receive on a per share basis. Dividends are usually a cash payment paid to the investors in a company, although there are other types of payment that can be received.

2.1.5 Concept of Market Prize of Ordinary Share

Amihud and Mendelson, (2008) are of the view that market Value Ratios relate to an observable market value, the stock price, to book values obtained from the firm's financial statements.
Price-Earnings Ratio (P/E Ratio)

The Price-Earnings Ratio is calculated by dividing the current market price per share of the stock by earnings per share (EPS). (Earnings per share are calculated by dividing net income by the number of shares outstanding.)

The P/E Ratio indicates how much investors are willing to pay per naira current earnings. As such, high P/E Ratios are associated with growth stocks. (Investors who are willing to pay a high price for a naira of current earnings obviously expect high earnings in the future.) In this manner, the P/E Ratio also indicates how expensive a particular stock is. This ratio is not meaningful, however, if the firm has very little or negative earnings (Anderson and Reeb, 2003).

$$\text{P / E Ratio} = \frac{\text{Price Per Share}}{\text{Earnings Per Share}}$$

where

$$\text{Earnings Per Share} = \frac{\text{Net Income}}{\text{Number of Shares Outstanding}}$$

The Market-to-Book Ratio relates the firm's market value per share to its book value per share. Since a firm's book value reflects historical cost accounting, this ratio indicates management's success in creating value for its stockholders. This ratio is used by "value-based investors" to help to identify undervalued stocks (Adu-Kyei, 2001).

Ekanem (2003) posits that a share price is the price of a single share of a number of saleable stocks of a company, derivative or other financial asset. In layman's terms, the stock price is the highest amount someone is willing to pay for the stock, or the lowest amount that it can be bought for.

2.2 Theoretical Framework

Many studies have advanced numerous explanations which serve as theoretical backing on the concept of capital structure. For the purpose of this research, the paper tends discuss the most commonly used theories on dividend policy and share price.

Trade off Theory

This theory was propounded by Kraus and Litzenberger in the year 1973. The theory postulates that firms are usually financed by both debt and equity. The firm can balance the marginal cost and benefit by trade off the equity and debt financing decision and to achieve so called optimum capital structure (Titman and Wessels 1988) Kim (1978) studies showed that the choice of capital structure matters in influencing performance. The trade-off theory refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits (Margaritis and Psillaki 2007).

The tradeoff theory assumes that there are benefits to leverage within a capital structure up until the optimal capital structure is reached. The theory recognizes the tax benefit from interest payments. Studies suggest, however, that most companies have less leverage than this theory would suggest is optimal.

Trade-off theory recognizes the existence of bankruptcy cost. It states that there is an advantage of financing with debt (namely the tax benefit) and that there is a cost of financing with debt (the bankruptcy costs and the financial distress costs of debt) (Kraus and Litzenberger 1982) Miller (1977) argues that these costs do exist indeed, but they see inexplicably small relative to tax savings as they are supposedly balanced. However, to Myers (1984), the marginal benefit further increases as debt declines and as debt increases, the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade off when choosing how much debt and equity to use for financing; Empirically, this theory may explain differences in dividend ratios between industries, but earning it doesn't explain difference within the same industry (Margaritis and Pisllaki 2007) Capital structure can somewhat cope with the principal – agent problem without substantially increasing agency costs, but simply by trading off equity for debt (Pineaga and Wilbricht 1989, Muritala 2012).

Pecking Order Theory

Developed by Myers and Majluf (1984) assert that firm's financing needs decides the level of leverage. The theory postulates that typically companies use their retain earning at first in priority to finance their projects. Secondly, companies will seek for external debt and finally the alternatives of issuing new shares.

