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Trends of Dividend Payments and Stock Market Reactions to Dividend Announcements: Evidence from Qatar Stock Exchange

Manuel Fernandez* and Rajesh Kumar**

The study was basically aimed at analysing the trend of dividend payments by Qatar based listed companies during the period 2009-2013 and studying the impact of dividend announcements on stock prices of the companies during the period January 2013 to December 2013. The study revealed that the sample firms had highest dividend payments in the year 2010. Woqood (Qatar fuel) had paid 100 per cent dividends during the five year period 2009-2013. The study documents negative reaction for the dividend announcements for the entire sample during the period of study. The one day and two days after announcements average returns for the entire sample firms were -2.60% and -5.65%.

Field of Research: Finance

1. Introduction

The dividend policy is a topic of debate in financial literature. Firms basically can either retain and reinvest free cash flow or distribute it to its shareholders via cash dividends or share buybacks. Research have often shown that dividend policy have an effect on stock prices. A number of research studies have analysed the impact of dividend policy on stock prices. A broad area of literature has hypothesized the signalling theory. These signalling models basically predict announcement effects on stock prices. Announcements like dividends are expected to boost the sentiments and lead to increase in the price of stocks.

Since this study is based on data from Qatar Stock Exchange a brief description of Qatar and Qatar stock exchange is given. Qatar is a peninsula situated halfway along the West Coast of the Arabian Gulf. Qatar is one of the smallest Gulf Countries in terms of population and geographical area but has the second largest gas reserves in the world representing more than 5% of the world total. The Qatar economy is one of the most rapidly growing economies in the world. Qatar has the highest GDP per capita income in the Middle East. The official currency is the Qatari Riyal (QAR), and is pegged to the US dollar at a fixed exchange rate of USD 1 = QAR 3.64. Qatar Stock Exchange was created on June 19, 2009 and is the successor of Doha Securities Market which officially started its operations on May 26, 1997 with seventeen companies and an estimated market capitalization of around 6 billion Qatari riyals. Over the one and a half decade, Qatar Stock Exchange has evolved to become one of the most important stock markets in the Gulf region. In 2013 Qatar Stock Exchange was upgraded from frontier to emerging market status by MSCI and Standard and Poor's, and it also got full membership in the World Federation of Exchanges (WFE). Currently, Qatar Stock

* Dr. Manuel Fernandez, Skyline University College, PO Box 1797, Sharjah, UAE.
Email: gln_manuel@yahoo.com
** Dr. B Rajesh Kumar, Institute of Management Technology Dubai, UAE.
Email: rajesh155@yahoo.com

Exchange is the second largest stock exchange in the region in terms of market capitalization and the best stock market in the region in terms of dividend yields.

The objective of this study was basically aimed at analysing the trend of dividend payments by Qatar based listed companies during the period 2009-2013 and the impact of dividend announcements on stock prices of the companies during the period January 2013 to December 2013.

Studies based on dividend announcements document positive abnormal returns surrounding the period of announcement. Contrary to observed trend, this study finds that dividend announcement by companies are value decreasing activities. It is observed that cumulative abnormal returns were negative in all different time-window periods.

The rest of the paper is organized as follows: the next section provides a brief review of the related literature, while the third section discusses the methodologies and model used throughout the paper. The fourth section presents survey results and analysis of data. The fifth section concludes the paper with the summary of findings, the implications of the study, and the limitations of the study.

2. Literature Review

This section reviews selected published studies on dividend announcements and trends in dividend payments. The impacts of dividend announcement on common stock prices have received much attention in the finance literature. Miller and Modigliani (1961) through the dividend irrelevance theory has shown that in a perfect capital market with no information asymmetry, the value of company and thus its share prices are unaffected by the distribution of dividends. But in a real world, which is to a large extent not perfect, a change in the dividend policy is very often followed by change in the market value of stocks. The research publications by Walter (1956) and Gordon (1959 and 1962) promoted the dividend relevancy concept, which has been formalized into a theory, proposing that current stock price would reflect the present value of all expected dividend payments in the future. Aharony and Swary (1980), Eades (1982), Kwan (1981) have found significantly positive association between dividend changes and announcement day stock returns. A large number of research studies have shown that stock price increases on dividend announcements. These studies include those by Gordon (1959), Ogden (1994), Stevens and Jose (1992), Kato and Loewenstein (1995), Ariff and Finn (1986). Contrary to this, the research study by Easton and Sinclair (1989) observed negative relationship between dividend announcements and stock returns. The study by Hamid Uddin et al (2008) also shows that investors in Saudi Arabia lost 2.20 per cent of market value after the dividend announcement.

