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Dividend policy and share price performance in Nepal: A banking sector analysis

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Abstract

This study aims to deepen the understanding of how dividend payouts impact stock prices within the unique economic and regulatory context of Nepal's banking sector. It specifically examines the effects of cash dividends and other forms of dividend distribution on the share prices of Nepalese commercial banks. Using panel data from 2012/13 to 2022/23, the research focuses on listed commercial banks on the Nepal Stock Exchange Ltd. A fixed effect model is employed to analyze different groups of banks: those issuing only cash dividends, those issuing both cash and stock dividends and those issuing only stock dividends. The methodology evaluates the statistical significance of coefficients, ensures the robustness of results, and assesses the overall model fit to measure the impact of various dividend distribution strategies on stock prices. The findings reveal that dividend payouts significantly influence share prices, with combined cash and stock dividends having a particularly strong positive effect in Nepal's financial landscape.

Keyword: Dividend Payout, Share Price, Bird in Hand Theory, Signaling Theory, Nepalese Environment
JEL classification: G21, G30, G35

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INTRODUCTION

The investigation of factors influencing company dividend payout is a crucial area of study in modern finance theory (Breuer et al., 2014). Each company within a particular industry follows its own distinct dividend payment pattern, which serves as a significant financial indicator (Dhakal & Shah, 2016). Consequently, a firm's share price is significantly impacted by its dividend payout (Masum, 2014). The Gordon (1962) constant dividend growth model suggests that with a stable expected return, a high dividend payout should correspond to either a high price-to-earnings ratio or low expected earnings growth. Furthermore, the "pecking order theory" (Myers, 1984) posits that firms with substantial growth opportunities prefer internally generated cash flows over external financing sources.

Dividend payout is a vital financial strategy for companies, as dividends act as a reward for shareholders for their investments and the risks they undertake by holding company stocks (Kim et al., 2021). In 1977, Robert Higgins introduced the sustainable growth formula, which has become a foundational concept in understanding corporate growth and dividend strategies (Higgins, 1977). Smith and Lee (2021) underscored how contemporary challenges and financial theories shape corporate decisions regarding dividend payouts, providing insights into the strategic balance between rewarding shareholders and sustaining growth.

While the study conducted by Fama and French (2002) demonstrates that dividend distribution is negatively correlated with investment opportunities. Baker and Wurgler (2004) argued that the decision to pay dividends is influenced by current investor demand, using market dividend premium as a predictor of corporate dividend payout. Additionally, Shefrin (2009) indicates that demographic factors, such as low income, retired, and elderly families, significantly predict dividend payout.

The behavior of dividend payout remains one of the most debated topics in financial literature, particularly in emerging markets (Hafeez et al., 2018). In the context of Nepal, only a few corporations provide dividends, while many others do not maintain consistent dividend payments. Some businesses have never paid a dividend to their shareholders (Baral & Pradhan, 2018). Dividends on shares are a crucial metric that reflects the company's performance and thus attract investors. Before investing in the stock market, investors examine the company's dividend payout. However, due to the volatility

of Nepalese firms' dividend payouts, investors struggle to estimate future cash flow from cash dividends (Bhandari & Pokharel, 2012). Moreover, dual dividends (cash and stock dividends in the same fiscal year) are associated with ambiguity (Huang et al., 2009). Cultural differences between developed countries with robust financial regulations and confident investors versus developing countries with weak financial policies and short-term profit-seeking investors further complicate the issue. Consequently, this topic encourages scholars to explore the relationship within the context of the Nepalese market.

Studies in emerging markets, similar to Nepal, indicate that dividend announcements tend to have a positive effect on stock prices due to the perceived signal of strong financial performance (Aivazian et al., 2003). In Nepal, the regulatory environment and market conditions add unique dimensions to this relationship. For instance, the Nepal Rastra Bank (NRB), imposes guidelines on dividend distribution which banks must adhere to, potentially influencing how dividends impact share prices (Nepal Rastra Bank, 2020). Moreover, the market's reaction to dividend announcements in Nepal can be attributed to several factors, including the overall economic conditions, investor sentiment, and the specific financial performance of the banks. Prior studies in the context of South Asian markets have found mixed results, with some indicating a strong positive relationship between dividends and stock prices, while others suggest a more nuanced impact depending on market conditions (Amidu, 2007).

This study focuses on the Nepalese banking sector, which is crucial to the nation's economy by providing necessary funds for economic activities to function efficiently (Lamichhane, 2022). This research is based on the "Signaling theory," which posits a positive relation between information asymmetry and dividend payout on share price. Given the unique nature of the Nepalese capital market compared to developed countries (Adhikari, 2014), this theory is applied within the cultural context of Nepal. Understanding the specific dynamics in the Nepalese banking sector requires an examination of historical data, regulatory influences, and market behavior. Therefore, this study aims to fill the gap by providing empirical evidence on how dividend payouts affect share prices in Nepal's banking sector, contributing to the broader literature on dividend payout and stock price behavior in emerging markets.

