

Effect of Dividend Policy on Stock Prices: Evidence from Nigeria

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Abstract

The study examined the effect of dividend policy on stock prices with empirical evidence from Nigeria. The study employed dividend yield (DY), dividend pay-out ratio (DPO), earnings per share (EPS) as the dividend policy variables and net asset per share (NAPS) as control variable of firm size. The dependent variables and proxy for stock prices is the market price share (MPS). Data were obtained from financial statements of 10 consumer goods firms quoted in Nigerian stock exchange. The panel data covering a period of five years from 2011 to 2015 were used. A panel least square regressions technique was employed. The results showed that DY has an insignificant negative effect on MPS, DPO has a significant positive effect on MPS, EPS has a significant positive effect on MPS while NAPS has an insignificant positive effect on MPS. The study thus concludes that dividend policy is capable of influencing the stock prices in consumer goods sector of the Nigerian stock market indicating that the theory of irrelevancy of dividends do not hold in the case of Nigeria.

Keywords: Dividend policy, stock prices, Nigerian Stock Exchange, earnings per share.

INTRODUCTION

Dividend policy has remained one of the controversial issues in corporate finance. Studies have been carried out to understand the effect of dividend policy on stock prices. Yet, Black's (1976) posit that, "The harder we look at the dividend picture, it seems like a puzzle with pieces that don't fit together", still remains. In over thirty years since then a vast amount of literature has been produced examining dividend policy. This "puzzle", both as a share value-enhancing feature and as a matter of policy, is one of the most challenging topics of modern financial economics (Black & Scholes, 1974). Over forty years of research carried out on the subject have neither given universal proven to dividend relevance nor irrelevance. Researches on dividend policy and share prices have shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time, among firms and across countries. The patterns of corporate dividend policies not only vary over time but also across countries, especially between developed and emerging financial institutions.

It is notable that dividend policies in emerging markets differed from those in developed markets (Glen, Karmokolias, Miller & Shah, 1995). Glen, *et al* (1995) further posited that dividend payout ratios in developing countries were only about two thirds of that of developed countries. For this reason, dividend policy has been an issue of interest in financial literature; academics and researchers has developed many theoretical models describing the factors that managers should consider when making dividend policy decisions (Huda & Farah, 2011).

The decision as stated by Pandey (2005), is an important one for the firm as it may influence the financial structure and stock price of the firm. In addition, the decision may determine the amount of taxations that stockholders pay. The dividend payment ratio is a major aspect of the dividend policy of the firm, which affects the value of the firm to the shareholders (Litzenberger & Ramaswamy, 1982). The classical school of thought holds this view and they believe that dividends are paid to influence their share prices. They also believe that market price of an equity is a representation of the present value of estimated cash dividends that can be generated by the equity (Gordon, 1959). Another classical school of thought, on the other hand, believes that the price of equity is a function of the earnings of the company. They believe that dividend payout is irrelevant to evaluating the worth of equity. What matters, they say is earnings (Miller & Modigliani, 1961). These issues have beclouded both practitioners and academia, in emerging countries including Nigeria.

Problem of the study

Several theories have been proposed to explain the relevance of dividend policy and whether it affects share price, but there has not been a universal agreement (Stulz, 2000; Pandey, 2003, and DeAngelo & DeAngelo, 2006). It is worthy to understand the theoretical dividend that is relevant to consumer goods firms in Nigeria.

