# DIVIDEND PAYOUT RATIO AND EARNINGS PER SHARE AS CORRELATES OF RETAINED EARNINGS IN NIGERIA BREWERIES PLC

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**ABSTRACT**

*This study examines how dividend payout ratio and earnings per share relates to the retained earnings of Nigeria Breweries Plc. Ex-post-facto design is the research design used. The study used the ordinary least square regression to analyze the secondary data collected from the company's financial reports between 2011 and 2019. The result shows that the dividend payout ratio and earnings per share did not have significant relationships with retained earnings, but the result is good. The relationship between earnings per share and retained earnings indicates that the degree of retention often rises as revenues grow. The study recommended that businesses should strike an acceptable balance between payout and retention ratios to ensure that expansion or diversification funds are available while at the same time maintaining a fair amount of earnings per share. The implication for practice is that corporate managers in the brewing and other related industries will make dividend policies that will encourage both expansion and shareholders' wealth maximization.*

Key words: Dividend payout ratio, Earnings per share, and Retained earnings

### 1.1 Background of The Study

Companies strive to generate economic gains for their shareholders and other stakeholders in the business world (Bull, 2013). Bull further declared that the conflict of interests between principal and agent could be reduced by resolving the differences in the way they avert risk in line with Adam's theory of agency. Revenue relationships also referred to as retained earnings or retained surplus refers to the portion of a company's profits that are retained instead of being paid to shareholders as a dividend for subsequent investment in the company's business or debt servicing (Chasan, 2012). The act of boosting the performance of a firm is corporate efficiency. Achieving a firm's corporate success creates financial benefits in the form of revenue and other favourable investment outcomes that maximize shareholders' wealth.

Retentions refer to earnings that are not paid out as dividends but are plough by directors for the future growth of their company (Chasan, 2012). Retained profits are traditionally reported in the statement of financial positions under shareholders' equity. Chasan declared that the cumulative retained profits (profits plus opening retained profits minus dividends paid out) are also related to periodically retained profits. Chasan concluded that there is always a disagreement over the amount of profits to be retained. Retained profits are oftentimes stated as a proportion traditionally referred to as the retention or the plough-back ratio. This ratio is also referred to as a company's retention rate (Orwel, 2010). The company's shareholders will reason differently if the directors want a higher retention ratio for managers. The plough back ratio will become more unstable if the directors consider their shareholdings and finances as being more important. A lot of work has been done to determine how the dividend payout ratio and earnings per share apply to retained earnings in Western and other countries, but not many pieces of research in this research field have however been performed in the developing market of Nigeria Breweries. Therefore, this analysis is meant to fill this void.

### 1.2 Statement of the problem

The primary aim of each company or entity is to maximize profit, maximizing the shareholders' wealth. Although the investor expects his investment to produce a profit, the goal behind any investment is to yield a return on it. The proportion of what is paid out of the retained earnings of an organization is usually a decision taken by the management of the entity. Shareholders would also desire a higher dividend yield, which will eventually become an incentive.

Unfortunately, in Nigeria Breweries Plc's financial results for the period between 2011 and 2019, the dividend payout ratio, earnings per share, and retained earnings showed fluctuating patterns that represent a challenge in their drive to maximize resources. This scenario suggests that Nigeria Breweries is struggling to achieve its shareholders' goals of optimizing wealth. It also implies that when a steady return on their investments can no longer be assured, shareholders might be forced to withdraw their investments from the firm. This research, therefore, explores how the dividend payout ratio and per-share earnings contribute to retained earnings. What kind of relationships do the dividend payout ratio and earnings per share have with retained earnings at Nigeria Breweries Plc?

### 1.3 Objectives of the study

The main objective of this study is to understand how the dividend payout ratio and the earnings per share influence the retained earnings of Nigeria Breweries Plc. The specific objectives of the study are as follows:

1. To examine how the dividend payout ratio affects the retained earnings of Nigerian Breweries Plc.
2. To examine how the earninngs per share affects the retained earnings of Nigerian Breweries Plc.