Problem Statement

The relationship between dividend payout and share price continues to intrigue scholars, prompting investigations into their dynamics within the

Nepalese financial market (Dhakal & Shah, 2016). Despite numerous studies (David & Ginglinger, 2016; Khanal & Mishra, 2017) and various theories, a definitive conclusion on the influence of dividend payouts on share prices remains elusive. Determining a company's dividend payout and its impact on share price is a critical challenge for business management. Corporate payout policies vary significantly over time and across different nations, especially between developed and emerging markets. Research indicates that dividend distributions differ by country due to institutional and stock market variations (Adhikari, 2014).

In developed countries, capital markets are stable and predictable, instilling investor confidence and fostering a stronger business climate with more investment opportunities (Choi, 2014). Conversely, emerging markets, like Nepal's, face financial constraints and limited investment options (Dhakal & Shah, 2016). With few companies and limited instances of dividend distribution, the Nepalese capital market lags in the fields of dividend and corporate finance. Few studies (Adhikari, 2014; Bhandari & Pokharel, 2012; Dhakal & Shah, 2016; Khanal & Mishra, 2017) have begun to explore dividend payouts in Nepal. However, an in-depth examination of the impact of dividend payouts on stock prices remains lacking. Therefore, the relationship between dividend payouts and share prices remains a fertile area for research.

Despite extensive theories and empirical studies, consensus on the optimal dividend payout remains elusive (Benlemlih, 2019). This research aims to address this gap by examining the effect of dividend payouts on the stock prices of commercial banks in Nepal. In light of these issues, this study includes firms with varying dividend payouts, i.e., stock dividends, dual dividends, and cash dividends. Although findings from foreign research (David & Ginglinger, 2016; Khanal & Mishra, 2017) offer detailed insights into dividend payouts, further elucidation is needed in the context of the Nepalese market. Thus, this study intends to answer what is the effect of dual dividends on share price compared to all other forms of dividends payout?

The rest of this paper has been structured as follows. Section II provides the literature review, which synthesizes theoretical perspective, empirical evidence and summary. Section III outlines the research methodology adopted for this study. Section IV presents the results of the conducted tests. The conclusion, discussion, and scope for the future research are incorporated in Section V.

LITERATURE REVIEW

Theoretical Review

The Dividend Relevance Theory, introduced by Gordon (1959) and Lintner (1962), argues that dividend payouts play a crucial role in determining a firm's share price. According to this theory, investors may interpret dividends as an indicator of a company's financial strength and future potential, leading to an increase in stock prices when dividends are issued. The "bird-in-hand" argument further supports this view.

Dividend Irrelevance Theory

Conversely, the Dividend Irrelevance Theory, advocated by Miller and Modigliani (1961), posits that dividend payouts have no effect on a firm's value in perfect capital markets. According to this theory, a firm's share price is driven by its earnings and investment decisions rather than its dividend distribution. Miller and Modigliani argue that investors are indifferent between receiving dividends or capital gains, as they can generate their preferred income streams by selling shares.

Signaling Theory

Another significant theme in the literature is the signaling theory, which proposes that changes in dividends communicate information about a company's future performance to investors. Managers might increase dividends to signal confidence in the company's future earnings, leading to a rise in share price (Bhattacharya, 1979). On the other hand, a decrease in dividends could indicate potential financial troubles, causing the share price to drop.

Agency Costs and Free Cash Flow Hypothesis

Jensen (1986) free cash flow hypothesis and the associated agency cost theory also contribute to the discussion, suggesting that dividend payouts can reduce agency costs by limiting the free cash flow available to managers for possibly unprofitable investments. By distributing dividends, firms can align management's interests with those of shareholders, potentially leading to higher stock prices due to increased investor confidence. The implementation of cash dividends is theorized to regulate majority shareholders' actions, thereby reducing agency costs (Faccio et al., 2001).

Together, these themes highlight the multifaceted nature of the relationship between dividends and share prices, with different contexts and market conditions shaping the observed outcomes.

Empirical Evidence

The relationship between dividend payout and share price has been extensively examined in empirical studies, yielding diverse findings influenced by market conditions, investor behavior, and corporate governance practices.

Dividend Signaling and Market Reactions

One of the most well-documented empirical findings in the literature is the dividend signaling hypothesis, which suggests that changes in dividend payouts convey information about a firm's future earnings prospects. Recent studies continue to support this hypothesis. Kadioglu et al. (2020) found that in the Turkish stock market, dividend increases were associated with significant positive abnormal returns, suggesting that investors interpret higher dividends as a signal of strong future performance. Similarly, research by Lie and Lie (2021) in the U.S. market observed that firms announcing dividend increases generally experienced positive stock price reactions, reinforcing the notion that dividends serve as a signal of a firm's financial health.