More so, the empirical review is also divided into two, effect or no effect schools. Some of the studies posited that dividend policy has effect on stock prices (Khan, Nadeem, Islam, Salman, & Gill, 2016; Ozuomba, Anichebe & Okoye, 2016; Eniola & Akinselure, 2016; M'rabet & Boujjat, 2016; Ansar, Butt, & Shah, 2015; Al Masum, 2014; Ordu, Enekwe & Anyanwaokoro, 2014; Attah-Botchwey, 2014; Murekefu & Ouma, 2013; Mokaya, Nyang'ara & James, 2013; Priya & Nimalathan, 2013; de Wet & Mpinda, 2013; Adeleke & Obademi, 2013; Al- Hasan, Asaduzzaman & Al Karim, 2013; Uwuigbe, Jafaru & Ajayi, 2012); while others posited no effect (Jakata & Nyamugure, 2014 and Kibet, Jagongo & Ndede, 2016). However, most of the studies in Nigeria used all the sectors in Nigerian Stock Exchange for their study (Uwuigbe, Jafaru & Ajayi, 2012; Ordu, Enekwe & Anyanwaokoro, 2014; and Eniola & Akinselure, 2016); the present study aims to use consumer goods firms to investigate the effect of dividend policy on stock prices in Nigeria

The study had as its objective to examine the effect of dividend policy on stock prices in a developing economy like Nigeria. Specifically, the study aims to:

Investigate the effect of dividend yield, dividend pay-out ratio, earnings per share, and net asset per share on stock prices in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Dividend Policy: Dividend is the rewards which are usually distributed to shareholders for the time and risks undertaken in doing investment with a firm (Khan, Nadeem, Islam, Salman, & Gill, 2016). Dividend can be described as a unit share of the profit in a company and they

are usually paid to the shareholders (Shukla, 2011). These distributions are typically after the tax and mandatory payments in case of creditor of firm and they show detail of cash assets (Kazman, Klein, Barbacci, Longstaff, Lipson & Carriere, 1998). However, shareholders usually do not have the right to receive this dividend until the management of the company passes a resolution declaring the dividend. Dividend can be broadly classified into two parameters; (i) The source of dividend and (ii) The medium of payment. Dividends are mainly declared out of capital or profit. Payments of capital dividend are only applicable in special circumstances and are often subjected to strict legal requirement. The medium of payment of dividend is usually in cash or by means of capitalisation of shares (Bonus Share). When cash is used in paying dividend, such dividends are said to have benefited from the limited fund available to the firm and therefore, such funds however, must be compared with the possible alternative needs of the firm, which could be more beneficial, before implementing the decision to pay the dividend (Shukla, 2011).

The decision on whether to pay or not, of dividend is described with the term “dividend policy”. Booth and Cleary (2010) define Dividend Policy as a well-planned decision by the management which involves deciding the percentages of profit to be distributed and the part to be retained to fulfil its internal needs. Dividend policy decisions have been identified as one of the primary element of corporate finance policy (Uwuigbe, Jafaru & Ajayi, 2012). It is the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim & Ziv, 2001). The dividend policy decisions of firms are the primary element of corporate policy. Thus, it is the guiding principle for determining the portion of a company’s net profit after taxes to be paid out to the residual shareholders as dividend during a particular financial year. The purpose of a dividend policy being to maximize shareholders’ wealth, by which is dependent on both current dividend and capital gains (Nwude, 2003). The optimal dividend policy is one that maximises the company’s stock price; this leads to maximisation of shareholders’ wealth and thereby ensures rapid economic growth (Priya & Azhagaiah, 2008).

Stock Prices: The stock price is the value of the company’s common stock at the stock market, which in turn, is a function of the company’s investment, financing and dividend decisions (Priya & Azhagaiah, 2008). The price of stock is used to measure the primary goal of maximising shareholders’ wealth (Priya & Azhagaiah, 2008).

Theoretical Framework

The theoretical framework of this study is anchored on agency, signalling, bird-in-hand and dividend irrelevant theories. These theories explained the nature of relationship expected from interaction between dividend payments and share prices of firms, with evidence from Nigeria.

Agency theory: The agency cost theory suggests that, dividend policy is determined by agency costs arising from the divergence of ownership and control. Managers may not always adopt a dividend policy that is value-maximizing for shareholders but would choose a dividend policy that maximizes their own private benefits. Making dividend payouts which reduces the free cash flows available to the managers would thus ensure that managers maximize shareholders’ wealth rather than using the funds for their private benefits (DeAngelo & DeAngelo, 2006). In

the process of attracting new equity, firms subject to the monitoring and disciplining of these markets.