**1.4 Research Questions**

The following questions will be formulated to achieve the objectives of this study:

1. To what extent has the dividend payout ratio influenced the retained earnings of Nigerian Breweries Plc?
2. To what extent has the earnings per share influenced the retained earnings of Nigerian Breweries Plc?

**1.5 Research Hypotheses**

The following hypotheses listed in the null type are outlined in an attempt to address the research questions as described above:

$H_{01}$: There is no significant relationship between the dividend payout ratio and the retained earnings of Nigerian Breweries Plc.

$H_{02}$: There is no significant relationship between the earnings per share and the retained earnings of Nigerian Breweries Plc.

**1.6 Scope of the study**

This study focuses on Nigerian Breweries Plc's financial activities from 2011 to 2019. It includes all the dividend policies and investment decisions made to affect retained earnings by Nigeria Breweries Plc. The current research would not cover corporate entities that are not in the brewing industry. The only explanatory variables included in the analysis were the dividend payout ratio and earnings per share, whereas retained earnings constituted the only dependent variable. Therefore, the current research did not consider other expenditure and profitability ratios.

**1.7 Significance of the study**

To Nigerian Breweries Plc, the research as a whole is extremely important. The study will also be considered important to their business needs by financial experts, clients, and other stakeholders. In this field of science, academia and students may also find the study useful.

**1.8 The operational definition of key variables**

**18.1 Dividend payout ratio (D.P.R.)**

D.P.S. multiply by 100
EPS

**1.8.2 Earnings per share (EPS)**

Profit after tax
Total no. of ordinary shares in issue

**1.8.3 Retained Earnings (RE):** A portion of the shareholder's wealth that is not paid out is retained for future investments.

**2.1 The Conceptual framework**

The dividend policy is an annual compensation for a company's assets taken from after-tax earnings and given to shareholders. These payments are dictated by the type of dividend policy adopted by a company. The dividend payout and the retention ratios are, therefore, determined by the dividend policy. The company then repossesses the retention ratio as a source of finance and shareholders' wealth. The proportion of the dividend paid out according to Akinsulire (2014), is the ratio of dividends to retained profits. It reveals the extent to which net sales are paid to shareholders as dividends while a high proportion of the dividend paid out suggests that income has been liberally distributed to shareholders.

A low payout ratio according to Alfred (2007) is usually a function of a conservative delivery approach. However, in considering the share valuation framework, Simon (2009) believes that a share's value depends on the dividend paid to shareholders. The higher the dividend payout ratio, the more the stock becomes valuable to shareholders. Dividend policy is deciding on the size of the dividend payout and the total income paid as a dividend to shareholders. The policy of dividend payments is based on the answers to some fundamental questions. How much dividend can a corporation earn from its shareholders? How does a company's dividend policy influence retain profits? What would happen to retained earnings when annual dividend payments fluctuate? What is the relationship between the earnings per share and the retained earnings? The present analysis will be motivated by such philosophical issues.

**2.2 Theoretical framework**

There are some theories regarding the effect on retained earnings of dividend and investment ratios. These theories are grouped into two: the theories of irrelevance and relevance/supremacy.

**2. 2.1. Dividend Irrelevancy Theory**

This theory was put forward by Miller and Modigliani in 1961. They argued that the dividends payment declaration and the sum paid is not important to or does not impact or decide share prices. The authors argued that shareholders even in a world free from tax are indifferent to or not interested in dividends and capital gains, and what determines a firm's value is its assets' and investments' earning capacity (Akinsulire, 2014). Simply put, they concluded that a company's dividend policy does not determine the value of the company, but rather it is the company's earning capacity and its investment policy, that are primarily considered when valuing a firm.

