The Effect of Dividend Policy on Stock Price in Nigeria

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Abstract: This study examines the effect of dividend policy on market value of common stocks of firms listed on the Nigeria Stock Exchange. The study is motivated by the unsolved issue on dividend policy in the financial management. Panel data set over the period of 2010-2014 was obtained from the audited annual reports and daily stock price of the selected firms listed in the Nigeria Stock Exchange which were analyzed using pooled regression, random regression model, and fixed regression model. The results of the study revealed that payout ratio (POR) has positive effect on stock price, though not significant while earnings per share (EPS) and Size has a significant positive relationship with stock price. On other hand, leverage (LEV) has a negative effect on stock price though not significant while, market to book value (MBV) has an insignificant positive effect on stock price.

Keywords: Payout Ratio; Earning per share; Leverage; Market to book value.

JEL Code: C61, G14, G31, G35

1. Introduction

Dividend policy is the firm decision to pay out dividends out of profit or to retain such earnings for future investment or both. This policy is concerned with the decision to divide the firm's earnings between the shareholders and reinvestment in new projects or for future opportunities. Dividend is the returns (cash dividend or bonus issue) that is attributed to the shareholders of a company in proportion of their shareholding in equity share capital. Dividend is paid from the profit realized by the business in a particular period.

Dividend policy has enjoyed a lot of controversial opinions in the history of financial management. This is attributed to the fact that, dividend policy is considered to have significant impact on financing and investment decisions of the companies. Shareholders are interested in maximizing their share value and dividend payment, however, an optima dividend policy should be once that in targeted at maximizing the capital gain of the shareholders. Many researchers have tried to determine to

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impact of dividend policy on the value of the firm but the issue is yet unconcluded as there are conflicting views about this. Researcher such as Miller and Modigliani (1961) which provide a foundation for the irrelevance of dividend policy on firm's value argue that the value of the firm depends on the firm's earnings or its investment policy. They posited that split of earnings between dividend and retained earnings has no effect on the firm's value. Similarly, Black and Scholes (1973) also argue on the irrelevance of dividend policy. More recently, Jakata and Nyamugure (2014) and Abrar-ul-haq, Akram, and Ullah (2015) argues that dividend policy had no impact on stock price. In the same vein, many studies has proved the relevance of dividend policy on firms value, Walter (1956); Gordon (1959); Pani (2008); Akbar and Baig (2010); Masum (2014) and Jatmiko (2016). Due to the inconsistency in the studies on dividend policy, it is therefore open for further debate and conversation until a single point of agreement is reached.

Dividend declaration is considered to be one of the most imperative tools for the distribution of value to the shareholders. Many shareholders also prefer to receive regular dividends rather than irregular cash payments (Gupta, Dorga & Vashisht, 2011) while some prefer that their reward should be reinvested in new project for increase in capital gains. Dividend policy is crucial for manager, managers, lenders, government and for other stakeholders. Investors consider dividends not only the source of income but also a way to assess company from investment point of view. It is a basis of assessing whether the company is cash generative or not. Selecting an appropriate dividend policy is a crucial decision for the firm because variability to invest in future projects largely depends on the amount of dividends payout to their shareholders (Khan, 2012).

It is pertinent to note that early studies on dividend policy were conducted in the developed economies while limited studies exist in the developing economies, therefore this is a huge knowledgeable gap which requires researchers' attentions. In Nigeria, earlier studies on dividend policy were made by Soyode (1975), Inanga (1975), Oyejide (1976), Odedokun (1995), Izedonmi and Eriki (1996), Adelegan (2003) and more recently; Adefila, Oladipo and Adeoti (2011), Uwuigbe, Jafaru and Ajayi (2012), Oyinlola and Ajeigbe (2014), Sulaiman and Migiro (2015) to mention but few. This lack of consensus among the researchers calls for further studies in this area.

This present study intends to reduce the knowledge gap by investigating the impact of dividend policy on stock price of 29 listed firms in Nigeria for the period span from 2010 to 2014.