Dividend Payout and Firm Value

The debate over whether dividend payouts positively impact firm value remains central to empirical research. Recent studies have used various econometric techniques to isolate the effects of dividends on stock prices. Farrukh et al. (2017) analyzed data from the Pakistani stock market and employed a panel data approach to demonstrate a positive relationship between dividend payouts and firm value. Their findings suggest that investors in emerging markets value dividends as a stable source of income, leading to higher stock prices for firms with consistent payout policies.

Conversely, some studies have found mixed or context-dependent results. A study by Ahmed and Javid (2023) examined firms listed on the Indian stock market and found that while dividends positively impacted stock prices during periods of economic stability, the relationship weakened during periods of financial uncertainty. This suggests that the impact of dividends on share prices may vary based on broader economic conditions.

Clientele Effect and Investor Preferences

The clientele effect remains a key empirical theme, particularly in understanding how different investor groups respond to dividend changes. Research by Choi and Sauka (2024) in the South Korean market provided evidence that firms with a high proportion of institutional investors tend to maintain stable dividend payouts, which in turn stabilize share prices. The study highlighted that institutional investor, often seeking predictable income streams, prefer companies with consistent dividend payouts, thereby contributing to less volatility in share prices.

In the U.S. market, research by Dennis and Strickland (2021) found that retail investors are more sensitive to dividend announcements than institutional investors, with stock prices reacting more strongly to dividend changes in firms with a larger retail investor base. This supports the clientele effect, as it suggests that firms may attract and retain different types of investors based on their dividend payouts, thereby influencing share price dynamics.

Dividend Payout in Different Market Contexts

The impact of dividend payouts on share prices varies by market context. In developed markets, factors like taxation and corporate governance influence this relationship. Goyal and Sehgal (2022) found that European firms paying dividends typically had higher valuations, especially in countries with strong shareholder protection laws, suggesting that regulatory environments affect dividend effectiveness.

In developing markets, dividends may be more crucial due to limited financial infrastructure and fewer investment alternatives. Osei (2021) showed that dividend announcements in Ghana led to significant stock price gains, indicating dividends as a key signaling mechanism.

In Nepal's banking sector, studies like Gurung et al. (2023) found dividend announcements significantly impact stock prices, particularly dual-dividend payouts. Baral and Pradhan (2018) noted that firms increasing dividends generally see stock price gains, while reductions or no dividends lead to declines. Overall, recent research highlights dividends' varied influence on share prices, depending on market conditions and regulatory frameworks. Some scholars argue dividends do not significantly affect share prices, while others find a positive association. The study by Friend and Puckett (1964) showed mixed results based on industry growth outlook.

Emerging markets like Nepal add complexity due to financial constraints, limited investment options, and fewer dividend-paying companies. Research in Nepal, such as by Adhikari (2014) and Baral and Pradhan (2018), highlights dividends' importance but indicates a need for further study. This study explores the impact of cash, dual and stock dividends on share prices in emerging markets.

RESEARCH METHODOLOGY

Data and Sample

This study is based on the positivist paradigm, the research provides empirical, generalizable, and replicable findings that contribute to the broader understanding of corporate finance in emerging markets. The Nepal Stock Exchange Ltd. lists 218 companies (NEPSE), of which study focus is on commercial banks and there are 20 commercial banks as of mid-July 2023. For the study purpose, eleven years selected commercial banks' data are included from 2012/13 to 2022/23. All types of dividend information are collected from banks such as cash dividend, stock dividend, dual dividend and no dividend over the study period. The study period of 2012/13 to 2022/23 is chosen to encapsulate a decade of significant regulatory evolution under Basel III, the transition through varied interest rate cycles, and the unique dividend signaling environment created by the COVID-19 global pandemic. This timeframe ensures that the empirical results reflect the contemporary operational and regulatory realities of financial institutions. The reason for choosing 11 years is to have a large number of firms in the sample with required information and that one economic cycle is finished in 5-7 years (Rafique, 2012). The motive behind selecting the banking sector is that they have a long dividend payment history in Nepal as compared to their non-banking counterparts (Rana, 2022). So, this study uses panel data from NEPSE publications and annual reports of the listed commercial banks is retrieved and analyzed for the aim of the study.

Variables and their Operationalization

Variables used in study are closing year-end price per share as dependent variable, while dividend pay-out is main independent variable (calculated as dummy variable). It is a categorical variable which is coded as 0 for cash dividend, 1 for stock dividend and 2 for dual dividend payout. Positive impacts of dividends on the share price of firms have been identified by Asadi (2013),

Joshi (2012), and Oliver et al. (2016). However, Baskin (1989) discovered an opposing correlation between stock prices and dividend payouts. Consequently, the expectation aligns with a positive relationship between share price and dividend distribution (i.e., $\beta 1 > 0$).

Control Variables

Control variables are Return on assets (ROA), Size of the firm, equity multiplier and Merger and acquisition. Size refers to firm size, measured as the natural logarithm of the total assets. Size has been controlled for large organizations since they have longer established history and mature than tiny ones, also, large firms have the ability to pay higher dividends Phornlaphatrachakorn and Khajit (2020). The expectation aligns with a positive relationship between share price and size of firm. (i.e., $\beta 2 > 0$).