**2.2.2 Dividend relevancy theory**

This theory was formulated by Gordon in 1959 and by Walter in 1963. They argued that dividend payments are essential and will influence share prices/firm value. Their argument was based on the fundamental share price theory (Akinsulire 2005; 2014), which states that a company's share price is determined by the size of dividend paid and the dividend growth rate expected by shareholders. They further argued that the dividend growth rate depends on how a company reinvests its capital and on how much profit is retained. They concluded that shareholders adopt a retention strategy that maximizes their stock values.

In real life, these results have more practical relevance than those of the theory of irrelevance, although they are not completely true. Several arguments exist to support the theory of dividend relevancy, but they are not considered for discussion in this paper. This study is based on the dividend relevancy theory.

**2.3 Empirical Review**

Studies on the relationships between dividend payout ratio, earnings per share, and retained earnings in the Nigeria Breweries sector is a relatively new field. Few studies have been conducted on this topic. These studies did not directly pitch the dividend payout ratio and earnings per share against retained earnings, despite attempts by some previous studies' to confirm whether there were any significant relationships between dividend and other investment-related variables. A rise in cash or stock dividend is associated with positive stock market returns (Nickolaos, Lenos, & Nikos, 2001). With cash dividends, this is due to information-signaling and agency cost effects. The data-signaling and optimum price-range trading impact on stock dividends are due to this. Consequently, researchers have attempted to study the relationship between the dividend policies of corporations and their relative stock prices that determine the wealth of shareholders. The debate on this issue persists, despite the availability of several pieces of literature and a wide range of formulated models (Tariq, Kharal, Abrar, Ahkam, & Khan, 2014 as cited in Fodio & Salisu, 2004). Adelagun (2000) and Mainoma (2001) present enormous evidence in Nigeria to buttress the rightists' theory of dividend. Ten banks quoted on the Nigerian Stock Exchange in one accounting period were used by Onodje (2009) to analyze the determinants of stock prices and their predictability in the Nigerian capital market. The price earnings ratio is the least significant determinant of the stock price, Onodje further asserted.

The explanatory variables were, therefore, not able to predict future stock prices stably. Alayemi (2013) used secondary data to examine the relationship between the payout of dividends and the market price of shares in some selected food and beverage companies in Nigeria for five years (i.e. 2005 to 2009). Their study showed a negative association between share price and profitability but share price positively correlated with dividend payments. Abdullah (2014) used the five years' Dhaka Stock Exchange data collected from 30 listed bank, to study the relationship between the dividend policy and stock market returns of private commercial banks in Bangladesh. The study revealed an enormous adverse relationship between the yield of dividends and stock prices. The earnings retained, on the other hand, has a non-significant negative relationship with stock prices. The overall results indicate that the dividend policy has an enormous positive impact on stock prices.

It is not easy to make a distinction between fluctuations in stock price and positive details on the ratio of dividend paid out and earnings attributed to each share. Bali (2009 as cited in Onodje, 2009) studied the significance of maximum positive returns in cross-sectional stock pricing, employing a cross-sectional group of stocks and regression estimates. An adverse and significant association between the highest daily return and estimated stock returns were revealed by the study. Hunjra, Ijaz, Chani, Hassan and Mustafa (2014) in their study of four non-financial sectors in Pakistan Stock Exchange, pitched investment and profitability ratios against stock prices and discovered that the dividend yield was negatively correlated with the stock price but, the dividend payout ratio earnings per share, profit-after-tax and return on equity were all positively associated with the stock price.

The effect of paying a dividend on share prices in Nigeria was studied by Ordu, Enekwe, and Anyanwaokoro (2014), using a sample of seventeen quoted firms from 2003 to 2011. The authors adopted the ex-post facto research design and the ordinary least square estimation techniques. It was discovered that the payment of dividends and the proportion of the amount paid out as dividends positively correlated with the share prices of companies listed companies in Nigeria. The amount of dividend yield does not, however directly influence those firms' stock price per share. A ten-year study was carried out by Azhagaiah and Sabari (2008) to know how dividend policy influence shareholders' in three types of Chemical Companies listed on the Indian Stock Exchange.