The research paper by Woolridge (1983) analyses the effect of unexpected dividend changes on the values of common stock, preferred stock and bonds. The study identifies two potential effects – wealth transfer effect and signaling effect. On the basis of announcement day returns of common and preferred stock and bond holders, it is demonstrated that the primary factor which influences security returns in response to dividend changes is market signaling**.** The cash flow signaling theory developed by Bhattacharya (1979, 1980), and Miller and Rock (1985) theorized that dividend changes are explicit signals about the current and future cash flows sent intentionally by management to the company and its stockholders. Accordingly one should anticipate that stockholders will react positively to the announcements of unexpected dividend increases, and negatively to unexpected dividend cuts.

3. Methodology and Model

3.1 Sample

The study is based on the exhaustive list of 43 companies listed in the Qatar Stock Exchange. These listed companies represent sectors like banking and financial services, consumer goods and services, industrials, insurance, real estate, telecoms and transportation.

3.2 Hypothesis

This paper tests the following null hypothesis:

Dividend announcement are value creating activities for Qatar based firms.
The dividend announcements result in positive returns for the firms
The cumulative abnormal returns for the dividend announcements are positive in all time-windows periods of analysis

3.3 Model

A survey study was used to analyse the trends in dividend payments. The study uses event study methodology to analyse the stock market returns during the period of study. The time-window of study is -1 to + 20 where -1 is the day before the dividend announcement day. The day 0 denote the date of dividend announcement for the stock in the exchange. The days +1, +2 ……+20 denote the daily returns of the stock immediately after Dividend Announcement Date. The average returns of the stock price are noted for 43 firms for each day during the period 0 to + 20 day period. The Cumulative Returns (CR) is analysed during the time period 0 to +20 event window period.

Total return=Dividend Income + Capital gain (loss)
Returns in percentage = Dividend yield + Capital gain yield.
Suppose P t be the price of a stock at the beginning of a year and D t be the dividend paid during the year. The stock price at the end of the year is Pt+1
Dividend Yield = D t/ P t
Capital gains yield= (Pt+1- P t)/ P t

Firstly the average excess returns (AAR) for each relative day t are calculated across the securities. Daily average cumulative excess returns (CAR) are sums of the average excess returns over event time. In other words CAR is defined as the sum of previous daily average residuals for each trading day.

4. Survey Results and Analysis

4.1 Trends in Dividend Payment

This study was based on 43 listed companies in the Qatar Stock Exchange. Banks and Financial services represented 28 per cent of the total sample size. The other sectors represented in the sample include consumer goods and services, industrial, insurance, real estate, telecoms and transportation. The study was based on five year period 2009-2013.

Table 1: Sample Characteristics

SL	Sector	Number of Companies
1	Banks and Financial Services	12
2	Consumer Goods & Services	8
3	Industrial	9
4	Insurance	5
5	Real estate	4
6	Telecoms	2
7	Transportation	3
	Total	**43**

Table 2: Cash Dividends

Year	Average Dividends (%)
2009	27.6
2010	31.17
2011	27.8
2012	30.8
2013	28.7

The sample firms had highest average dividend payment in the year 2010, approximately 31.17 %. In 2013, the average dividend was 28.7 per cent.

Table 3: Highest Average Dividend Payout Companies 2009-2013

Companies	Sector	Average Dividend Payout
Woqood (Qatar Fuel)	Consumer goods and services	100 %
QEWS	Industrials	64.6%
Mannai Corp	Industrials	55.6%
Commercial Bank of Qatar	Bank and Financial services	54%
Orredo	Telecoms	48%

Woqood (Qatar Fuel) had paid 100 per cent dividends during the five year period 2009-2013. QEWS emerged as the second highest dividend payout company during the period 2009-2013 with approximately 65 per cent. Mannai Corp and Commercial Bank of Qatar had dividend payout of 56 per cent and 54 per cent respectively.

