

The Effect of Dividend Payment and Retained Earnings on Market Price of Equity Shares: A Study of Manufacturing Companies in Sri Lanka

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Abstract

Price of publicly trading share is determined by supply and demand in the share market. If there is a high demand for a share due to favorable factors, the price would increase. It is important to identify that factors which have significant effect on share price. According to previous researchers; such factors that have effect on share price could be either firm specific internal factors such as; retained earnings, dividend, size of the firm etc. or external factors such as; interest rate, government regulations, foreign exchange rate etc.

This study is an attempt to identify the effect of two internal factors: dividend payment and retained earnings on share price. The study has been carried out for period of 10 years (2008-2018) with a focus on 35 manufacturing companies listed in Colombo Stock Exchange. The relationship between share price and two main variables were examined by multiple regression model. The primary regression model was expanded by adding control variables: firm size, earning per share (EPS) and dividend yield.

The findings of this study shows that dividend payment and retained earnings have a significant impact on share price. It also revealed that DPS and EPS are having a significant positive relationship with share price while dividend yield and retained earnings are having significant negative relationship with share price. Size of the firm shows insignificant effect on share price.

Keywords: Dividend Payment, Retained Earnings, Price of Equity Shares, Manufacturing Companies