Varieties of regression methods were used in the study to reveal that what fundamentally influences the wealth of shareholders is an increase in revenue and profit margin, decisions to incur capital expenditure, types of capital structures, and capital-related costs. They concluded that the policy of dividend substantially influences the wealth of shareholders in the selected companies, but, in inorganic chemical companies, the proportion of dividends paid did not affect shareholders' wealth.

Fodio and Salusi (2004) sampled and studied 11 listed banks in Nigeria from 1998 to 2002 as an attempt to examine how dividend policy affects bank valuation in Nigeria. Fodio and Salusi used the Ordinary Least Square techniques and discovered that bank valuation and proportion of dividend paid had a strong positive correlation coefficient of .72. Dividend relevance theory was supported by their analysis as they found different groups of investors would be attracted when the proportion of paid dividends increased. Arslan and Zaman (2014) studied how dividend yield and price-earnings ratio affect the stock returns of one hundred and eleven listed non-financial companies in Pakistan from 1998 to 2009. Their study shows that companies' stock prices are substantially influenced by the price-to-earnings ratio and company size but, are negatively affected by the ratio of dividend yield. This negative influence means that larger firms have more investment opportunities than smaller ones and this makes them pay little dividends to stockholders. The study of Tariq et al. (2014) was informed by the enigma of dividend relative value and earnings retained. They studied sixty-six listed non-financial companies in Pakistan that paid dividends from 2007 to 2010 and found from their regression analysis that dividends have more impact on the stock price than on retained earnings, although the relationship between dividends and earnings retained is positive. But, the research carried out by Enekwe, Nweze, and Agu (2015) to examine the association between the ratio of the dividend paid out and listed Nigerian cement companies' performance revealed a significant relationship between the ratio of dividend paid out and return on capital employed and return on assets, but no significant relationship between the ratio of dividend paid out and return on equity was revealed by the study.

## 3.1 Research Methodology

A research design known as ex-post-facto was used to target all Nigeria Breweries branches across Nigeria. All the branches have standard features in terms of the accounting system, financial reporting format, and auditing format. The data used in carrying out the analysis were obtained from the company's annual reports. This report covers the years 2011-2019. Determination of the sample size is not required as the study of a specific entity was involved. The data were limited to 2011-2019 because the international financial reporting standard started in 2012, but section one stated that it should be backdated to 2011. The research adopted the ordinary least square regression technique because it is the most suitable statistical method for calculating the linear relationship of the type of variables involved in the analysis. Besides, the best linear unbiased estimator is known to be the ordinary least square.

### 3.1.1 Model specification

The study model is stated as follows:

Retained earnings = $B_0$ + $B_1$ dividend payout ratio + $B_2$ earnings per share + e
$REN = B_0 + B_1DPR + B_2EPS + e$
Where:
REN = Retained Earnings
DPR = Dividend payout ratio
EPS = Earnings-per-Share
E = Error Term
$B_0$ –$B_2$ = Coefficients

### 3.1.2 Limitations of this study

The key drawback of this study is the smallness of the sample size and the non-inclusion of other dividend and other investment variables. Subsequent research in this area should be extended to other non-breweries industries to have unbiased results. This study's findings may be limited to Nigeria, a developing economy as results may differ from developed, developing, and underdeveloped economies because of differences in economic status, lifestyle, and culture.

### 4.1 Presentation of data

This section presents the data compiled from the financial reports of Nigeria Breweries plc for the period 2011 to 2019.