For ROA (Return on Assets) a higher level of profit generated corresponds to an increased expectation of stock returns from investors, resulting in a positive valuation (Bhattarai, 2016). Hence, it is anticipated that ROA is notably and positively linked with share price (i.e., $\beta 3 > 0$).

Financial leverage is measured by Equity Multiplier (EM), companies that incorporate debt in their capital structure are referred to as leveraged, whereas those without debt are unleveraged (Dakua, 2019). According to Bahreini et al. (2013) leverage has a negative correlation to the stock price. This implies that if the companies increase leverage, then there will be a decline of the stock price, which is also supported by Cai and Zhang (2011). So, that leverage has a negative effect on stock price (i.e. $\beta 4 < 0$).

Merger and acquisition information is extracted from the financial information of the banks and is a categorical variable when the company goes on merger or acquisition noted as 1 otherwise 0. Study conducted by Mousa and Restum (2020) concluded that both target and acquirer have positive value from M&A. So, positive association between share price and merger and acquisition has been anticipated. (i.e., $\beta 5 > 0$).

In the context of financial firms, the Equity Multiplier and Return on Assets (ROA) are essential controls because they jointly capture the firm's risk-return profile and regulatory health. The Equity Multiplier acts as a proxy for financial leverage and capital adequacy; it accounts for how aggressively a firm scales its balance sheet with debt, which directly dictates whether it has the regulatory "room" to pay cash or must resort to stock dividends to

preserve capital. Meanwhile, ROA measures the fundamental earning power of the firm's core assets. By including both, the model isolates the effect of the dividend form from the confounding influences of the firm's operational efficiency and its structural risk, ensuring that any observed change in share price is not merely a reaction to the bank's underlying solvency or profitability.

Conceptual Framework

This study examines the impact of cash, dual and stock dividends on share prices in emerging markets following the signaling theory. So, its conceptual framework has been presented below in figure 1.

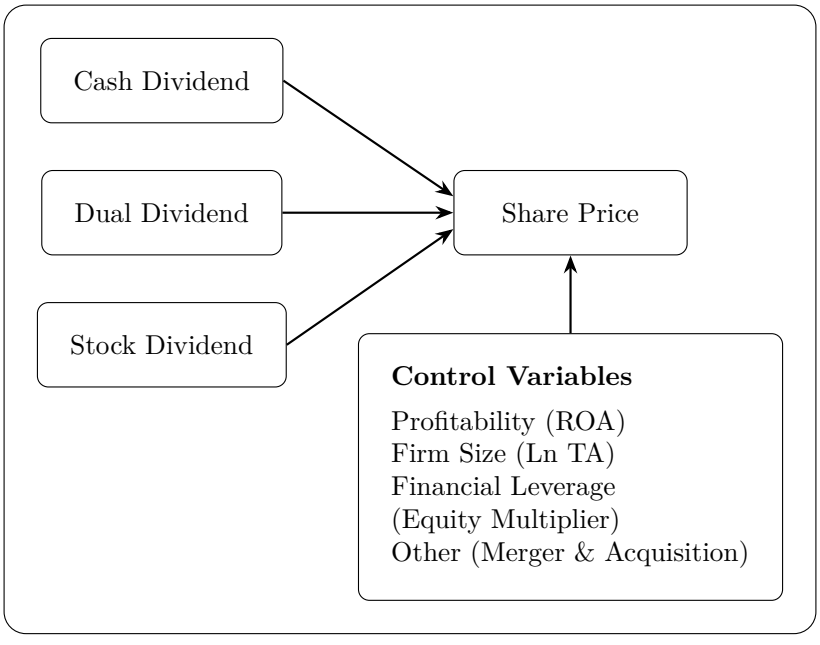

Figure 1: Conceptual framework (showing independent and dependent variables with control variables.)

Model Specification

This study uses methodology used by Baskin (1989) from the US and Hussainey et al. (2011) from the UK. Multilevel dummy coding is used to capture more nuanced representation of categorical variables leading to richer analysis and interpretation. Research shows that multi-level dummy coding can enhance the statistical power of a model (Gelman & Hill, 2007). Several studies

in finance and economics support the use of multi-level dummy coding. For instance, Hardy (1993) demonstrated that a more complex coding scheme led to more robust findings in their analysis. This precedent reinforces the validity of this approach. Thus, following regression equation is formed:

$$P_{i,t} = \beta_0 + \beta_1 DP_{i,t} + \beta_2 S_{i,t} + \beta_3 ROA_{i,t} + \beta_4 EM_{i,t} + \beta_5 M\&A_{i,t} + \varepsilon_{i,t}$$

Where, $P_{i,t}$ = Market closing price of stock, measured as closing value of year end price of stock, of the ith firm at time t;

$DP_{i,t}$= Dividend payment measured as a dummy variable, when the company pays cash dividend = 0, stock dividend = 1, dual dividend = 2, of the ith firm at time t.