4.2 Stock Market Reaction Analysis

The study documents negative reaction for the dividend announcements for the entire sample during the period of study. The average announcement day return was -2.3 per cent for the whole sample of firms. The average returns during the 11 day period surrounding the announcement of dividends are given in Table 4.

Table 4: 11 day Average Returns during the Announcement Period

Day of Announcement	Average Returns (%)
-5	-0.185
-4	-1.80
-3	-0.47
-2	-2.50
-1	-0.47
0	-2.37
1	-2.60
2	-5.65
3	-11.26
4	-4.21
5	1.61

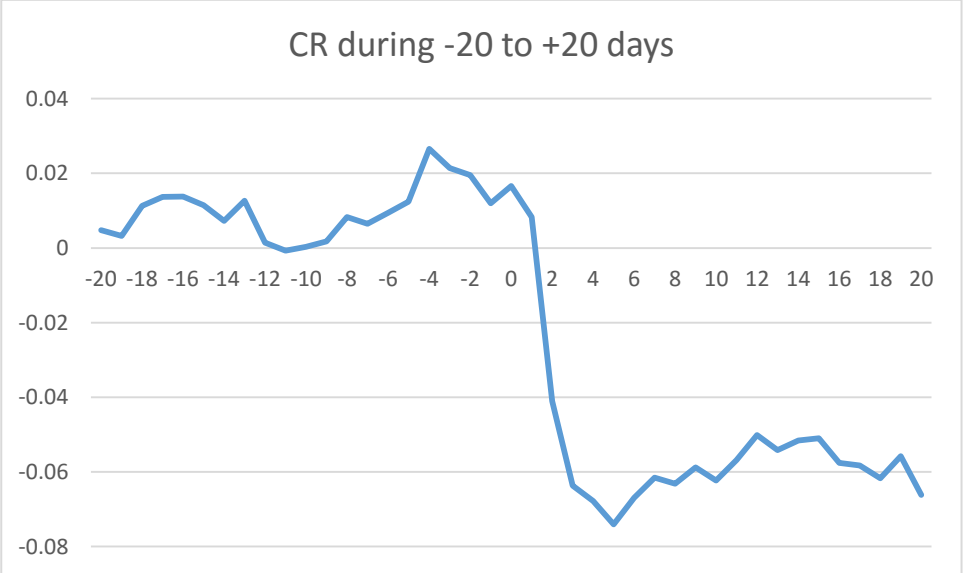
The one day and two days after announcement average returns for the entire sample firms was -2.60% and -5.65%. The highest average negative return was observed during the third day after announcement which was -11.26 per cent.

Table 5: Cumulative Returns during different time-windows

Time Window	Cumulative Returns (%)
-20 to + 20 days	-1.33
-10 to + 10 days	-0.83
-5 to +5 days	-0.30
-2 to +2 days	-0.089
-1to + 1 days	-0.05

The cumulative returns during the different time windows show negative returns. The cumulative return during the period -5 to +5 days is -0.30 per cent.

Figure 1: Cumulative Returns for the entire sample firms during the time window -20 to +20 days.



The cumulative returns analysis shows negative trend for the dividend announcements for the entire sample.

4.3 Return Analysis Sector-wise

Table 6: Banking Returns Analysis

Day of Announcement	Average Returns (%)
-5	0.51
-4	0.64
-3	-0.78
-2	-0.13
-1	-0.07
0	-4.20
1	3.20
2	-0.14
3	-0.37
4	0.62
5	-0.01

The average return on the day of announcement for the banking sector was -4.2%. The average +1 day return was 3.2 per cent. The average return was fluctuating during the period -5 to + 5 day.

The cumulative returns for the banking sector reveal that there is drastic fall in the returns during the post announcement period. The cumulative returns were fluctuating during the pre-announcement period.