Signalling Theory: The signalling theory by Lintner (1956) proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements known as signals, convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information irregularity. Investors may therefore use this information in assessing a firm's share price. The intuition underlying this argument is based on the information irregularity between managers and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders. Dividend policy under this model is therefore relevant (Al-Kuwari, 2009).

Bird in hand theory: Bird in hand theory proposes that a relationship exists between firm value and dividend payout. It states that dividends are less risky than capital gains since they are more certain. Investors would therefore prefer dividends to capital gains (Amidu, 2007). Because dividends are supposedly less risky than capital gains, firms should set a high dividend payout ratio and offer a high dividend yield to maximize stock price. The essence of the bird-in-the-hand theory of dividend policy (Lintner, 1962 and Gordon, 1963) argues that outside shareholders prefer a higher dividend policy. Investors think dividends are less risky than potential future capital gains, hence they like dividends. If so, investors would value high payout firms more highly. Walter (1963) also support this theory.

Dividend Irrelevance Theory: Investors are indifferent between dividends and retention-generated capital gains. If they want cash, they can sell stock. If they don't want cash, they can use dividends to buy stock. Modigliani & Miller (1961) support dividend irrelevance theory stressing that only the firm's investment policy can influence the value of the firm. The theory was criticised as being based on unrealistic assumptions (no taxes or brokerage costs), hence may not be true. Notwithstanding the relevance of this theory, the critics of MM dispute the validity of the dividend irrelevance theorem by challenging the assumptions used by MM. According to the critics such as Lintner (1962) and Gordon (1963), dividends matters because of the uncertainty characterizing the future, the imperfections in the capital market and the existence of taxes.

Empirical Studies

An ample of empirical literature has been review across developing and emerging economies to understand the effect of dividend policy on stock prices. Among the studies is the work of Khan, Nadeem, Islam, Salman and Gill (2016) which examined whether dividend policy makes an influence on the firm performance among Pakistan firms listed on stock exchange covering a time period of 2010 to 2015. The study developed three models using return on assets, return on equity and Tobin Q as dependent variables regressed on ratio of market value of assets to book value of assets, dividend per share divided earning per share, Size, leverage, and sales growth. The OLS technique for regression analysis showed that dividend policy has positive relation with firm performance.

Ansar, Butt and Shah (2015) examined the relationship between shareholders wealth and dividend policy covering an annual Reports of 30 firms from textile, cement and chemical sector quoted in Karachi stock exchange in Pakistan from 2007 to 2011. The study employed market price of shares as dependent variable while dividend per share, retained earnings, lagged price and return on equity were the independent variables. The multiple regression model was used for data analyses. The result showed that dividend has a positive relationship with shareholder wealth.

Murekefu and Ouma (2013) aimed to investigate the relationship between dividend payout and firm performance using 41 companies listed in Nairobi Securities Exchange from 2002 to 2010. With the help of Net profit after tax as the dependent variable and independent variables being actual dividends paid, total assets and revenue, the regression analyses showed a strong positive relationship between dividend payout and firm performance.

Further to this, Priya and Nimalathan (2013) employed annual reports of selected Hotels & Restaurants in Sri Lanka from 2008 to 2012 to examine the effect of dividend policy ratios on firm performance. The study build two regression models involving Return on Asset and Return on Equity as dependent variables. The explanatory variables to the two models were Earnings Per Share, Price to Earnings Ratio, Price/Book Value Ratio/ the results from Correlation and multiple regression analysis showed that all the variables of dividend policy has significant correlation with firm performance variables. Further findings showed that dividend policy ratios do not have significant effect on firm performance.

From the Nigerian perspective, Ozuomba, Anichebe and Okoye (2016) examines how shareholders wealth is affected by dividend policies. The study involved a sample of 120 questionnaires distributed to finance managers, chief accountants, directors of 10 quoted companies in the Nigeria stock exchange. The data were analysed using ANOVA. The findings showed that Dividend policies influence the wealth of shareholders.

