INFLUENCE OF DIVIDEND ANNOUNCEMENTS, EARNINGS ANNOUNCEMENTS AND STOCK PRICES OF LISTED FIRMS IN THE STOCK EXCHANGE OF THAILAND

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Abstract
The key purpose of this paper is to examine the relationships among influence of dividend announcements, earnings announcements and stock prices of Listed Firms in the Stock Exchange of Thailand. Stock Exchange requires listed firms to disclose important information for investment decisions with complete and accurate information of equivalent and well-timed which is important for stockholders to invest in listed firms and benefits for administrators to determine the dividend policy of the firms. Moreover, literature review, conclusions, and suggestions and directions of the future research are also interesting.

Keywords- Earnings Announcements, Dividend Announcements, Stock Prices

1. Introduction

The Stock Exchange of Thailand as a hub for trading and a major funding source for the country. The realization is of investments in various businesses. As well as is a mechanism to push the economy and promote the development of the country's overall strength and international standards. So on it is trading in securities in the stock's liquidity, effective and justice. Exchange requires listed firms to disclose important information for investment decisions with complete, accurate, timely and information is equivalent. Order that it is helpful for shareholders. The earnings announced of the listed firms can be considered as information that is important and necessary for the investment decisions of investors. Because of earning announced of listed firms demonstrates the capability of the firm's operations and growth trends. The earnings announcements of the firms are the benefit of both firms and users of financial information. That is, the firms prevent a forecast of operating results, the discrepancies which would affect investment decisions and the movement of the stock price. And for users of financial information to make informed, accurate, complete and received information asymmetry. The investment is decisions at the appropriate time. The review of research in the past found that earning of the listed firms and the dividend information for investors to focus on accounting for stock analysis. Keorath (1996), Battalio and Mendenhall (2005) identified the current price of securities based on cash flows or dividends in the future, investors expect to receive. Which can be used is measured the accounting of earning as cash flow above (Beaver, 1981). Therefore, the researchers interest a lot of associated with the accounting earnings and dividend documents on the price of securities to prove on earnings and dividends. It reflects the future cash flows that the investor will receive and news profits from earnings announcement. Including the news was announced dividend policy of the firm's dividend news is that there are benefits to investing.

Previous research has reported about the importance of earnings. This empirical research mostly studies information content of earnings. The literature of Ball and Brown (1968) examined response of stock prices to earnings expectations. This was reported earnings that investors recognize nowadays announced earnings of firms found that the reaction of stock price was in line with expectations earnings and occurred before a formal earnings announcement, as well as Beaver (1968) investigates the variability of the stock price and securities trading volume in the period, announced an earnings for the year. The result found that the variability of the stock price and securities trading volume in the week announced earnings were higher than a week without an announcement. Moreover, Allen and Ramanan (1995) said that securities respond before announcement corporate earnings and abnormal returns address relevant news stories announced earning in recent years, this is compliance with Ball and Shivakumar (2008).

In addition to the effects of earnings proclamations, the previous research investigates of dividend changes announcements. In the past, there are many researchers who are interested in studying about the response of the stock to the announcement dividend and have concluded research differently like Gordon (1963), and Linter (1962) who found that dividend payment shall be critical that is a wealth of theoretical acquisitions of The Bird in the Hand Theory. Both of them proposed that shareholders are satisfied to receive dividends at this time rather than earnings from the common stock price to increase in the future. Because the current dividend is more certain than that the shareholders will get back in line in the future. Consistent with Black and Fisher (1976), the firms that have declared a dividend to be awarded both the stock price and the worth of the firms that will be rising as well. It is in the same line with Cheng, Fung and Leung (2007) who have supported the declaration of dividends that affect the price of securities. But in some circumstances that occurred when changing dividend it will make earning change in line with changes to the dividend. Pettit (1972) found that an increase or decrease in dividend, stock price will have movements increased or decreased in the same direction. Aharony and Swary (1980) showed that the result was dividend announcement is different from the earnings of the firms. On the other hand, the research of Miller and Rock (1985) proposed that the share price is not due for the shareholders prefer dividends over profit. However, the price of common stock on dividend change is affected the influence of the information inherent in the dividend announced. Moreover, Miller and Modigliani (1961) stated that dividends do not impact stock price because the investors are not interested or focus on paying dividends of firms. It is in accordance with Black and Scholes (1974) who found that the price of the security does not depend on the dividend and does not affect the stock price. This is supported by Vieira and Raposo (2007).

There have been various studies of dividends announcements and earnings announcements affecting the market. However, the research also has great interest to convey this paper for Thai-Listed Firms. This paper explores securities prices affecting on accounting data in two categories; the first earnings announced in the period around the announcement date and the second dividend announced that may affect the price of securities of Listed Firms in the Stock Exchange of Thailand. Also, to make a comparison between the announcement of the annual net profit and announced a dividend for the year will affect the response of different securities or not. Therefore, the intentions of study are (1) to study the response of market to dividends announcement that affects the stock price during the day announced annual dividends of Listed Firms in the Stock Exchange of Thailand, (2) to investigate the response of market to earnings announcement for the year that affects the stock price during the day announced profits of Listed Firms in the Stock Exchange of Thailand, and (3) to compare the response of market to earnings announcement and dividend announcements during the annual day of the Listed Firms on the Stock Exchange of Thailand.

