

The Impact of Profitability, Leverage and Dividend on the Share Price of Food and Beverage Sector in Malaysia

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Abstract

Purpose: This study is attempted to identify how profitability, leverage and dividend will affect the share price in food and beverage sector in Malaysia.

Design/methodology/approach: This study measure by ten years of study period started from 2009 until 2018 for thirty selected companies in Bursa Malaysia.

Findings: The finding shows that return on assets, dividend per share and earnings per share has a significant towards the share price. Whereas, debt ratio, debt equity ratio and dividend pay-out have no significant impact towards the share price.

Research limitations/implications: This study limited to the food and beverage sector in Bursa Malaysia which available for 10 years.

Practical implications: Financial specialist, potential investors, top management and future researchers may benefit from this study.

Originality/value: Provide readers a comprehensive view and understanding of the variation in financial ratios and performance of the companies.

Keywords: Profitability, Leverage, Dividend, Share Price

Introduction

Over the last couple of years, stock market has attracted many investors or financial institutions in an investment field. Stock market is one of the investments that gives a dividend or return to their investors. Every dividend is giving according to the market performance. Investors will receive high return of dividend which in line with the investor's risk profile. In order to gain the return in the future, an investors or financial institutions will have a research department to make an analysis regarding the stock price of the market to be valued.

Companies that involved in stock market will stated the price for their shares. Sometimes, share price will face a trend of rising and falling in the stock market. According to the (Nautiyal & Kavidayal, 2018), the changes in stock price is explained by a reflection of the company's performance, accompanied by favourably real economy. Besides, other indicators also could affect the movement of share price by broadly investigating on the stock market. Market price is one of the most important factors that affect investor's decision in an investment. The price is depending on many factors such as earning per share, dividend per share, size of the firm, dividend yield and others.

There is different approach to measure share price. According to (Sharma, 2011), fundamental approach for the share price are based on the financial, environmental and managerial factors.

Technical approach helps in a past trend in predicting the share price movement. In order to determine the share price, it is a paradoxical task because the share price is sensitive towards various internal and external factors. Many shareholder and manager are acute in factors that effecting the share price (Arsalan et. al, 2016). They mentioned that share price reflects everything that know all about company and it can be determined according to fundamental analysis. As for technical analysis, it used historical data for forecasting the future stock price.

Problem statement

Based on The Star Malaysia, an article written by Kana on 14 March 2018, Dutch Lady and F&N companies have experienced a high share price but the company's net profit is declining. Dutch Lady shows a falling of 21 percent which is below than the bottom line of global dairy prices and ringgit was weakened. Besides that, F&N also facing the same problem where the share price has gone up to almost 15 percent but fell 16 percent of net profit. So, from this researcher can see that F&B companies perform well in the market. Hence, this study is attempts to investigate which determinants will influence the movement of share price on the companies. It is also to give a better understanding on the factors that cause the share price to move.

Research objectives

The objectives of this study are to study the significant impacts between profitability, leverage and dividend with the movement of share price.

Literature Review

Modigliani-Miller theory on dividend policy explained the irrelevant concept of dividend, whereby it stated that dividend policy of a company does not affect the company's share price or else the shareholders' wealth. MM theory developed by on some assumptions, in facts no doubt the dividend policy is irrelevant since it lies on the assumptions of no tax, perfect capital market, investors behave rationally and many more. The unrealistic assumptions of perfect capital market for example highlight that MM theory is just irrelevant such in real world, they are imperfect competition. Hence, this theory is criticized and was proved that dividends does have the effect on the share price.

Share price is a price of a type of stock that appear in stock market because of the investor's action when purchasing the stock securities or also known as market price (Purnamasari, 2015). The price of a stock will increase and decrease due to number of factors which include changes in the economy, industries, political and many more. The stock price can also be affected by the supply and demand. If the demand of the good or services is high, the price also will increase according to the demand. Stock price is one of the important information used by the investors before they proceed with an investment because it can help it predicting the profit that will be gain by analysis of the company (Djazuli, 2017).

Return on asset is defined as the proportion of annual net income of the average total assets during the financial year. It is known as ratio profitability and in order to determine the share price, (AlQaisi et. al, 2016) have analyzed and come out with a result that there is an effect between ROA and market stock price in insurance companies listed on ASE. They studied on twenty insurance companies for five years (2011 to 2015) and used simple and multiple linear regression. Menaje (2012) intended to examine the effect of financial ratios on stock prices of public listed firms in Philippine by using return on assets and earning per share on stock price. The study covered 50 public listed companies in Philippine, the financial reports extracted from 2009 and were collected from OSIRIS online database. The findings show that ROA is negatively correlated with share price while EPS found to has a strong positive impact on share

price. Sharma (2011) also interpreted that EPS has a significant impact on the share price and indicated EPS is being the strongest determinants in share price.

For leverage ratio, Mulyono (2015), found the debt to equity ratio and price earnings ratio has a negative impact on the stock price. He investigating the 139 manufacturing companies in Indonesia Stock Exchange (ISX). The other variables of return on asset and price to book value have a positive influence on stock price. Linkages between financial ratios and stock price was strong as they affected by each other's. In contrast with Wijaya & Yustina (2019), they proved that debt to equity ratio is insignificant in determining the impact on share price by studying banking companies listed in Indonesia Stock Exchange (ISX). Sharif et. al (2015) used debt ratio as proxy for leverage ratio. They found that debt ratio is insignificant however has inverse relationship with share price for Bahrain companies.