A similar study from Nigeria (Uwuigbe, Jafaru & Ajayi, 2012) examined the relationship between the financial performance and dividend payout with a sample of 50 listed firms' in Nigeria from 2006 to 2010. Dividend policy was proxied by Dividend Payout ratio as the dependent variable while Return on Equity, Ownership structure and Firms size served as the independent variables and financial performance indicators of the study. Ordinary least square (OLS) Regression analysis indicated a significant positive association between the performance of firms and dividend policy.

Further to the above, Eniola and Akinselure (2016) employed 25 quoted companies in Nigeria to investigated the relationship between Earning per share and Dividend policies. The data covered a time frame from 2004 to 2013. Two simple regression models were developed using two dependent variables as Dividend yield ratio and Dividend payout ratio respectively; and Earnings per share as the independent variable. The result of the Ordinary Least Square (OLS) Regression analysis method carried out showed a significant relationship between dividend and market value.

From Morocco, M'rabet and Boujjat (2016) carried a panel study involving 44 listed firms operating in different industries within a five-year period from 2010 to 2014 on the relationship between dividend policies and financial performance. Two models developed for the study involved Profit after Tax and market capitalisation as dependent variable. The explanatory variables were actual dividends paid and total Asset. Panel Regression Analysis employed for data analysed showed that dividend policy is an important factor affecting firm performance.

In Kenya, Kibet, Jagongo and Ndede (2016) used a sample of 55 listed firms in the Nairobi Securities Exchange covering five year time series from 2001 to 2011. The core objectives examined the effect of dividend policy (cash and share dividend) on the stock prices using equity Market Price as dependent variable and the independent variables as cash dividend and share dividend. A panel result obtained from Ordinary Least Square regression indicated positive relationship between cash dividend and share prices, and insignificant negative relationship between share dividend and share prices.

A similar Kenyan study from Mokaya, Nyang'ara and James (2013) examined the effect of Dividend Policy on Market Share Value using a sample of 100 shareholders drawn from a target population of 47,000 shareholders of National Bank. The study used market value of NBK shares as dependent variable while dividend payout, dividend growth rate, and regularity of dividend declaration were the independent variable. The Likert Scale questionnaire was employed for data collection and analyzed using correlation and regression techniques. The results showed that dividend policy had a significant effect on the market share value.

Studies from Bangladesh were also reviewed. One of them from Al- Hasan, Asaduzzaman and Al Karim (2013) examined the effect of dividend policy on market price per share using 28 companies selected from 4 four industries in Bangladesh from 2005 to 2009. The analyses of the study involved descriptive statistics, correlation and multiple regression techniques. Market price per share was used as the dependent variable while dividend per share and retained earnings per share were the independent variables. The result showed that dividend policy has significant effect on market share price.

Another study from Bangladesh from Al Masum (2014) posed question: do dividend policy decisions affect a firm's stock price. The problem was investigated using 30 banks listed in Dhaka Stock Exchange, from 2007 to 2011. It employed Market Price as the dependent variable and the explanatory variables were dividend yield, retention ratio, profit after tax, earnings per share, and return on equity. Using a panel data approach, Fixed and Random Effect Model were employed. The results showed that dividend Policy has significant positive effect on Stock Prices.

Another Nigerian study from Ordu, Enekwe and Anyanwaokoro (2014) employed panel data to investigate the effect of dividend payment on the market prices of shares in 17 firms. The data covered a five year time series from 2000 to 2011. The study used market price per share as the dependent variable and dividend per share, dividend yield and dividend payout ratio variables of dividend policy. A panel least square based on ordinary least square regression used Fixed and Random techniques for data analyses. The results indicated that a positive effect exist between market price per share and dividend policies.