There are numerous theories developed to analyze alternative capital structures. Among all these theories, the static trade off theory which derived by Modigliani and Miller (1963) was the earliest and most recognized which explains the formulation of capital structure. Their trade off theory assumed that there are optimal capital structures by trading off the benefits and cost of debt and equity. The main benefit of debt is tax deductibility of interest and the costs are bankruptcy cost (Kim, 1978) and agency cost (Jesen and Meckling, 1976; Myers, 1977). However, recent studies have shown a focus shift from the trade-off theory to pecking order theory (Quan, 2002; Mazur, 2007).

The pecking order theory assumes that there is no target capital structure. The firms choose capitals according to the following preference order: internal finance, debt, equity. Myers and Majluf (1984) argued the existence of information asymmetry between managers (insiders) and investors (outsiders). They argued that managers have more inside information than investors and act in favor of old shareholders.

The retained earnings is first chosen because it relatively has almost no cost. Moreover financing from debt or issuing new equity give signals in the market. If manager issue more equity, a rational investor thinks that the stock is overvalued and investors tend to place a lower price to the new equity issuance.

2.3 Empirical Review

Nazir (2010) selected a sample of 73 firms from Karachi stock exchange tried to find the determinants of dividend policy in Pakistan for the firms. Results suggest that market prices of shares are greatly influenced by the dividend announcements and dividend payout. Dividend policy has a strong positive impact on the share prices of shares of the firms. The study suggested that there is a positive relationship between dividend yield and stock prices volatility and there is a negative relationship between share price volatility and growth of the firm.

Okafor (2011) examined the relationship between dividend policy and share prices volatility by taking samples from Nigerian firms. He found that the dividend payouts and dividend yield both have significant impact on share price movements. Results also suggested that dividend yield has a negative relationship with share prices. On the other hand dividend payout ratio has positive and also has negative relationship with share prices in some years.

In the view of Obaid (2016) on the study of investigate the impact of capital structure and dividend policy on firm value of KSE non-financial listed firms using cross sectional time series regression analysis for the period 2006-2013 in Pakistan. The study uses fixed effect Model to measure the disparities of intercepts for each group considering fixed coefficient for to efficient for independent variables and fixed variance among groups of the panel data. The result of the study reporting numbers of variables of capital structure and dividend policy has significant impact on dependent variable (Tobin's Q). Three independent variables (TDTA as leverage ratio, SG as profit sustainability ratio and EQ as shareholders equity) of capital structure while one variable (EPS as profitability ratio) of dividend policy has significant impact on dependent variable (Tobin Q). The remaining two variables (FATO as performance ratio of capital structure and DPO as cash flow indicator ratio of dividend policy) are not significant with dependent variable (Tobin Q). Elaborately EPS approve the prophecy of signaling theory while EQ, TDTA and SG statistically confirm assumption of trade off theory and pecking order theory. Furthermore FATO fail to support the tradeoff hypothesis while DPO fail to favour the signaling theory postulations. Consequently the research analysis approves the hypotheses of pecking order theory and trade off theory in case of capital structure and signaling theory in case of divided policy.

Uddin and Chowdhury (2003) studied the relationship between share prices and the dividend announcements by considering a sample of 137 companies from Dhaka stock exchange. The results revealed that the dividend does not provide gain for a 20% loss in the value of the first 30 days before the announcements to the 30 days after the announcement. The results of this study remain consist with the theory of irrelevance of the dividend policy.

Dehavi, Zarezadeh and Zraezadehand (2011) stated that the best ways of investment is investing in stock exchange. They observed that so far many researchers have tried to discover the relationship between the stock price and financial and non-financial variables by using the regression method. However, the fuzzy regression is not used thoroughly for finding this relationship. In the present study, the regression method based on the fuzzy sets theory has been used to fit the relationship between the financial variables and stock price of Iran Khodro Company. Their financial variables for the study are earning per Share (EPS), Dividends per Share (DPS) and Price to Earnings ratio (P/E). Eventually, the fuzzy linear regression model for examining the relationship between DPS, EPS and P/E variables and stock price of Iran Khordo Company has been presented. The empirical results of this research indicate that there is a positive and significant relationship between Earning per Share (EPS) and stock price of the company. However, there is a negative and significant relationship between Dividends per Share (DPS) and Price to Earnings ratio (P/E) of the said company.