2. Theoretical Framework

The proponents of traditional school on dividend theory was founded by Graham and Dodd (1934). They argue that a given amount of dividend has four times the impact on stock prices as for the same amount of retained earnings. Later support was offered by Linter (1956), Gordon (1959), Brittain (1964), etc. a very articulate arguments and explanation of the traditional school on the impact of dividend on stock price can be found in the work of Walter (1956), (1963) and Gordon (1959).

Walter (1956) argued that the decision to pay dividend depends on the profitability of investment opportunities available to the firm. Profitability of investment opportunities can be explained in terms of the relationship between the firm's internal rate of return and the shareholders required rate of return or cost of capital. Walter base his argument on the assumptions that; the firm is all equity financed and investors are risk averters; no external financing, all investment programmes will be financed with retained earnings; the internal rate of return, earnings per share, dividend per share and cost of capital are all constant; and all earnings are either distributed a dividend or retained for internal investment. Walter then argue that the impact of dividend policy on share price depends on the relationship between the firm's internal rate of return.

Gordon (1959) argument is that the motive to pay dividends is to increase share market prices of the companies. Gordon's model obviously relates the market value of the company to its dividend policy. The major determinants of the market value of the share are the perpetual stream of future dividends to be paid, the cost of capital and the expected annual growth rate of the firm. Howver, the Gordon's theory on dividend policy states that the company's dividend payout policy and the relationship between the firm rate of return and the cost of capital influence the market price per share of the company. Gordon share almost the same assumptions with Walter.

Gordon later argue that if the underlying assumptions are modified to include conditions of uncertainty, there might be a tendency by investors to apply a higher discount rate to future dividends or capital gains than near dividends. This is because investors are rational and risk averse and will prefer a nearer dividends to future dividends nearer dividends are less risky compared to future dividends or capital gains, this argument is called bird-in-the-hand argument.

2.1. Empirical Literature Review

Yensu and Adusei (2016) examined the trend in dividend policy and the predictions regarding the amount of dividends payout by listed non-financial firms in 13 African countries from 1994-2011. The panel data analyzed shows that dividend paying firms are more profitable with a larger firm size, greater investment opportunity, higher retention of earnings and with less financial leverage than firm that do not pay dividends. The results show that in countries where the GDP per capita is low,

firms are more likely to pay dividends. The study also shows that dividend payout, profitability, and investment opportunities has positive significant relationship on firm size. While, dividend payout, financial leverage, corruption has a significant negative relationship on gross domestic product per capita. The study further found that the dividend trends were very low and stable.

According to Jatmiko (2016) aimed at finding the effect of tax rate and dividend policy on the stock price, the effect of tax rate on the stock price, the effect of dividend policy on the stock price, and the effect of tax rate on the dividend policy using a secondary data involving fourteen (14) firms, such as an annual financial report of PT. Telekomunikasi Indonesia, Tbk during the period of 2001-2014. The data collected were analyzed using path analysis, the results indicated that the tax rate and dividend policy had a significant positive effect on the stock price for about 76.8%. The tax rate had a significant positive effect on the stock price for about 32.6%, on the other hand, dividend policy had a significant positive effect on the stock price for about 17.5%, while the tax rate had a significant positive effect on the dividend policy for about 31.3%. it can however be deduced that a positive relationship exist between tax rate, dividend policy and stock price.

Salman, Lawal and Anjorin (2015) investigated the impact of dividend policy on the share price of 10 selected quoted firms in Nigeria stock exchange from 1997 to 2012. The panel data were analyzed using least square method. The results of their study shows that the earning streams of companies under the study have a greater impact than their dividend payouts in shaping the price of their shares in the market.