Similar Ordu, *et al* (2014), a study from Adeleke and Obademi (2013) also showed that a positive relationship exist between the dividend policy mechanisms (DPS, PAYR, and EPS) and market price per share. The study in essence investigated the impact of dividend policy mechanisms on shareholder's value using 13 firms quoted on Nigerian Stock Exchange (NSE) from the banking and oil industries from 2008 to 2012. The variables included dividend pay-out, dividend per share and earnings per share as the independent variables and Market price per share as the dependent variable analyzed using on panel methodology that is based on OLS estimation.

Attah-Botchwey (2014) carried out a study in Ghana to examine the Impact of dividend payment on share price. The study involved a survey of 60 shareholders of Ecobank Ghana Limited, Cal Bank Ghana Limited and AngloGold Ashanti Companies listed on the Ghana Stock Exchange 2005 - 2009. The descriptive study employed share prices as dependent variable and dividend per share as independent variable. The result showed that there is a positive relationship between dividend policy and share price.

In Zimbabwe, Jakata and Nyamugure (2014) employed data from selected firms on the Stock Exchange (ZSE) to investigate the effects of dividend policy on the share price of a firm. A share price serving as dependent and dividend policy, earnings per share, turnover and net profit as independent variable. The study used Pearson's Correlation Coefficient and Linear Regression Analysis from a time serial data covering 2003 to 2011 and found that Dividend policy does not affect share price.

De Wet and Mpinda (2013) examined the impact of dividend payments on shareholders' wealth in South Africa. The study employed 46 firms listed on the Johannesburg Securities Exchange (JSE) for the period 1995 to 2010. With dividend yield, and earnings per share as independent variables and market price per share being the dependent variable the study analysed the data using Vector Error Correction Model (VECM), Panel Least Squares Method. The result indicated that dividend yield is positively related to market price per share.

METHODOLOGY

A panel data approach was used to measure the relationship between the dividend policy and the stock prices. The research design was correlation since it sought to establish the relationship between dividend payout and share price. The population of this study were the companies listed on Nigerian stock exchange. The consumer goods sector was chosen from Nigerian stock exchange as sample on the basis of availability of the data from annual reports of the companies from 2011 to 2015. The data were collected from the financial statement and annual report of the selected firms. The variables employed were shown on Table 1: below. The symbols, name of variables, sources and description were given.

Table 1: Variable description

SN	Variables	Symbol	Source	Description
1	Market Price Per Share	MPS	Financial Statement	Share price divided by total number of shares

2	Dividend Yield	DY	Financial Statement	Dividend per share dividend by share price
3	Earnings Per Share	EPS	Financial Statement	Total earnings after tax dividend by number of shares
4	Dividend Payout ratio	DPO	Financial Statement	Dividend per share dividend by earnings per share
5	Net Asset Per Share	NAPS	Financial Statement	Net Asset dividend by number of shares

Source: Authors' Conception

Model Specification

The model specification was anchored on the work of de Wet and Mpinda (2013) that was carried out in South Africa. The study employed market price per share as dependent variable while dividend yield, earnings per share where the independent variable. The current study added dividend payout ratio to complement dividend policy variables included. Since the size of the companies differed with regard to factors such as size, the study controlled for size using Net Asset Per Share as control variables. Thus the current model shall be:

$$MPS = f(DY, DPO, EPS, NAPS)$$

This can be rewritten in equation form thus:

$$MPS = \beta_0 + \beta_1DY + \beta_2DPO + \beta_3EPS + \beta_4NAPS + \mu$$

Where:

MPS = Market price per share

DY = Dividend yield

DPO = Dividend payout ratio

EPS = Earnings Per Share

NAPS = Net Asset Per Share

β_0 is the constant while β_{1-3} are the coefficients of the independent variables. μ is the stochastic error term.

A Priori Expectation

From the model developed above, it can be seen that the dividend policy is a function of market value in the selected quoted companies. Therefore, the independent variables are positive determinants of the dependent variable. This means that $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 > 0$

Method of Analyses

The panel least square regression technique was employed for data analyses. Panel data analysis, also called the constant coefficients model is one where both intercepts and slopes are constant, where the cross section firm data and time series data are pooled together in a single column assuming that there is no significant cross section or temporal effects (Gujarati, 2003).