2. Literature Review

2.1 Earnings Announcements and Stock Prices

Literature review and conceptual framework, profit accounting is related to the adjustment of the prices of securities in the same direction. It is the concept of financial accounting theory and opinions of financial analysts. They comment that the current price of securities is based on cash flows or dividends in the future that investors expect to receive which accounting profit measures cash flow (Beaver, 1981). It is in accord with Kim and Kross (2005) who examine the test in the prediction of future cash flows that are from the results of operations of firms in current consequence that are worth relationship. It suggests that earnings can forecast about future cash flows as well as profits in accountings respond to the stock price. The research of Ball and Brown, 1968 found that the response of the stock price is going in the same direction with the contribution margin. As well as Beaver (1968), fluctuations in the price of securities and number of stock traded in the week of earnings announcement were higher than a week without an announcement. In addition, research on the earnings announcement is associated with stock price, such as Mendenhall and Nichols (1988) in accordance with Ball and Shivakumar (2008), including Conroy, Eades and Harris (2000). Nearly of these studies show that earnings announcements have important information content.

2.2 Dividend Announcements and Stock Prices

Previous research has reported that the study focused on the importance of dividends information that reported a positive relationship between the announced changes in declaration of dividends which impacts on the price of securities. Petit (1972), lower or higher dividend causes stock price increased or decreased in the same direction. This resulted in high dividend stock prices soared. Oyinlola and Ajeigbe (2014) believe that the dividend policy affect stock prices. If the payouts are higher, they will make stock prices higher.

Shareholders are satisfied to receive benefits in the form of dividends at this time rather than waiting to receive benefits in the form of the rising price securities due to the expansion of the business in the future. Watts (1973) states that to change the dividend announcement without expecting is associated with changes in the future earning of the firms positively. As a result, the rate of return in excess of the securities which is sending dividend information content to investors and changes in the dividend policy will affect stock price Lintner (1962). There are some research studied the response of stock prices affecting the dividends announced fruitfully, such as Skinner (2004), Gunasekarage and Power (2006), and Dasilas (2007 and 2009) who reported that the findings could explain the assumptions dividend signaling response of the stock price during the period of dividend announcement effectively.

2.3 Earnings Announcements and Dividend Announcements and Stock Prices

A review of past research found a correlation between the dividend announcements and the response rate towards the stock prices .The research of Ball and Brown (1968) also found a correlation adjustment of the stock price on the day announced net income of the year which is related to the earnings announcement. It appears that the relationship between the two items to respond the price of stock prices and there are many researchers that study and compare the earnings announcements and the dividends announcements. It was found that both of them have the ability to explain the stock price which is not significantly different. The related researches are such as Benartzi, Michaely and Thaler (1997), Brief and Zarowin (1999), Gunasekarage and Power (2006), and Anmed, Hussin and Ying (2010). This paper required to study and compare the accounting information of dividends announcement and earnings announcements affecting the response of stock prices of Listed Firms in the Stock Exchange of Thailand.

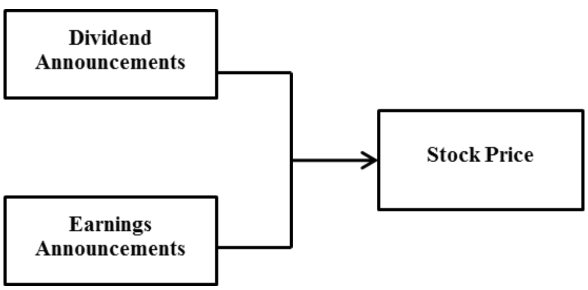

Figure 1: A conceptual model of Influence of Dividend Announcements, Earnings Announcements and Stock Prices of Listed Firms in the Stock Exchange of Thailand

3. The Bird in the hand Theory

3.1 Efficient Market

Information announcement in the stock market influences the decision of the investors to decide whether nor does it to invest in any securities of the firms which is based on the efficient market hypothesis by Fama (1970) supported hypothesis that a securities market is efficient if security prices "fully reflect" the information available". The capital markets have been responding to them actually. The level of response is divided into three levels as below.

3.1.1 Weak Form, at this level the transformation of the current stock price is a result of the historical stock price information, the pricing of securities are calculated current trading stock price. Changes in the prices of securities in the capital markets at this level are similar random walk that is an independent on bond, making predictions about the price changes in securities prices depend on the past only. For hypothesis testing at this level the efficiency of capital markets is determined by the response of securities on stock prices in the past that abnormal return is zero, which means that the capital market efficiency is weak.