$S_{i,t}$= Size measured as natural logarithm of total assets of the ith firm at time t; $ROA_{i,t}$= Return on assets, measured as net income/ total assets of the ith firm at time t; $EM_{i,t}$= Equity multiplier, measured as total assets/ total equity of the ith firm at time t; $M\&A_{i,t}$= Merger and acquisition, measured as a dummy variable, when the company goes on merger or acquisition noted as 1 otherwise 0, of the ith firm at time t; β_0= The intercept of the regression line, $\beta_1, \beta_2, \beta_3, \beta_4$= The slope which represents the degree with which share price per share changes as the independent variable changes by one unit variable, and $\varepsilon_{i,t}$= Error term.

Research Hypothesis

The way a company distributes dividends (known as the dividend payout) holds a significant influence in the value of the business. According to Bhattacharya (1979), stock dividends are used by companies as a signaling tool to convey positive information to the market about the firm's future earnings potential. By issuing stock dividends, companies indicate strong financial health without depleting cash reserves, suggesting confidence in future growth prospects. Al-Malkawi and Bhatti (2021) examine the role of stock dividends in creating shareholder value. Their findings suggest that stock dividends, when paired with stable financial performance, result in increased shareholder wealth due to long-term appreciation in stock prices. Jiang and Ma (2022) suggest that stock dividends positively affect investor sentiment, particularly in emerging markets. They argue that these dividends are viewed as a commitment by the firm to future growth and stability, enhancing investor confidence.

Based on the above discussion and guided by signaling theory in the Nepalese context hypothesis is formulated as:

H_1: Dual dividend payout has a significant positive effect on share price in comparison to cash and stock dividends in the Nepalese banking sector.

Methods of Analysis

This study used financial reports available from the NEPSE and for cross validation of data individual company's financial statements are also referred. Analysis has been done using fixed model effects on the study various: firms paying only cash dividends; firms paying both cash and stock dividends in the same fiscal year; and firms paying only stock dividends.

RESULTS

Normality Test

Shapiro wilk test is conducted for normality test and the result is significant, which indicates the dependent variable is not normally distributed (Ghasemi & Zahediasl, 2012). Overall, the descriptive statistics provide a summary of the central tendency, variability, and range of values for each variable in the dataset. Descriptive Statistics is given in Table 1 below.

Table 1: Descriptive Statistics

Table 1 reports the descriptive statistics of all variables employed in the empirical analysis. Specifically, it presents the number of observations, minimum and maximum values, mean, and standard deviation. These statistics provide preliminary insights into the distribution, central tendency, and variability of the sample data.

Variables	N	Minimum	Maximum	Mean	Std. Deviation
P	284	137	3600	530.77	499.20
DP	284	0	3	1.74	0.79
S	284	20.97	26.99	25.23	0.82
ROA	284	0.001	0.11	0.01	0.01
EM	284	-338.68	41.18	8.21	20.93
M&A	284	0	1	0.10	0.30

The study's descriptive statistics reveal key insights about the variables analyzed. Stock prices averaged Rs. 530.772, yet the remarkably high standard deviation of 499.19 reveals intense market volatility and a wide valuation gap between different banks. With prices stretching from a minimum of Rs.

137 to a maximum of Rs. 3,600, the data suggests that the Nepalese market is highly sensitive to firm-specific events and dividend announcements, creating a fertile ground for testing signaling theories. In contrast to the volatile stock prices, the Return on Assets (ROA) remains exceptionally stable, with a mean of 1.5% (0.015) and a negligible standard deviation of 0.009. This stability indicates that the core earning power of Nepalese banks is consistent. Consequently, any significant fluctuations in share price are likely driven by payout policy signaling rather than sudden shifts in fundamental asset efficiency. Dividend payouts ranged from cash dividend (0) to dual dividend (2) confirms that the sample captures the full spectrum of payout strategies available in the Nepalese market. This variation is essential for the study, as it allows for a direct comparison of how the market revalues a firm when it moves from a single payout form to the more complex dual dividend structure. The mean Firm Size of 25.23 with a low standard deviation (0.823) suggests that the banks in the sample are relatively homogenous in terms of total assets. This stability ensures that size-related "noise" is minimized. The Equity Multiplier shows a mean of 8.206, indicating that Nepalese banks typically leverage their equity eightfold to fund their asset base. However, the extreme range, specifically the minimum value of -338.67, points toward the presence of highly distressed observations or "problem banks" with eroded equity. This high variability in leverage is a critical control, as it dictates whether a bank has the regulatory capital buffer to offer cash or must rely on stock/dual dividends to meet NRB (Nepal Rastra Bank) capital requirements. Furthermore, the inclusion of Merger and Acquisition (M&A) activity (ranging from 0 to 1) accounts for the significant consolidation phase in the Nepalese banking industry, which often serves as a primary disruptor of traditional dividend patterns.