Figure 2: Cumulative Returns for the Banking Sector for period -20 to +20 days

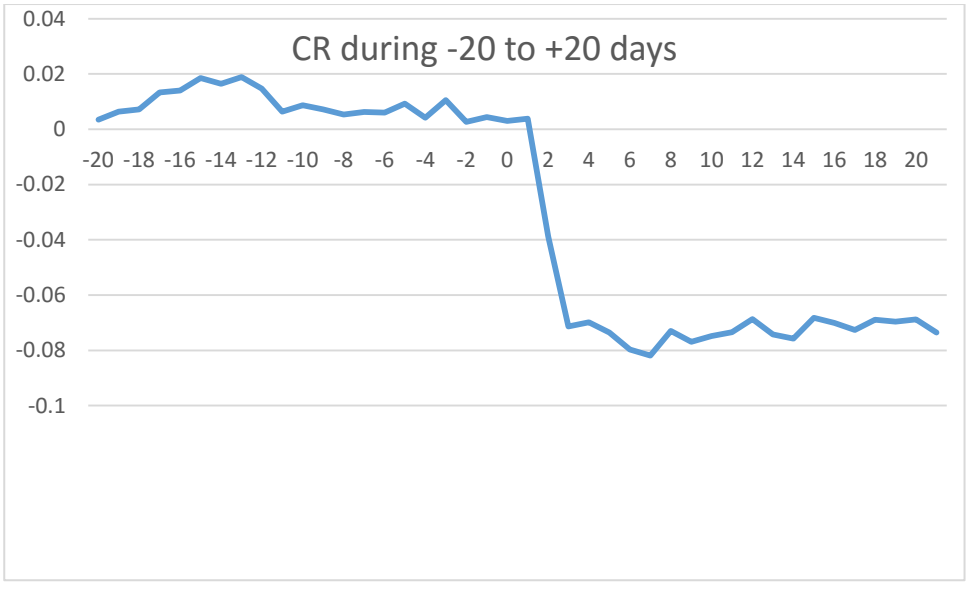


Figure 3: Cumulative Returns for the Consumer Goods and Services Sector

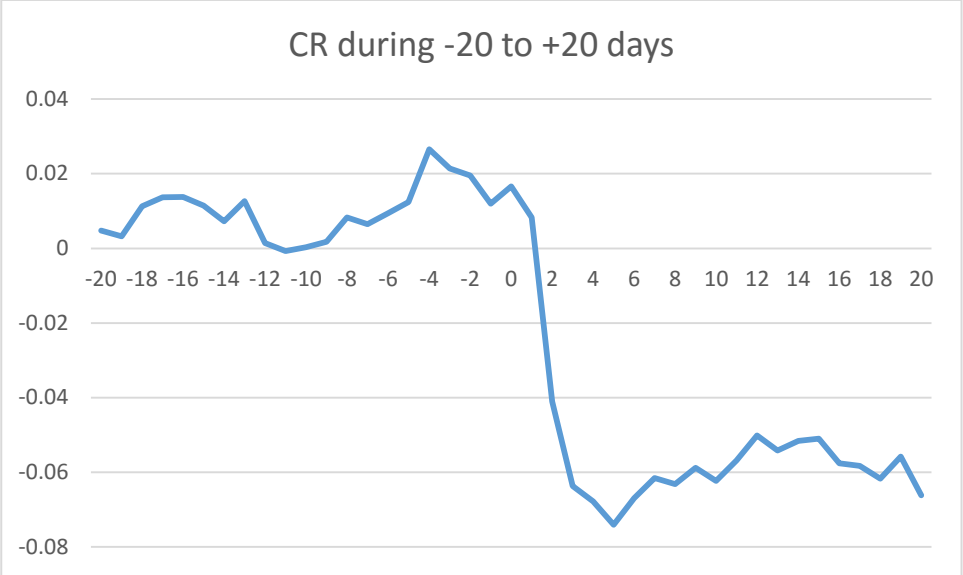
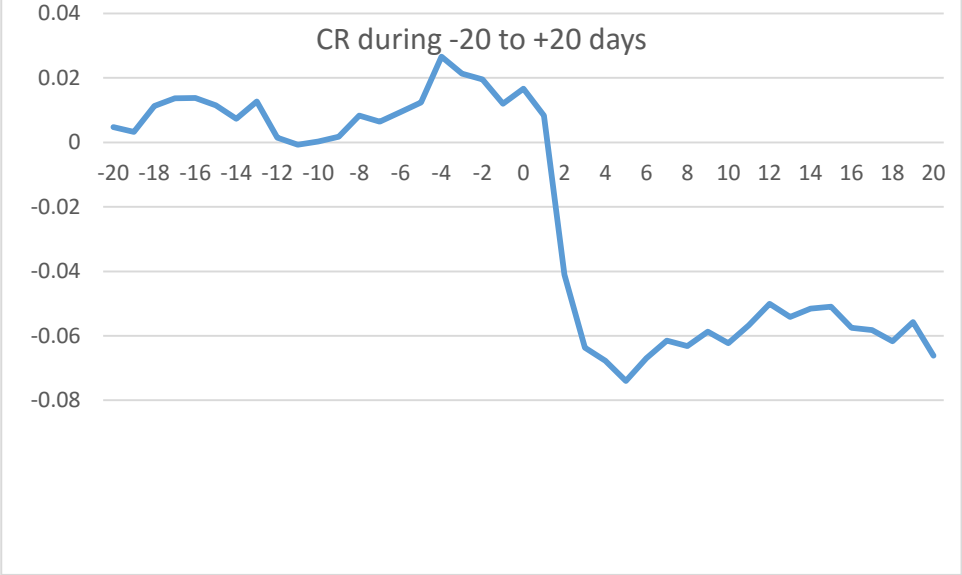