Sharif, Ali, and Farzand (2015) investigated whether there is relationship between dividend policy and stock prices of 45 non-financial companies listed on Karachi Stock Prices in Pakistan from 2001 to 2012. The panel data were analyzed based on fixed and random effect tests, random effect results was focused after applying Hausman's test. The results revealed that dividend payout ratio has a significant positive relationship with share prices. This is supported by the Bird in hand theory which suggested that owners give preference to a cash of estimated dividends over a likely cash of capital gains. Profit after tax, Earning per share and Return on Equity are the three control variables used in this study. Profit after tax has insignificant relationship to stock prices, Earnings per share have positive significant relationship to Stock prices while there is negative significant relationship between Return on equity and Share prices.

Similarly, Sulaiman and Migiro (2015) using fixed and random effect model, examined the effect of dividend decision on stock price changes of 15 quoted companies on the Nigeria Stock Exchange from 2003 to 2012. The results of their study shows that a positive linkage exists between dividend decision and the changes in the price of stock as well as earning per share, size of the companies, and the dividend per share. The dividend per share and earnings per share indicated a major

positive significant connection with stock price. The study posited that the size of the companies does not actually determine the value of the stock price in the market. Supporting the dividend relevant hypothesis, the study also affirmed that dividend payout increases stock price performance.

Masum (2014) examined what kind of relationship that exists between dividend policy and stock market returns of all the 30 private commercial banks listed on Dhaka Stock Exchange, Bangladesh from 2007 to 2011. The panel data analysed was based on fixed effect and random effect while the result of the fixed effect is better than the random effect. The findings shows that earnings per share, return on equity, retention ratio ratio have positive relationship with stock Prices and this significantly explain the variations in the stock prices, while the dividend yield and profit after tax have insignificant negative effect on stock prices.

In another study carried out by Hunjra, Ijaza, Chani, Hassan, and Mustafa (2014), they examined how dividend policy, return on equity, earning per share, and profit after tax affect stock prices of 63 companies listed on Karachi stock Exchange from 2006 to 2011. The panel data were analyzed based on ordinary least square. They found out that dividend yield has a negative effect on stock price while dividend payout ratio has positively relationship on stock price supporting dividend irrelevance theory. They also posited that, variables such as profit after tax and earnings per share have significant positive impact on stock price while return on equity shows positive insignificant impact on stock price.

Abdullah, Asaduzzaman and Rashed (2013) evaluated the effect of dividend policy on market price of share of 28 companies from four sector in Bangladesh covering the period from 2005 to 2009. Using correlation and multiple regression models, the results shows that the effect of dividend payout is more on market price than retention. The findings supports the relevant theory of dividend policy as postulated by Walter and Gordon.

Pontoh (2013), examined the effect of signaling, bird in the hand, and catering of 372 listed companies in Indonesia Stock Exchange from 2010 to 2012. The data were analyzed using independent samples t-test, analysis of variance model, and analysis of covariate model. The study further conducted further analysis using data reduction method and multinomial logistic regression for the purpose of confirming the characteristics of dividend payers based on general financial factors. The result revealed that dividend has significant effect to stock price, and similarly stock price also has significant effect to dividend. The study by implication fit for signaling effect, bird in the hand effect, and catering effect which is dominated by dividend payers who are paying dividend continuously. Furthermore, this study shows that the most common characteristics for dividend payers who paying dividend continuously compared to other dividend payers includes larger number of shares, larger fixed

assets, largest total debt, largest total assets, largest retained earnings, largest revenue, and largest net income.

Hasan, Akhter, and Huda, (2012) investigated cash dividend announcement effect on companies stocks traded in the Dhaka Stock Exchange from 2006 to 2010. The panel data were employed which were using the ordinary least square and Capital Asset Pricing Model (CAPM) were used to explain the variables. The result show that cash dividend payments are the only significant factors affecting all prices in the days around the events. The study show statistically significant above average stock market return after cash dividend announcement.