3.1.2 Semi-strong Form, at this level the change in stock price today is not only caused by changes in stock prices in the past, but also combining the results of information related to the pricing of securities to trading currently. The acquisition price is adjusted for securities to be traded as soon as the information in the notification is accurate and unbiased. That is capital markets have concurrently at a set price on the basis economy that is shown in the annual report of the firms' performance or accounting information which is public information.

The most important for investors is the efficient market hypothesis testing at this level is determined by the return of the securities in the period after a report that the accounting information is responding to the news. The announcement of the stock price information which is abnormal return equals zero. It means that the capital market efficiency is at the moderate level.

3.1.3 Strong Form, changes in the price of securities are reflected by all of the current information, whether the information reported in the market or internal information of firms and everyone knows them. So the pricing of securities are unable to receive earnings in excess of the expected profit. However, the efficiency of the capital market at this level is rare because the information within this report shall not be disclosed easily. Information access is not a simple matter or convenient.

In summary, under this assumption, the study on efficiency capital market would determine the price of securities or yield adjustments in response to incoming information in capital markets whether it is abnormal or not. This suggests that the market can now inform the capital market and the stock price is adaptable quickly to the news especially, any particular hypothesis that has only a semi-strong form which gives the priority to the information in financial statements.

3.2 Theories explaining the importance of earnings.

The financial theory is explained on the capital market of abnormal return or residual return on market model. At the time, surrounded currently announced earning and most used cumulative abnormal return.Earnings surrounding the declaration of information as the impact of the news announced earning of listed firms on the stock price and unexpected earning (UE) is earning news of listed firms from earning announces and the benefit valued measure of earning.

3.3 The Bird in the hand Theory.

It is the theory of paying high dividend that resulted in increasing stock price. This theory is proposed by Gordon (1963), and Lintner (1962). Investors give priority to receive dividends at this time more than one baht earnings from the difference in prices that may increase in the future with the introduction of more than one baht earnings to investors. The investment will be at risk or uncertainty that one bird in the hand is better than many birds' residents of the bushes in the forest.

3.4 Information Content of Dividend Announcements.

It is the theory of Modigliani and Miller (MM). There is one hypothesis that investors and business executive have equivalent information. But in fact, administrators will have the performance information and prospects of the firms, rather than investors. If the data looks like as asymmetric information, the dividend signals confidence on executives. If a company pays dividends more than investors anticipated inevitably, it is said that the executives predicted that future earnings will be higher.Markets are responding in a way that makes stock prices rise following this news. In contrast, a firm pays no dividends or less than investors expected, the executives predicted that future earnings will be lower. The market response to the share price fell by changing in stock price of the underlying data in dividend declaration. This is consistent with empirical studies of Nikolaos (2015), and Chaudhary, Hashmi and Younis (2016).

3.5 Dividend Clientele.

It is the concept that investors demand a different level of dividends. This concept said that individual investors required dividend policy differently Graham and Kumar (2006). This is in accordance with Qudah and Badawi (2015) who pointed out that the group of investors who want regular income preferred dividends rather than earnings of the difference between the stock prices in the future. These shareholders want regular income upon receiving high dividends is taxable dividends order to invest in common stocks. Investors this group would like invest in stocks with low dividend of the investors can easily invest in common stocks.Firms can also adjust the dividend policy of the firms as well. Investors do not like to change the dividend policy so they can sell shares to other investors who favor this new dividend policy. But the change of dividend policy is frequent; investors have frequently traded shares, which each time has a fee for trading. Investors may not be interested in purchasing shares of the firms. As a result, the stock price falls temporarily or permanent reduction. However, changing the dividend policy of firms can be done if firms have good reason in business and can attract investors more than ever.

4. Conclusion

Earning announcement and dividend announcement of the Listed Firms in the Stock Exchange of Thailand are the judgment reflected to be a decisive decision for firms and the information that is important and necessary for the investment decisions of investors. That means information content of dividend announcements. The dividend signals confidence management and the good opportunity for investors to benefit of profit in the company's future (Zuguang and Ahmed, 2010).

In addition, the stockholders recognize that dividends may not be the only influence encourages a stockholder to invest in a firm (Rosario and Chavali, 2016) which there are many other factors affect the stock price of firms (Qudah and Badawi, 2015). Moreover, information content of earning and dividend policy are useful for managers in planning future dividend policy of listed firms.

5. Suggestion

Influence of Dividend Announcements, Earnings Announcements and Stock Prices of Listed Firms in the Stock Exchange of Thailand. The dividend policies affect stock prices. If the paying of dividend is high, it will make stock prices higher due to shareholders are satisfied in receiving beneficiaries in the form of dividends (Rosario and Chavali, 2016). On the other hand, the response of securities on the dividend and earnings announcements no significance reaction of stock price to the earnings and dividend announcements, which means difference in efficient of market. Therefore, earnings and dividend do not have relationship and do not affect stock price under best scenario of an efficient market with information asymmetry to disclose sensitive information that is useful for decision making, complete, accurate and up to period of decision time and benefits to all parties involved, no taxation of dividends, and transaction costs. However, the conceptual model needs empirical investigation for future research is directions containing corporate governance and transparency.

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