Methodology

3.1 Research Design

The research adopted the ex post facto research design. This is appropriate because ex post facto determines the cause-effect relationship among variables or the effect of one variable on another.

The research work made use of secondary data from annual reports and accounts of banks in Nigeria for the period 2008 to 2017. The research makes use of multiple regression method.

3.2 Area of Study

The geographical area covered by the study the whole country Nigeria. The banks that are quoted in the Nigerian stock exchange as at the time of the research.

3.3 Sources of Data

The study made use of secondary data from annual financial statements covering 2008-2017 of Banks in Nigeria, Journals of accounting and other related disciplines, textbooks and Internet websites.

3.4 Population

In this study the population is made up of twenty two (22) banks in Nigeria as at 2017.

3.5 Sample Size

Two (2) banks were sampled because of the percentage the two firms control in the banking sector they are: First bank plc and Zenith bank Nigeria Plc. Another reason for the selection is based on accessibility of their annual reports and accounts in the Nigerian Stock Exchange. The period under review was also a factor in choosing the two banks for the sample because they have complete data. Presently the two banks control 80% of the market shares in the sector. First bank plc has about 65% while Zenith bank Nigeria Plc Controls 15% of brewing market share (Nwosu 2015).

3.6 Model Specification

In order to investigate the relevance of dividend policy to the valuation of shares of banks in Nigeria, a multiple regression model was formed and it is specified as follows:

$$SPZ_t = B_o + B_1DY_t + B_2DPS_t + B_3DPR_t + \mathcal{E}_t$$

Where

SPZ = Share Price

DY=Dividend Yield

DPS = Dividend Per Share

DPR = Dividend Payout Ratio

B_o = Constant or intercept

$B_1 - B_3$ = Coefficient for independent variables

t = Current Period

$\mathcal{E}$ = The error term

$$DPR = \frac{\text{Dividend paid}}{\text{Net Earnings}} \quad \text{or} \quad \frac{\text{Dividend Per Share}}{\text{Earnings Per share}}$$

3.7 Method of Data Analysis

The statistical tools for analysis in this study are

1. The descriptive statistics analysis.

2. Multiple regression analysis.

Descriptive Statistics explains the characteristics of research variables. It reveals the mean, median, standard deviation and other frequency distribution indices including maximum and minimum values of the time series data. We have multiple regression analysis when there are more than one independent variables affecting the dependent variable. Regression analysis, in essence provides a procedure for determining the regression line which is defined as the best straight line or linear approximation of the impact of independent variable on dependent variable.

The research variables were structured into independent variables and dependent variable for the purpose of the analysis. The independent variables are; Dividend Yield (DY), Dividend per share (DPS) and Dividend payout Ratio. While dependent variable is Share Price (SPZ).

Data Presentation and Analysis

Dependent Variable: FSZ
Method: Panel Least Squares
Date: 06/11/18 Time: 10:54
Sample: 2008 2017
Periods included: 10
Cross-sections included: 2
Total panel (balanced) observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DYD	-0.100510	0.159382	-0.630623	0.0372
DPS	0.841466	0.144620	5.818467	0.0110
DPR	-0.093439	0.238818	-0.391256	0.0208
C	2.126822	0.491043	4.331239	0.0005

R-squared	0.947853	Mean dependent var	3.116237
Adjusted R-squared	0.938075	S.D. dependent var	1.134991
S.E. of regression	0.282439	Akaike info criterion	0.486150
Sum squared resid	1.276350	Schwarz criterion	0.685296
Log likelihood	-0.861495	Hannan-Quinn criter.	0.525025
F-statistic	96.94106	Durbin-Watson stat	0.836524
Prob(F-statistic)	0.000000		

SOURCE: Eview output version 9.0

Table 4.2 indicates that any change in Dividend yield (DYD) and Dividend Payout ratio (DPR) will decrease firm size by 0.100510 and 0.093439. However, any change in dividend per share (DPS) will increase firm size by 0.841466. In summary, firm size is influenced negatively by Dividend yield (DYD) and Dividend Payout ratio (DPR) while firm size is influenced positively by dividend per share. The extent of effect of dividend yield and dividend payout ratio on firm size is negative and insignificant, while the extent of the effect of dividend per share on share price is positive and significant.