Khan (2012) examines the effect of cash and stock dividends on stock prices of 25 selected chemical and pharmaceutical firms quoted on the Karachi Stock Exchange, Pakistan from 2001-2010. The panel data were analysed based the fixed and random effect estimation techniques while also controlling for earnings per share, retention ratio and return on equity. The study shows that while cash dividend, retention ratio and return on equity have positive and significant impact on stock prices, earning per share and stock dividend on other hand exert a negative and insignificant influence on the firms' stock prices.

Waithaka, Ngugi, Aiyabei, Itunga, and Kirago (2012) unfolded the relationship between dividend policy and share of 6 listed companies in Nairobi Stock Exchange (NSE), Kenya. Data were collected using questionnaire which were analyzed using multiple regression analysis. The data analyzed show that taking all other independent variables at zero, a unit increase in clientele effect will lead to a 45.3% increase in share price; a unit increase in tax incentives will lead to a 20.5% increase in share price; a unit increase in free cash flow will lead to a 29.5% increase in share price. This infers that clientele effect contribute more to share price followed by the free cash flow. Clientele effect, free cash flow, and tax incentives has positive significant effect on stock price.

Zakaria, Muhammad and Zulkifli (2012) examined the impact of the dividend policy and dividend payout ratio on the share price of 77 construction and material companies listed on the Kuala Lumpur Stock Exchange, Malaysia from 2005 to 2010 covering the pre, during and post subprime crisis era. The data were analyzed based on least square regression. The findings show that dividend payout ratio significantly influences the changes in share price. The greater the size of the company, the more significant impact the volatility of share price would be. They also posited that dividend yield, investment growth and earnings volatility insignificantly influence the changes in the firm's share prices while leverage has significant negative influence on the variation in share price.

ur Rahman, & Nazim-ud-Din (2012) examined the impact of dividends on stock price volatility in secondary stock market of 25 selected companies in Bangladesh between the period of 2004 to 2012. The time series data were analyzed using

correlation and regression Method while controlling for dividend announcement. The findings show that dividend announcement of the sample companies has a negative and insignificant impact on the stock price sensitivity in Bangladesh.

Uwuigbe, Olowe, and Godswill (2012) selected 30 listed firms in the Nigerian Stock Exchange market in a bid to examine the determinants of share prices between the period of 2006 to 2010. Using ordinary least square (OLS), the findings show that there is a significant positive relation exist between firms' financial performance and the share prices. They concluded that firms' financial performance, dividend payouts ratio and firm leverage are strong determinants of the stock prices in Nigeria.

Joshi (2011) examined the impact of dividends on stock price of 163 companies (both banking and non-banking sector) which are listed in Nepal Stock Exchange for fiscal year 2010/11. The data were analyzed using on ordinary least square regression analysis. They study reveal that, the impact of dividends is more pronounced than that of retained earnings in Nepal and that dividend has a significant effect on market stock price in both banking and non-banking sector.

Akbar, and Baig (2010) carried a study to examine the semi-strong hypothesis of market efficiency by investigating the reaction of market prices of common stocks to dividend announcements. They analyzed cash, stock and simultaneous cash stock dividend announcements of 79 companies listed on the Karachi Stock Exchange, Pakistan for a continious period of 3 years covering the simultaneous of 12 month per annum from July 2004 to June 2007. The data were analyzed to establish the abnormal returns from the market using the t-test and Wilcoxon Signed Rank Test. The finding shows that negligible abnormal returns for cash dividend announcements which leads to average abnormal and cumulative average abnormal returns for common stock and simultaneous cash and common stock. The study however concluded that dividend announcements affects stock price and it is statistically significant.

Adelegan (2009) investigated whether the Nigerian stock market reacts efficiently to dividend announcements in terms of price adjustments. The study gathered data from the Nigeria Stock Exchange fact book and annual reports of quoted companies and the daily official price list from 1991 to 1999. The data were analyzed using Capital Asset pricing Model (CAPM). The study shows that the cumulative excess returns (CERs) for dividend paying companies are positive and statistically significant for 30 days from the day of the announcement, while the CERs for dividend omitting companies for the same period are significant and negative. The study, however concluded that Nigerian stock market is not semi–strong efficient and that dividend policy matters while share prices do react to dividend announcements.