Multicollinearity Test

Multicollinearity evaluates correlations among independent variables, with high levels potentially distorting regression results (Field, 2009). Correlations above 0.90 may indicate multicollinearity (Hair et al., 2010), requiring variables not to be perfectly correlated (Pituch & Stevens, 2015). The analysis reveals weak but significant positive correlations between ROA and share price, size and dividend payout, and merger and acquisition with size. Conversely, merger and acquisition shows a weak but significant negative correlation with stock price and dividend payout. Detailed findings are presented in Table 2.

Table 2: Correlation Matrix

*The Table 2 presents the pairwise correlation coefficients among P, DP, S, ROA, EM, and M&A. These correlations provide preliminary insights into the strength and direction of the linear relationships between the variables and help assess potential multicollinearity issues prior to regression analysis. Where *$p < 0.05$ **$p < 0.01$*

Variables	P	DP	S	ROA	EM	M&A
P	1					
DP	0.102	1				
S	–0.031	0.117*	1			
ROA	0.281**	0.066	–0.048	1		
EM	0.055	0.114	0.013	–0.016	1	
M&A	–0.145*	–0.148*	0.216**	–0.106	0.018	1

Analysis of Data

The data are analyzed using SPSS software. Basic relationships between variables were explored. The impact of different dividend payout patrons in stock price variation and comparison of each style of payout and change on stock price and results are presented in tables. For heteroscedasticity test Brush- Pagan test is done and the anova result supports the null hypothesis, so there is no heteroscedasticity problem in data. After the result of the Brush- Pagan test, the Hausman test is conducted for a fixed or random effect model and the result of the Hausman test statistics (26153849.76) far exceeds the critical value (16.92), so the null hypothesis has been rejected, that the random effect model is appropriate. This strongly indicates that the fixed effect model should be preferred for this data. Model fit results are presented in Table 3.

Table 3: Model Summary

Table 3 presents the model summary of the regression analysis. The table reports the R Square and Adjusted R Square values for the estimated model. The R Square indicates the proportion of variation in the dependent variable explained by the independent variables included in the model. The Adjusted R Square provides a refined measure by adjusting for the number of predictors, offering a more reliable estimate of the model's explanatory power.

Model	R Square	Adjusted R Square
Pooled OLS	0.138	0.116
Fixed Effect Model	0.571	0.51

From the result of Table 3, the results indicate a superior fit for the Fixed Effect Model, with the Adjusted R Square increasing from 0.116 in the Pooled OLS to 0.510. This substantial increase suggests that unobserved firm-specific characteristics play a vital role in determining share prices. Relying on Pooled OLS would have resulted in biased estimates by failing to account for the unique, time-invariant attributes of the financial firms in the sample, this suggest the fixed effect model is appropriate. Regression results of the fixed effect model are presented below in Table 4.

Table 4: Regression Results

Table 4 presents the regression results of the fixed effects model with Market Price per Share (MPS) as the dependent variable, compared to cash payout. The model examines the impact of Stock Dividend, Dual Dividend, Size, ROA, EM, and M&A on MPS. The table reports the estimated beta coefficients, standard errors, t−statistics, and corresponding p−values for each explanatory variable. The beta coefficients indicate the direction and magnitude of the relationship between the independent variables and MPS, while the t-values and p-values assess the statistical significance of these effects. The number of observations and R-squared value are also reported to evaluate the explanatory power and overall fit of the model within the fixed effects framework. (**) implies Significance at level of 1%.

Predictor Variables	Fixed Effect Model			
	Beta	SE Beta	t	p
Stock Dividend	313.989**	110.586	2.839	0.005
Dual Dividend	350.304**	78.243	4.477	0.000
Size	-144.468**	32.526	-4.442	0.000
ROA	3578.632	2738.528	1.307	0.193
EM	1.098	1.044	1.051	0.294
MA	-90.608	125.515	-0.722	0.471
Observation	284			
R- Squared	0.571			

From the Table 4 the fixed effect model shows all the dividend payouts are significant to share price. And all three dividend payouts, cash dividend, stock dividend and dual dividend have significant results, showing positive association with stock price. And control variable size also has significant results and has a negative effect on the price of stock, and all other control variables are found insignificant.

Based on the results, hypothesis H_1 is supported by a significant $p-$value

of 0.000 and beta coefficient of 350.304 compared to cash dividend. For control variables ROA, Equity Multiplier (EM), and Merger and acquisition (M&A) $p-$value are not significant and don't show any relation with share price, while size variable is significant showing negative effect on share price with coefficient of (-144.468).

DISCUSSION AND CONCLUSION

This study examined how stock prices are influenced by dividend paying patterns of the Nepalese commercial banks. The categorizing dividend paying pattern as cash dividend, cash and stock (dual) dividend, and stock dividend for the year have been considered. While the control variables are income (return on assets), firm size, leverage (equity multiplier) and merger and acquisition.