Interpretation of Regression Coefficient Result

Table 4.2, indicates that an increase in dividend yield, dividend per share and dividend payout ratio of Nigerian banks will increase firm size by 0.282439.This implies that firm size is affected by dividend yield, dividend per share and dividend payout ratio of Nigerian banks.

Interpretation of Durbin Watson- Statistic

The Durbin-Watson statistic is 0.836524 which is not up to 2. In this case, the Durbin Watson statistic is closer to 2 than 0 which indicates the absence of autocorrelation in the series. The result indicates the absence of positive serial correlation in the time series data extracted from the annual report and accounts of Nigerian Brewery Plc in Nigeria.

Coefficient of Determination (R^2)

The Adjusted R-squared is 0.947853. The adjusted R^2 reveals that only about 95% of the variations in firm size could be explained by dividend yield, dividend per share and dividend payout ratio of First bank plc while about 5% could be explained by other factors capable of influencing firm size of First bank plc as well as the error term and the unexplained variables.

Test of Hypotheses

Test of Hypothesis One
Hypothesis one seeks to determine the impact of dividend yield on share prices of Nigerian banks.using data from Appendix 1 at 95% confidence level.
Statement of Hypothesis
Ho. There is no significant impact of dividend yield on share prices of Nigerian banks.
Decision
The decision criterion is to accept H_0 if the probability of the t-Statistics > 0.05, otherwise reject. The probability of the t-Statistics of 0.0372 > 0.05, therefore, we accept the alternative hypothesis while rejecting the null hypothesis to conclude that there dividend yield influences on share prices of Nigerian banks.

Test of Hypothesis two
Hypothesis two seeks to determine the impact of dividend per share on share prices of Nigerian banks using data from Appendix 1 at 95% confidence level.
Statement of Hypothesis
There is no significant effect of dividend per share on share prices of Nigerian banks.
Statement of Decision criteria
Accept H_0 if the probability of the t-Statistics > 0.05 otherwise reject.
Decision
The decision criterion is to accept H_0 if the probability of the t-Statistics > 0.05, otherwise reject. The probability of the t-Statistics of 0.0110< 0.05, therefore, we reject the null hypothesis while accepting the null hypothesis to conclude that dividend per share has significant effect on share prices of Nigerian banks.

Test of Hypothesis three
Hypothesis three seeks to determine the impact of dividend payout ratio on share prices of Nigerian commercial banks data from Appendix 1 at 95% confidence level.
Statement of Hypothesis
Dividend payout ratio does not significantly influence share prices of Nigerian manufacturing.
Decision
The decision criterion is to accept H_0 if the probability of the t-Statistics > 0.05, otherwise reject. The probability of the t-Statistics of 0.0208< 0.05, therefore, we reject the alternative hypothesis while accepting the null hypothesis to conclude that dividend payout ratio significantly influence share prices of Nigerian manufacturing.

Discussion of Findings

Finding from the test of hypotheses shows that Dividend yield has significant effect on firm size of Nigeria Brewery Plc. This finding validates the findings of Nazir, Nawaz, Answar and Ahmed (2010) which observed that dividend has positive impact on share prices.

The result of hypothesis two shows that dividend per share significant effect on share price of Nigeria Brewery Plc, this is in line with the studies of Okafor (2011) on relationship between dividend policy and share price, which shows that dividend, has positive impact on share prices.