Pani (2008) to explore the possible links between dividend policy and stock price behaviour in Indian corporate sector of 500 listed companies on Bombay Stock

Exchange, India from 1996 to 2006. The panel data analyzed were based on fixed and random effect while the results are based on the fixed-effect model which proven to perform statistically better than random effects and pooled OLS model after controlling the variables like size and long-term debt-equity ratio of the firm. The findings shows the presence of fixed level effect in explaining the possible links between dividend policy and stock price variation of the firms. In other words it exhibits the possibility of "clientele effect" in case of some sector. Therefore the model helps to understand the complexities of dividend policy and stock-return behaviour in Indian corporate sector for the period covered.

3. Research Methodology

This study examines the effect of dividend policy on market value of common stocks in Nigeria. The study is motivated by the unsolved issue on dividend policy in the financial management. Panel data approach was used to measure the relationship between dividends and stock prices. The time series and cross-sectional data were analyzed based on fixed and random effect model, while Hausman test was used to select the best model. Fixed effect method is used to control all the static characteristics of the firms included in the study over a fixed period of time following the assumption of time series data. This technique removes biasness from this data and provides statistically better result by explaining only the variation within the sample. The Random effect method is applied on cross sectional data when the characteristics of sample differ. This techniques is appropriate to explain variations between the firms. This method is also adopted by Pani (2008), and Khan (2012), Oyinlola and Ajeigbe (2014), Sulaiman and Migiro (2015), Sharifi, Ali and Farzand (2015), Yensu and Adusei (2016) and many more to mention but few.

3.1. Population and Sample

The population of the study consists of all the 199 first tier equities listed on the main board of the Nigerian Stock Exchange as at the beginning of 2010. Out of the total listed firms at start of 2010, 84 firms representing 42.21% of the entire population paid dividends to its investors in 2010. The sample was later filtered based on those who paid dividends consistently paid for 5 years. In all twenty-nine companies qualified for the selection covering the period 2010-2014.

3.2. Model

In specifying the model, estimation on influence of dividend on policy share price follows the theoretical specifications of Walter (1956) and Gordon (1959) that dividend payment has influence on the firms stock price. Most reseachers such as Jecheche (2012), Adaramola (2012), and Sulaiman and migiro (2014) examined the stock price (SP) as function of other explanatory variables which are: Dividend per share (DPS), Earnings per share (EPS) and Firm's size (size). However the present

study includes stock price as the dependent variable while the independent variables are payout ratio, earning per share, market to book value as the explanatory variables while the control variables are size, and leverage.

The econometric models is therefore;

Without growth (MBV)

$$SP_{it} = \beta_0 + \beta_1 POR_{it} + \beta_2 EPS_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it+} \mu_{it} \text{---------------------------} \text{----(1)}$$

With growth (MBV)

$$SP_{it} = \beta_0 + \beta_1 POR_{it} + \beta_2 EPS_{it} + \beta_3 MBV_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it+} \mu_{it} \text{------------------(2)}$$

While using (POR and EPS only)

$$SP_{it} = \beta_0 + \beta_1 POR_{it} + \beta_2 EPS_{it} + \mu_{it} \text{--(3)}$$

Where $\beta_0 - \beta_5$, are regression parameters;

µ is the error term, i is the firm while t is the time period.

Descriptive of variables

Variables	Description
Dependent Variable	
Stock Price (SP)	The average of the minimum and maximum stock price in a given year.
Independent Variables	
Payout ratio (POR)	The ratio of dividend per share to earnings per share in a given period
Earnings per share (EPS)	The basic earnings which was arrive as the ratio profit after tax to the numbers of the ordinary share capital.
Market book value (MBV)	The ratio of the average stock price to the net asset per shares.
Control Variables	
Firm Size (SIZE)	The natural logarithm of total asset
Leverage (LEV)	The ratio of non-current liabilities to total assets

4. Data Analysis

This section shows the descriptive statistics, correlation as well as the regression analysis of the study. The data is panel data set which were analysed based on the pooled regression model, fixed regression model and random effect model and further carry out Huasman test to accept the Random model has been appropriate for this study.