Discussions

There are two distinct perspectives on the relationship between dividend payouts and stock prices. Those who believe that cash dividends play a crucial role in influencing stock prices contend that shareholders prioritize immediate returns over future gains. On the other hand, stock dividend supporters argue that the distribution of dividends serves as an indicator of the company's future earning potential.

Developed Economies' Perspective of Dividend Payout

(Nguyen et al., 2019) identify a negative relationship between dividend payout ratios and share price volatility in Vietnam, consistent with findings by Hussainey et al. (2011) and Nazir et al. (2010) and supported by the Signaling and Bird-in-Hand theories. This negative association is corroborated by Nazir et al. (2014) and Shah and Noreen (2016). However, studies by Akber and Baig (2010) and Joshi (2012), and others report a positive relationship, showing dividends significantly enhance share prices. These findings contradict Miller and Modigliani (1961) assertion that dividend policy does not impact shareholder wealth.

Nepalese Perspective of Dividend Payout

The result from the study reveals that the Nepalese market is not emphasizing on cash dividend, dual dividend is exerting maximum positive influence on

share price compared to all other types and cash dividend least preferred choice of dividend. The outcome is attributed to the distinctive attributes of the Nepalese market, where there is considerable investor engagement. There has been an increasing level of investor interest in the equities market of Nepal (Upadhyay & Tripathi, 2016), hence equity shares hold a crucial position in capital markets in Nepal (Karki et al., 2024; Upadhyay & Tripathi, 2016). There are also over-subscription perceptions among Nepalese investors (Karki et al., 2024).

Cash Dividend Payout

In the Nepalese market, cash dividend payouts has significant positive impact but less intensity on share prices (0.003 significance), suggesting a preference for retained earnings over cash dividends. This aligns with Denis and Osobov (2008) findings, highlighting the benefits of retained earnings for firms with growth opportunities. Lintner's model also explains how unsustainable dividend increases or investor expectations for reinvested earnings can negatively influence stock prices. Grullon et al. (2002) suggest dividends may signal limited reinvestment opportunities, affecting share prices.

Both Cash and Stock Dividend Payout

Result shows the preference of dual dividend in the Nepalese market in comparison to cash payout with higher positive coefficient of 347.458. Similar results are supported by Azhagaiah and Priya (2008), mixed dividend payouts offer a balance between flexibility and stability. This approach allows companies to provide regular dividends, which can be reassuring to investors, while also retaining the ability to issue special dividends during periods of excess profitability. This balance can enhance investor confidence and attract a diverse investor base. Research by Farre-Mensa et al. (2025) suggests that mixed dividend payouts help mitigate agency conflicts between managers and shareholders.

Stock Dividend Payout

Stock dividend has significant positive influence on share price in comparison to cash dividend payout. Which is also supported by the study of Kumar and Sinha (2024) which states issuing stock dividends enables firms to maintain liquidity and strengthen their balance sheets without compromising shareholder value. Research by Grullon et al. (2002) indicates that stock dividends often signal strong future growth prospects and financial health, which lead

to an increase in stock prices. This signaling effect can be particularly potent in markets where investors view stock dividends as a sign of management's confidence in the company's future performance.

Control variables

Result of the control variable revealed an insignificant impact on stock price. Three control variables (ROA, EM and M&A) are insignificant while regressed with stock price which indicates there is no association between share price and these variables in the Nepalese market. Whereas there is a negative significant relationship between size and share price with the coefficient of -147.651. The study finds that profitability has an insignificant impact on share price per share in Nepal, aligning with Bhattarai (2016). This may result from low returns on assets among Nepalese commercial banks, which fail to signal positive prospects to investors. If high ROA stems from short-term gains or non-recurring income, investors might view it as unsustainable and discount stock prices, anticipating future declines Fairfield and Yohn (2001). However, studies by Ariwinata and Badjra (2021) in Indonesia and Huang et al. (2009) in Taiwan demonstrate significant relationships between profitability and share price, highlighting regional differences in investor perceptions.

The analysis reveals that the equity multiplier has an insignificant impact on share price, consistent with Ameen et al. (2021), who found leverage does not significantly affect dividend decisions in non-financial firms. Similarly, Nguyen and Nguyen (2022) observed an insignificant relationship between leverage and share price volatility in emerging markets. Lee and Kim (2023) further found that leverage does not significantly impact firm valuation in dividend-paying companies, reinforcing the observed lack of influence on stock prices.

The control variable, merger and acquisition (M&A) activity, shows insignificant results in relation to share price, consistent with findings from Smith and Johnson (2022), who found that M&A activities do not significantly affect dividend payouts in the manufacturing sector. Similarly, Wang and Lee (2023) reported that M&A announcements had little effect on the long-term share price performance of acquiring firms in the pharmaceutical industry. Chen and Zhao (2023) also found M&As did not significantly influence stock price volatility in the tech sector. Kumar and Singh (2024) concluded that M&A activities did not significantly impact share price growth or dividend payouts in the energy sector. M&As often have mixed outcomes, with some

failing to generate expected synergies or financial benefits. If investors doubt the success of an M&A or if past M&As have yielded uncertain results, they may refrain from significantly adjusting stock prices (King et al., 2004).