The result of hypothesis three indicates that dividend payout ratio has significant effect on dividend payout of Nigeria Brewery Plc, this is in line with the study of Mirza and Azfa (2010) on the effect of dividend on capital structure. Their result shows that leverage are insignificant with dividend payment while equity responds positively to dividend payment.

5.1 Summary of Findings

At the end of this research work on, the relevance of dividend policy to the valuation of shares of banks in Nigeria.

1. The researcher observed that dividend yield has significant effect on share prices of Nigerian banks.
2. It was also observed that dividend per share influences share prices of Nigerian banks.
3. This study also shows that dividend payout ratio has significant impact on share prices of Nigerian commercial banks

5.2 Conclusion

This study concludes that the share market is positively responsive to the dividend announcement such that the share market value of dividends improves in the few weeks after a high dividends announcement. There have been many studies that have found significant relationship between market prices and dividend announcement, and they have mainly shown the common characteristics on situations where the dividends are increased and earnings decreases or the vice versa, thus a conclusion can be made that the combination of dividend and news of earnings are important for purposes of explaining the reaction to the share price when the dividends are announced. Since the efficient market hypothesis stipulates that in an efficient market, all news whether good or bad, once made public the shares prices reflects them. Currently there is a significant positive relationship between the announcement of news to the public and the share prices. The quoted companies should always declare to the public the dividend payout ratio which will satisfy the customer's expectation and always have enough justification for a decrease in the amount of dividends announcement publicly.

It was concluded that optimal dividend policy does exist. However, the relationship between dividend policy and the share prices of the firms quoted was strong implying that dividend policy that a firm adopts determines to a large extent the market share value of the firms. It can also be concluded from the study that not all dividend pay-out policy affects the market share prices but also other determinants such as the bonus issues. The bonus issues affect negatively the market share prices since the shareholders do not regard it as an increase in their wealth but rather a reclassification of the companies earning from reserves to capital. The study can thus conclude that a company that adopts bonus issue policy will have poor performance of its shares in the market. Depending on the investors composition in the company's shareholding the firm should investigate and develop the dividend policies which will be in favor of both the shareholders interested in capital gains or dividend yield. The dividend valuation model of stocks with growth components argued that the amount of dividend paid will determine the theoretical value of a stock. The firm should come up with dividend model which will increase the firm's value in future. Although, the Modigliani and Miller dividend irrelevancy theory argued that the payment or nonpayment of dividend does not affect the firm's value, the current study depicts that an increase in dividend payments increases the firms share price, thus the market capitalization increases. Therefore the quoted firms should endeavor to increase the amount of dividends payable to the ordinary shareholders of all the firms quoted in NSE.

5.3 Recommendations

Based on the findings of this study, the researcher recommends that;

1. Companies should consider all pertinent issues before issuing dividends. Since the share market is positively responsive to the dividend announcement, companies should always strive to pay divided consistently for their shares to perform well at the stock exchange. Dividend yield have an effect on the share prices of the firms quoted at NSE thus, companies (firms) should pay dividends to maintain high share prices. This is pertinent with the dividend theories of bird-in-hand theory, information signaling effect theory, tax differential theory and agency theory. These theories propose that dividend policy is relevant to the value of the firm; other factors kept constant. Moreover, the random walk theory postulates that stocks value cannot be determined with certainty thus the stock price will always react to the news declared publicly. If a firm has to release information publicly then it should notify the members of the public the information that will trigger an increase in the share prices.
2. Investors should be mindful of a firm’s earnings quality property and its earnings management practices as these property and practices provide value relevant information that are useful to equity market participants in the valuation process.
3. Companies should view the payout ratio and the retained earnings ratio as the indicators of the amount of earnings that have been ploughed back in the business. The lower the payout ratio, the higher will be the amount of earnings ploughed back in the business and vice versa. A lower payout ratio or higher retained earnings ratio means a stronger financial position of the company.

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