Table 1

| DATE | DPR | EPS | REN | DATE | DPR | LNEPS | LNREN |
|---|---|---|---|---|---|---|---|
| 2011 | 0.246 | 5.08 | 69860887 | 2011 | 0.246 | 1.625311 | 18.06202 |
| 2012 | 0.5864 | 5.63 | 84946036 | 2012 | 0.5864 | 1.728109 | 18.25753 |
| 2013 | 0.5263 | 5.7 | 103959751 | 2013 | 0.5263 | 1.740466 | 18.45951 |
| 2014 | 1.0231 | 5.62 | 102733836 | 2014 | 1.0231 | 1.726332 | 18.44765 |
| 2015 | 0.9792 | 4.8 | 102953109 | 2015 | 0.9792 | 1.568616 | 18.44978 |
| 2016 | 1.2849 | 3.58 | 96319782 | 2016 | 1.2849 | 1.275363 | 18.38318 |
| 2017 | 0.862 | 4.13 | 99633677 | 2017 | 0.862 | 1.418277 | 18.41701 |
| 2018 | 1.5349 | 2.43 | 88124843 | 2018 | 1.5349 | 0.887891 | 18.29427 |
| 2019 | 1.1592 | 2.01 | 89294198 | 2019 | 1.1592 | 0.698135 | 18.30745 |

**Source: Researcher's compilation, 2020**

### 4.2 Data analysis

The study starts by analyzing the relationship between retained earnings, earnings per share, and dividend payout ratio. The correlation coefficients of the variables are looked at from table 3 below. The outcome shows that there is a positive correlation between the retained earnings natural logarithm and the dividend payout ratio r = 0.302. The positive coefficient implies that dividend payout ratio increases may be related to retained earnings increases. But the natural logarithm earnings per share has a positive relationship with retained earnings r = 0.265. However, correlation analysis is constrained for inferential purposes because it does not imply causality or functional dependency in a strict sense. The Jarque-Bera statistic (see Table 2) shows that all variables have p-values above 0.05, implying that the data series are normally distributed.

**Table 2: Descriptive statistics output**

| | DPR | LNEPS | LNREN |
|---|---|---|---|
| Mean | 0.911333 | 1.407611 | 18.34204 |
| Median | 0.979200 | 1.568616 | 18.38318 |
| Maximum | 1.534900 | 1.740466 | 18.45951 |
| Minimum | 0.246000 | 0.698135 | 18.06202 |
| Std. Dev. | 0.404020 | 0.383973 | 0.128895 |
| Skewness | -0.149766 | -0.897325 | -1.125103 |
| Kurtosis | 2.130673 | 2.346415 | 3.408712 |
| Jarque-Bera | 0.317044 | 1.367978 | 1.961428 |
| Probability | 0.853404 | 0.504600 | 0.375043 |
| Sum | 8.202000 | 12.66850 | 165.0784 |
| Sum Sq. Dev. | 1.305858 | 1.179479 | 0.132911 |
| Observations | 9 | 9 | 9 |

**Source: Descriptive statistics results (2020) from Eviews 9**

### 4.3 Results of the Hypotheses tests

Multiple regression was carried out to show the effects of the independent variables on the dependent variable. Due to its Best Linear Unbiased Estimates properties, the ordinary least square regression was adopted in the analysis. Estimates of the coefficient and their corresponding significance are the key statistics of interest. The statistics provide an advantageous representation of the models such as the R-squared, the adjusted R-squared, the Durbin-Watson test, and the F-ratio).

### 4.3.1 Results

The regression results and analysis are presented in table 3.

**Table 3: Estimation Results for the Model**

Dependent Variable: LNREN
Method: Least Squares
Date: 11/20/20 Time: 20:37
Sample: 1 9
Included observations: 9

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 17.69362 | 0.304267 | 58.15162 | 0.0000 |
| DPR | 0.302017 | 0.135917 | 2.222074 | 0.0680 |
| LNEPS | 0.265123 | 0.143013 | 1.853839 | 0.1132 |

| | | | |
|---|---|---|---|
| R-squared | 0.459096 | Mean dependent var | 18.34204 |
| Adjusted R-squared | 0.278795 | S.D. dependent var | 0.128895 |
| S.E. of regression | 0.109462 | Akaike info criterion | -1.325269 |
| Sum squared resid | 0.071892 | Schwarz criterion | -1.259527 |
| Log likelihood | 8.963710 | Hannan-Quinn criter. | -1.467139 |
| F-statistic | 2.546274 | Durbin-Watson stat | 2.325036 |
| Prob(F-statistic) | 0.158256 | | |