Table 1. Descritive Statistics

	Mean	Median	Minimum	Maximum	Standard Deviation
SP	65.64	19.28	1.13	982.81	135.45
POR	0.52	0.52	-5.71	4.05	-4.31
EPS	4.74	1.78	-17.00	39.00	2.35
SIZE	7.58	7.63	5.73	9.57	0.24
LEV	0.33	0.28	0.01	0.92	0.86
MBV	2.86	2.00	0.05	1.17	6.02
N	145	145	145	145	145

Source: Authors Computation, 2016

The above table shows the descriptive statistics of the variables used in this study. Stock price shows a mean value of 65.64 and median of 19.28 with a minimum value of 1.13 and a maximum naira value of 982.81. Stock price shows a standard deviation of standard deviation of 135.45 which shows a variations in the value. Payout ratio (POR) has a mean and median value of 0.52 with a minimum value of -5.7, this is due from a company with a losses in a particular period but still pay out dividend. On the other hand, the maximum value of payout ratio of 4.05 while the standard deviation has a negative value of -4.31. Similarly, earnings per share (EPS) has a mean value of 4.74 and median of 1.78 with a minimum value of -17.00 which is due from loss in aparticular period. The maximum value of earning per share is 39.00 while the standard deviation is 2.35.

Firm Size on the has a mean value of 7.58 with median of 7.63 with a minimum value of 5.73 and maximum value of 9.57 while the standard deviation is 0.24. Leverage on the other hand, has a mean value of 0.33 and median of 0.28 with minimum of 0.01 and maximum of 0.92 while the standard deviation is 6.02. Finally, market to book value shows a mean value of 2.86 and median of 2.00 with a minimum growth rate of 0.05 and maximum growth rate of 1.17 while the standard deviation is 6.02.

Table 2. Correlation Matrix

	SP	POR	EPS	SIZE	LEV	MBV
SP	1.00	0.12	0.59	0.15	-0.06	0.09
POR		1.00	-0.02	-0.15	0.02	0.00
EPS			1.00	-0.06	0.00	0.17
SIZE				1.00	0.09	-0.04
LEV					1.00	0.22
MBV						1.00
N	145	145	145	145	145	145

Source: Authors Computation, 2016

The above table shows the correlation matrix of the variables used in this study. There is a positive correlations among the variables except for size which has a negative correlation with payout ratio (POR) and earnings per share (EPS). Leverage also has negative correlation with stock price.

Table 3. Pooled Regression Model

	Model 1	Model 2	Model 3
C	-225.33* (73.93)	-225.58* (74.20)	2.183 (12.75)
POR	32.72** (12.99)	32.73** (13.04)	25.68** (13.28)
EPS	10.85* (1.16)	10.81* (1.18)	10.58 (1.20)*
SIZE	31.97* (9.45)	31.44* (9.49)	
LEV	-46.26 (34.24)	-47.44 (35.28)	
MBV		8.35 (5.62)	
R Squared	0.41	0.41	0.36
Adj. R Squared	0.39	0.39	0.35
S.E. Regression	105.10	105.47	108.80
F Statistics	24.78	19.67	40.60
Prob. Value	0.0000	0.0000	0.0000
Obs	145	145	145

*Significant at 1% and **Significant at 5%.

The figures in parentheses represent the standard error of the independent variables while the other shows the positive or negative coefficient and magnitude of the independent variables in explaining the dependent variable.