RESULTS AND INTERPRETATION

Description

Before estimating the model to address the research objective, the descriptive statistics need to be presented. Table 2 shows the details of the descriptive statistics that affected the market price per share of 10 companies during the period 2011 to 2015.

Table 2: Descriptive Statistics

	MPS	DY	DPO	EPS	NAPS
Mean	494.51	0.50	13485.60	371.17	1113.93
Maximum	2995.00	1.73	120000.0	3400.00	4795.00
Minimum	-149.00	0.00	42.00	0.00	-508.00
Std. Dev.	806.62	0.40	26161.75	701.18	1511.32
Jarque-Bera	57.19	3.74	170.06	200.15	10.07
Probability	0.00	0.15	0.00	0.00	0.01
Observations	50	50	50	48	44

Source: Result from Eviews 8.1, See Appendix 2.

The result on Table 2 showed that average market price per share of stock traded by consumer goods firms is 494 kobo while earnings per share is 371 kobo. However, the dividend yield and dividend payout ratio are 0.50 and 13485 respectively. The Jarque-Bera statistics measure normality at 0.05 level of significance was examined using the null hypothesis: Variables are normally distributed. The null hypothesis is rejected for MPS, EPS and DPO indicating that the values from market price per share (MPS), earnings per share (EPS) and Dividend Payout Ratio (DPO) are not normally distributed while only Dividend yield (DY) of the firms has normal distribution.

Model Estimation

Two models were analyzed using panel regression technique. The first model employed DY, DPO and EPS as explanatory variables while the second model include a control variable NAPS for the size of the firms selected.

Table 3: Model Estimation result

Method: Panel Least Squares

Sample: 2011 2015

Periods included: 5

Cross-sections included: 9

Total panel (unbalanced) observations: 43

Variables	Model 1		Model 2	
	Coefficient	t-Statistic (Prob)	Coefficient	t-Statistic (Prob)
DY	-112.5551	-0.9126 (0.3664)	-229.7378	-1.6398 (0.1093)
DPO	0.0169**	3.7529 (0.0005)	0.011836*	2.2249 (0.0321)
EPS	0.4973**	2.7574 (0.0085)	0.451177*	2.4284 (0.0200)
NAPS			0.141452	1.996834 (0.0530)
C	146.9539	2.0528 (0.0461)	153.5394	2.030420 (0.0494)
R-squared	0.88		0.89	
Adjusted R-squared	0.87		0.88	
F-statistic	110.53		78.24	
Prob(F-statistic)	0.0000		0.0000	
Durbin-Watson statistics	1.9098		1.8203	

Dependent variable: MPS

The result of the coefficient of determination in table 3 was used to determine the explanatory power of dividend policy on stock prices in Nigeria. The Adjusted R-square of 0.87 and 0.88 for models 1 and 2 indicated that dividend policy variables explains 87% of changes in stock market prices; this value is higher 88% when the size of firms (NAPS) is factored in. Moreover, the F-statistics at p.values that is less than 0.05 indicated that dividend policy variables has significant effect on stock prices even when the size of firms are considered. The value of the Durbin Watson statistics are 1.9098 and 1.8203 for models 1 and 2 respectively. Since the values are closely approximate to 2, we conclude that there is no autocorrelation in the models.

Test of Hypotheses

The coefficient of regression, t-statistics and its p.values were used to address the sub-objectives and test the hypotheses.

The coefficient of regression for DY for models 1 and 2 are -112.55 and -229.73 indicating that Dividend yield has negative effect on market price per share (MPS). The p.values of DY for models 1 and 2 are 0.3664 and 0.1093 respectively. Since the p.values are greater than 0.05 level of significance, we did not reject the null hypothesis that "Dividend pay-out ratio has no

significant effect on stock prices”. This means that dividend yield has an insignificant negative effect on stock prices in Nigeria.