A study has been done Mathew et. al (2014) to analyze the dividend payment on the share price of Nigerian companies. Researchers used panel least square and found that dividend per share has a positive impact on the share, while dividend yield is insignificant towards share price. However, Sharma (2011) has mentioned that DPS have strongest determinants and has significant impact on the movement of share price.

Theoretical Framework and Hypothesis Development

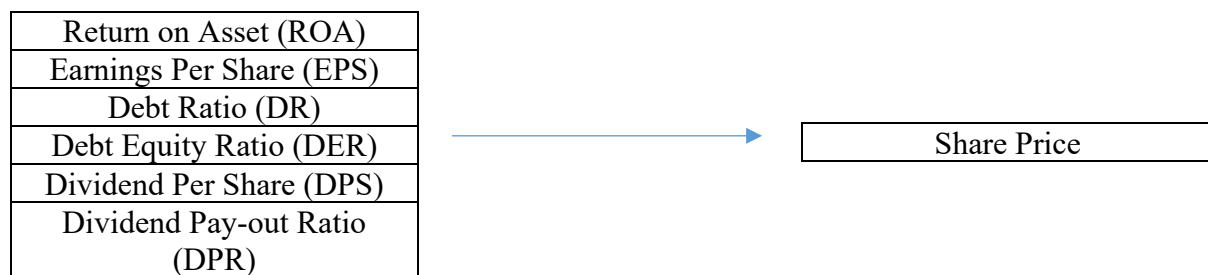


Figure 1: Theoretical Framework

- H₀: There is no significant impact between ROA, EPS, Dr, DER, DPS and DPR on share price.
 H₁: There is significant impact between ROA, EPS, Dr, DER, DPS and DPR on share price.

Method

The data for this study has been taken from Bursa Malaysia and Thompson Reuters. There are thirty F&B's companies listed in Bursa Malaysia. The data was taken for ten years from the year 2008 until 2018. This study uses an IBM SPSS version 23 to analyze the data and multiple regression analysis.

$$SP_t = \alpha + \beta_1 ROA + \beta_2 EPS + \beta_3 DR + \beta_4 DER + \beta_5 DPS + \beta_5 DPR + \varepsilon$$

Where,

SP_t = Dependent variable which is share price

α = Constant number of equation

β = Regression coefficient

ROA = Return on Asset, profitability ratio

EPS = Earning per Share, profitability ratio

DR = Debt ratio, leverage ratio

DER = Debt Equity ratio, leverage ratio

DPS = Dividend per Share
DPR = Dividend Pay-out ratio
 ε = Residual term

Findings

Regression Analysis

Table 1: Pooled Ordinary Least Square (POLS) Test

Variables	Share price		
	Coefficient	Standard error	P> z
ROA	-11.699	2.549	0.000
EPS	12.653	2.159	0.000
DR	-0.229	1.182	0.847
DER	-0.049	0.429	0.909
DPS	19.435	2.440	0.000
DPR	-0.185	0.516	0.721
c	0.106		
R2		0.745	
Adjusted r2		0.739	
F-statistic		115.558	
Prob(F-statistic)		0.0000	

R-square value of 74.5% indicates that independent variables can explain the dependent variable. The remaining of 25.5% in share price is explained by the other possible variables which are not included in the study. As for the significant value, the model is strong and fit due to value below than 1% which indicates significant.

$$SP_t = 0.106 - 11.699 \text{ ROA} + 12.653 \text{ EPS} - 0.229 \text{ DR} - 0.049 \text{ DER} + 19.435 \text{ DPS} - 0.185 \text{ DPR} + \varepsilon$$

Based on above regression result, it shows that only ROA, EPS and DPS are significant, hence has the impacts on the share price. ROA has a negative significant impact with the share price whereby 1% increase in return on assets, the share price will decrease by 11.29%. For EPS, 1% increase in earnings per share, the share price will also increase by 12.65%. Both results (ROA and EPS) are in line with Menaje (2012). At first, this result might be contradicted with a norm whereby usually a high profitability will lead to better share price. This simply means that the growth in assets will not necessarily lead to increase in net income. And if net income remains unchanged but assets increase, ROA decreases. On top of that, DPS also found to significant which 1% increase in dividend per share, share price will increase by 19.44%. Matthew et. al (2014) explained that high dividend earned by the investors will attract other investors as well, hence will increase its share price.

The other independent variables of debt ratio, debt equity ratio and dividend pay-out ratio are found to be insignificant on share price. Hence, any 1% increase in the variables, will not give any impact on the share price of the F&B companies. All the results are supported by previous authors Sharif et. al (2015), Wijaya & Yustina (2019) and Matthew et. al (2014) respectively.

Conclusion

This study focuses on the factors that give impacts on the share price of the companies in F&B for the period of 10 years, covered 30 companies. This study is analyzed by using multiple regression analysis, hence researcher found that ROA, EPS and DPS are the factors which gives significant impacts on the share price of the companies. To ensure a better result and finding, future researcher should enlarge the scope of study. Not just focus in one country, but broaden it into a large country such as Europe, Asia or emerging country. Besides that, future researcher can prolong the time period for 20 or 30 years of study, so that the data will be more precise. The data can be more reasonable and understandable. Future researcher can use variety of method. Not just using correlation and regression analysis, other methods also can use such as fixed random model, fixed effect analysis, generalized method of moments or others.

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