The findings of this study support hypothesis H_1, revealing a significant positive impact of dual dividends on stock prices compared to cash dividends. In the Nepalese market, cash dividends are seen as a weak signal of company growth and prosperity, while dual dividends, which combine cash and stock, are viewed more favorably. This may reflect investor preferences for growth over immediate payouts. Furthermore, stock dividends alone are also interpreted positively, signaling potential future growth.

Several studies suggest that contemporary investors increasingly prioritize capital gains and earnings reinvestment rather than immediate income from dividends. Baker and Weigand (2015) argue that investors in growth-oriented markets are more inclined to support companies reinvesting earnings for future expansion, which aligns with the findings of this study. Modern investor demographics, especially younger and institutional investors, tend to have higher risk tolerance and a preference for capital appreciation, a shift that explains the lack of support for cash dividends in the Nepalese market. As Lintner and McGowan (2014) note, younger investors particularly favor capital gains over dividends.

The preference for mixed and stock dividends over cash dividends indicates that Nepalese investors are more focused on growth than immediate income. This preference reflects the characteristics of investors with longer investment horizons and a higher risk tolerance. Moreover, the relatively young and underdeveloped Nepalese stock market may contribute to less emphasis on stable dividend payouts and a greater focus on growth opportunities. Mitton (2004) highlights that emerging markets often have less-developed infrastructure and regulatory frameworks, which may discourage consistent dividend payouts.

Future Implications

This study explores the relationship between dividend payouts and share prices in Nepal's financial market, providing valuable insights for stakeholders. Institutional and individual investors can use these findings to make informed decisions, while companies can tailor dividend policies to align with market preferences. The research suggests that corporate managers prioritize mixed or stock dividends to enhance shareholder value (Sharma & Sinha, 2021). By analyzing market reactions to cash, mixed, and stock dividends, the study

highlights how different strategies are perceived in Nepal. It addresses knowledge gaps, supporting informed decision-making and promoting the growth and efficiency of Nepal's stock market.

Scope for Future Research

This study explores the relationship between dividend payouts and stock prices in Nepal, emphasizing the unique investor preferences in this market. It supports the dividend signaling theory, aligning with findings from Chavali and Nusratunnisa (2013) and Mrzygłód et al. (2021). Nepalese investors prefer dual dividends over cash dividends, significantly influencing stock prices—a trend consistent with global studies (Srinivasan, 2012; Zakaria et al., 2012). The research highlights distinctive market features, such as equity over-subscription and investor engagement (Karki et al., 2024), and examines variations in dividend patterns across countries and sectors (Duke et al., 2015). Statistical analysis shows cash dividends has less effect on share prices, while dual dividends have a higher positive impact, challenging traditional hypotheses about dividend signaling. This study offers insights into the cultural and economic factors shaping investor behavior in Nepal, providing strategic guidance for companies on dividend policies.

Critique of the Study

This research paves the way for further investigation in several avenues. Initially, it proposes examining dividend payouts from both investor and institutional perspectives. Secondly, expanding the study to encompass all sectors and industries could enhance the sample size and depth of analysis. Thirdly, gathering primary data could offer insights into individuals' self-reported experiences, potentially influencing their emotions, actions, and opinions (Podsakoff et al., 2003). Lastly, it is limited by its focus on specific market conditions and time frames.

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Annex 1. List of Sample Banks

Table A1: List of Banks used for the study

S. No.	Code	Full Name
1	NICA	NIC Asia Bank Ltd.
2	CCBL	Century Commercial Bank Limited
3	PRVU	Prabhu Bank Limited
4	JBNL	Janata Bank Nepal Limited
5	GBIME	Global IME Bank Limited
6	BOK	Bank of Kathmandu Limited
7	MEGA	Mega Bank Nepal Limited
8	NIB	Nepal Investment Bank Limited
9	NIMB	Nepal Investment Mega Bank Limited
10	NBB	Nepal Bangladesh Bank Limited
11	NABIL	Nabil Bank Limited
12	NCCB	Nepal Credit and Commerce Bank Limited
13	KBL	Kumari Bank Limited
14	CBL	Civil Bank Limited
15	HBL	Himalayan Bank Limited
16	LBL	Laxmi Bank Limited
17	LSL	Laxmi Sunrise Bank Limited
18	SRBL	Sunrise Bank Limited
19	ADBL	Agricultural Development Bank Limited
20	NBL	Nepal Bank Limited
21	CZBIL	Citizens Bank International Limited
22	EBL	Everest Bank Limited
23	MBL	Machhapuchchhre Bank Limited
24	SBI	Nepal SBI Bank Limited
25	NMB	NMB Bank Limited
26	PCBL	Prime Commercial Bank Limited
27	SANIMA	Sanima Bank Limited
28	SBL	Siddhartha Bank Limited
29	SCB	Standard Chartered Bank Nepal Limited