For the coefficient of DPO, the result showed 0.0169 and 0.011836 for models 1 and 2 respectively. This indicate that dividend payout ratio has positive effect on market price per share (MPS). The value of the p.values are 0.0005 and 0.0321 respectively, which are less than 0.05 level of significance. Thus we reject the null hypothesis that “dividend payout ratio has no significant effect on stock prices”. This means that dividend payout ratio has a significant positive effect on stock prices in Nigeria.

The variables of dividend policy (Earnings per share) has 0.4973 and 0.4511 as coefficient of regression for models 1 and 2 respectively. This suggests that earnings per share (EPS) has positive effect on stock market prices (MPS). Since p.value from the regression are 0.0085 and 0.0200 for models 1 and 2 respectively, being less than 0.05 level of significance, we reject the null hypothesis that “Earnings per share has no significant effect on stock prices”. Thus the study conclude that earnings per share has a significant positive effect on stock prices in Nigeria.

The net asset per share (NAPS) has coefficients of 0.141452 for model 2, as control variable. This results indicate that NAPS has positive effect on market prices. Since the p.value (0.0530) is greater than 0.05, we did not reject the null hypothesis that “Net Asset per share has no significant effect on stock prices”. Thus the study conclude that net asset per share has an insignificant positive effect on stock prices in Nigeria.

Discussion of Findings

Based on the results, dividend yield (DY) has an insignificant negative effect on stock prices in Nigeria. This supports the work of Jakata and Nyamugure (2014). It shows that dividend yield can not be relied upon by investors while considering investment in the Nigerian capital market.

Dividend payout ratio(DPO) and earnings per share(EPS) have significant positive effects on stock prices in Nigeria. This implies that investors can expect a rise in stock prices for firms that make higher profits and pays high ratio of earnings to shareholders. The findings are in line with Al- Hasan, Asaduzzaman and Al Karim (2013) and Al Masum (2014) which assert that dividend policy significantly affects stock market prices.

The findings that net asset per share has an insignificant positive effect on stock prices in Nigeria has shown that size of the firm proxied as net asset per share cannot be relied upon by investors as major dividend policy variable that affect stock prices in Nigeria.

Summary and Conclusion

The study has investigated the effect of dividend policy on stock prices in Nigeria using dividend yield (DY), dividend pay-out ratio (DPO), earnings per share (EPS) as the dividend policy variables and net asset per share (NAPS) as control variable of firm size. The dependent variable and proxy for stock prices is the market price per share (MPS). Data were obtained from financial statement of 10 consumer goods firms quoted on the Nigerian stock exchange

with panel data covering a period of five years from 2011 to 2015. A panel least square regressions technique was employed. The findings indicate that: Dividend yield has an insignificant negative effect on stock prices in Nigeria; Dividend payout ratio has a significant positive effect on stock prices in Nigeria; Earnings per share has a significant positive effect on stock prices in Nigeria; Net asset per share has an insignificant positive effect on stock prices in Nigeria.

The use of dividend policy is capable of influencing the stock prices in consumer goods sector of the Nigerian stock market. Dividend payout and earnings per share have positive effects on stock prices in Nigeria. Thus rising payout ratio and earnings engenders high stock prices. This suggests that investors can expect a rise in stock prices for firms that makes higher profits and pays high ratio of earnings to shareholders. The study posits that theories of irrelevancy of dividends do not hold in the case of Nigeria. The results further suggest that investors prefer the bird-in-hand form of dividend payment against the retention approach by management as well as a steady dividend payment.

Recommendations

- i. Since dividend payout ratio and earnings per share are the only dividend policy variables that showed significant (positive) effects, investors and shareholders interested should pay more attention to analysis and explanation involving dividend yield, since it should be interested on only proxy of dividend policy that has significant effect on market value.
- ii. Investors should not be disturbed by changes in dividend yield since this proxy do not have effect on stock price in the consumer goods firms.

Contribution to Knowledge

The study contributes to knowledge by establishing that dividend policy has significant effect on stock prices. This effect is positive such that increased dividend payout could trigger stock price rising in Nigeria, especially in the consumer goods firms.

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