Table 3 above shows the pooled regression result of model 1 to 3. In model 1 above, payout ratio (POR) significant at 5% has positive effect on stock price with a coeffiecient of 12.99. This implies that, a unit change in payout ratio will to increase in shock price by 32.72. This is consistent with the findings of Uwuigbe et al. (2012) which also asserted that dividend pay out ratio has significant impact on stock price.

Earnings per share (EPS) also, significant at 1% has a positive relationship with stock price with a coefficient of 10.85, this means that a unit change in EPS will leads to increase in stock price by 10.85. This is in consistent with the result of Sharif et al. (2015) which also reveals that earnings per share has a significant positive relationship with stock price. Similarly, size has a significant positive relationship with stock price which is significant at 1% with a coefficient of 31.97, this means that a unit change in Size will lead to increase in stock price by 31.97. On the other hand, leverage has a insignificant negative relationship with stock price with a coefficient of -46.26 which means that a unit change in leverage will lead to decrease in stock price by 46.26.

Model 2 control for the growth with the inlclusion of market to book value (MBV). As compared with model 1, payout ratio (POR), earnings per share (EPS) and Size has a significant positive relationship with stock price, significant at 5%, 1% and 1% respectively with a coefficient of 31.73, 10.81 and 31.44 respectively. These implies that a unit change in POR, EPS and Size will leads to increase in stock price by

31.73, 10.81 and 31.44 respectively. On other hand, leverage has an insignificant negative relationship with stock price with a coefficient of -47.44, this implies that a unit change in leverage will decrease stock price by 47.44 while, market to book value (MBV) has an insignificant positive relationship with stock price with a coefficient of 8.35, this mean that a unit change in MBV will leads to increase in stock price by 8.35.

In model 3 above, only the payout ratio (POR) and earnings per share (EPS) were used as the independent variables being the explanatory variables. Payout ratio holding earnings per share constant has a significant positive effect on stock price which is significant at 5% with a coefficient of 25.68, this implies that a unit change in POR will leads to increase in stock price by 25.68. This result is in line with the findings of Abdullah et al. (2013) and Salman et al. (2015) which also shows that dividend payout ratio has significant effect on stock price. On the other hand, holding payout ratio (POR) constant, earnings per share (EPS) has significant positive relationship on stock price which is significant at 1% with a coeffiecient of 10.58. This implies that, a unit change in EPS will leads to increase in stock price by 10.58. This inline with the findings Sulaiman et al. (2015) which also show a significant positive connection between earnings per share and stock price. The study also affirmed that dividend payout increases stock price.

Table 4. Fixed Effect

	Model 1	Model 2
C	-326.25	-356.98
	(283.26)	(287.84)
POR	4.62	4.46
	(8.95)	(8.97)
EPS	1.64	1.61
	(1.21)	(1.21)
SIZE	56.59	61.07
	(36.81)	(37.54)
LEV	-143.45	-147.83
	(79.00)	(79.49)
MBV		-5.42
		(8.28)
R Squared	0.85	0.85
Adj. R Squared	0.81	0.81
S.E. Regression	58.31	58.46
F Statistics	20.78	20.06
Prob. Value	0.0000	0.0000
Obs	145	145

The figures in parentheses represent the standard error of the independent variables while the other shows the positive or negative coefficient and magnitude of the independent variables in explaining the dependent variable.

Table 4 above shows the fixed effect result of model 1 and 2. In model 1 above, payout ratio (POR) has an insignificant positive effect on stock price with a coeffiecient of 4.62. Earnings per share (EPS) also has an insignificant positive relationship with stock price with a coefficient of 1.64. Similarly, size has an insignificant positive relationship with stock price with a coefficient of 56.59. On the other hand, leverage has a insignificant negative relationship with stock price with a coefficient of -143.45.

On the other hand, model 2 control for the growth with the inlclusion of market to book value (MBV). As compared with model 1, payout ratio (POR), earnings per share (EPS) and Size has a insignificant positive relationship with stock price with a coefficient of 4.46, 1.61 and 61.07 respectively. Leverage has an insignificant negative relationship with stock price with a coefficient of -147.83 while, market to book value (MBV) has an insignificant negative relationship with stock price with a coefficient of -5.42.