**Source: Regression output from Eviews 9**

The result in Table 4.3 above shows that the natural logarithm of earnings per share coefficients 0.265 at the 5 percent level is positive but not significant. The general consequence of these findings is that the relevance test failed for earnings per share and thus did not relate significantly with the natural logarithm of retained earnings. Likewise, the dividend payout ratio has a positive relationship with the natural logarithm of retained earnings 0.302, but the relationship is also not significant. The 46 percent adjusted R-squared shows that the coefficients do not adequately describe the model's overall predictive power. Other factors not included in this analysis account for the other 54 percent. Although the Fisher 2.54 statistic indicates that the model is not statistically significant at less than 0.05, at 2.33, the model nevertheless passed the Durbin-Watson test.

### 4.3.2 Tests of hypotheses

In this portion, the study's hypotheses are tested based on the outcome of the model defined.
$H_{01}$: There is no significant relationship between dividend payout ratio and retained earnings.

$LNREN = B_0 + B_1DPR + e$
$LNREN = 17.69 + 0.302DPR + 0.109$
(58.15) (2.22)

In the results shown in Table 3, coefficient of dividend payout ratio .302 at 0.05 is positive but not significant $B_1 = 0.302$, $t = 2.22$, and $p = 0.07$. Consequently, it is difficult to reject the null hypothesis that the dividend payout ratio has no significant relationship with retained earnings, which means that the dividend payout ratio does not have a significant relationship with Nigeria Breweries plc's retained earnings. The outcome indicates that a percentage shift in the dividend payout ratio would result in retained earnings rise of around 0.302 percent.

$H_{02}$: There is no significant relationship between earnings per share and retained earnings.
$LNREN = \beta_0 + \beta_2LNEPS + e$
$LNREN = 17.69 + 0.265LNEPS + 0.109$
(58.15) (1.85)

The coefficient of LNEPS at 5 percent is positive but not significant in the results shown in Table 3 $B_2 = 0.265$, $t = 1.85$, $p = 0.11$. Therefore, the null hypothesis that the earnings per share do not have a significant relationship is not rejected. The consequence is that the earnings per share would not have a significant relationship with retained earnings. The result indicates that any improvement in the earnings per share percentage results from a 0.265 percent rise in retained earnings, but this relationship is not significant.

### 4.4 Discussion and interpretation of Results

The dividend payout ratio coefficient is positive 0.302 but not significant $t = 2.22$ at a level of 5 percent $p = 0.07$. This means that with retained earnings, the dividend payout ratio has no significant relationship. This outcome is in line with Enekwe, Nweze, and Agu (2015)'s findings, which revealed that the dividend payout ratio has no major impact on equity return.

The natural logarithm of earnings per share coefficient at the 5 percent stage $p = 0.11$ is positive 0.265 but not significant $t = 1.85$. This means that earnings per share do not have a significant relationship with retained earnings. Thus, Nigerian Breweries Plc's earnings per share have no significant relationship with the earnings retained for further investment. This outcome is in line with the study's a priori expectation that hypothesized a positive relationship.

### 5.1 Summary of findings, conclusion, and recommendations

The ordinary least square estimation results show that, while the results are positive, the relationships that earnings per share and dividend payout ratio have with retained earnings are not significant. However, the relationship between earnings per share and retained earnings is in tandem with the theoretical assumption and logical deduction that the higher its profits, the higher its earnings per share.

Corporate success does not substantially impact companies' retained earnings. Companies must, however, be mindful of the amount of dividends paid to shareholders so that investment opportunities are not jeopardized by the non-availability of funds, mainly when loans are not readily available. The study advises that businesses maintain an acceptable balance between payout and retention ratios to ensure that funds are available for potential investment.

### 5.2 Suggestions for future research

Future research should be carried out to determine why, as revealed by this research, the earnings per share and dividend payout ratio have no significant relationship with retained earnings.

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