Figure 4: Cumulative Returns for the Industrial Sector



All the sectors have cumulative returns negative during the time window of study.

5. Summary and Conclusions

The dividend trend analysis reveals that the firms in Qatar had highest dividends payout in the year 2010. Qatar fuel had 100 per cent dividend payout during the five year period 2009-2013. One of the greatest ideas of finance is the theory of market efficiency. Market efficiency implies how well the price adjusts to reflect new information. This study based on 43 companies listed in the Qatar Stock Exchange document negative reaction for the dividend announcements during the different time-window periods. The study analysed the dividend announcement during the period 2009-2013. The average return on the day of announcement was -2.37 per cent for the entire sample firms. The average returns of two days after announcement was -

5.65 per cent. The cumulative abnormal (CAR) returns showed negative returns during the different time-window periods. The maximum negative CAR was observed during the period -20 to +20 days which documented return of -1.33 per cent. The time window period -1 to+1 documented a return of -0.05 per cent. The CAR analysis was also done based on different sectors like banking, consumer goods and services, and industrial sector. The CAR analysis for all sectors document negative returns. Hence it can be concluded that dividend announcement are not favourably viewed by Qatar Market.

Aharony and Swary (1980) found that dividend announcements signal information about the firm which is not contained in the earnings announcement. Aharony, Falk and Swary (1988) analyse market reaction to dividend-increase announcements by public utilities. They conclude that market response to dividend-increase announcements by public utilities is significantly stronger than the response to dividend-increase announcement by unregulated firms. Dennis and Sarin (1994) find that announcement period excess returns are significantly related to yield and dividend change standardized by share prices. Lang and Litzenberg (1989) hypothesize that reactions to dividend announcements by firms with Q less than one is more pronounced than the reactions to announcements by firms with Q greater than one.

This study in comparison with other studies like Aharony and Swary (1980), Dennis and Sarin (1994) and Lang and Litzenberg (1989) does not provide evidence for signalling theory. In contrast to other studies, the results of this study suggest that dividend announcements are value decreasing activities.

5.1 Implication of the Study

The results of the study indicate the stock market in Qatar is not market efficient. In other words Qatar market signals weak form of efficiency. The future returns cannot be predicted from past returns or any other market based indicator. In other words past rates of return have no relation with future rates of returns.

5.2 Limitations of the Study

The excess return analysis does not take into consideration, the risk adjusted models for analysis. The study is restricted to firms listed in the Qatar Stock Exchange only.

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