Table 5. Random Effect

	Model 1	Model 2
C	-166.18	-165.87
	(114.18)	(116.26)
POR	9.68	9.54
	(8.67)	(8.70)
EPS	4.46*	4.37*
	(1.06)	(1.07)
SIZE	29.94**	30.00**
	(14.79)	(15.05)
LEV	-64.64	-66.42
	(47.82)	(48.64)
MBV		1.28
		(6.37)
R Squared	0.13	0.13
Adj. R Squared	0.11	0.10
S.E. Regression	63.16	63.06
F Statistics	5.62	4.38
Prob. Value	0.0003	0.0009
Obs	145	145

*Significant at 1% and **Significant at 5%.

The figures in parentheses represent the standard error of the independent variables while the other shows the positive or negative coefficient and magnitude of the independent variables in explaining the dependent variable.

Table 5 above shows the Random effect result of model 1 and 2. In model 1 above, holding all other variables contant payout ratio (POR) has an insignificant positive effect on stock price with a coeffiecient of 9.68. This implies that, a unit change in payout ratio will to increase in shock price by 9.68. Holding all other variables contant, earnings per share (EPS) also, significant at 1% has a positive relationship with stock price with a coefficient of 4.46, this means that a unit change in EPS will

leads to increase in stock price by 4.46. This is inline with the results of Hunjra et al (2014) and Masun (2015) which also founds a positive significant relationship between earnings per share and stock prices. Similarly, holding all other variables contant, Size has a significant positive relationship with stock price which is significant at 5% with a coefficient of 29.94, this means that a unit change in Size will lead to increase in stock price by 29.94. On the other hand, holding all other variables contant, leverage has a insignificant negative relationship with stock price with a coefficient of -64.64 which means that a unit change in leverage will lead to decrease in stock price by 64.64.

On the other hand, model 2 control for the growth. Similar to model 1, payout ratio (POR) has an insignificant positive effect on stock price with a coeffiecient of 9.54. This implies that, a unit change in payout ratio will to increase in shock price by 9.54, while earnings per share (EPS) and Size has a significant positive relationship with stock price, significant at 1%, and 5% respectively with a coefficient of 4.37 and 30.00 respectively. These implies that a unit change in EPS and Size will leads to increase in stock price by 4.37 and 30.00 respectively. On other hand, leverage has an insignificant negative relationship with stock price with a coefficient of -66.42, this implies that a unit change in leverage will decrease stock price by 66.42 while, market to book value (MBV) has an insignificant positive relationship with stock price with a coefficient of 1.28, this mean that a unit change in MBV will leads to increase in stock price by 1.28. This result is in line with the findings of Zakaria et al. (2012) which also result a positive relationship between payout ratio and stock price and positive significant relationship between firm size and stock price while leverage has a negative relationship with stock price.

5. Conclusion

In this paper, we have used data from the listed firms on the Nigeria Stock Exchange to investigate the effect of dividend policy on market value of common stocks in Nigeria. Panel data set over the period of 2010-2014 was obtained from the audited annual reports and daily stock price of the selected firms listed in the Nigeria Stock Exchange. We developed 3 models tested on pooled regression, random regression model, and fixed regression model. The result of the Random model was regarded appropriate after carried out Huasman test.

The average value of the maximum and minimum value in particular year has been use to proxy stock price which is the dependent variable while dividend payout ratio is used as dividend policy in this study. We also used earnings per share as another independent variable while putting growth into consideration which is proxy on market to book value. Also, leverage and firm size is used as to control variables.

The results of the study revealed that payout ratio (POR) has positive effect on stock price, though not significant while earnings per share (EPS) and Size has a significant positive relationship with stock price. On other hand, leverage has a negative effect on stock price though not significant while, market to book value (MBV) has an insignificant positive effect on stock price.

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