Dividend announcements and share price reactions on the Swiss Market

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Executive summary

This thesis analyses announcements of dividend changes and their implications on share prices using an event study methodology. The sample contains 792 announcements from Swiss firms listed in the SPI between 1996 and 2008. To compare actual with expected returns during the event period, a market model was used. Consistent with the existing literature, significant positive cumulative abnormal returns (CAR) have been observed in case of increased payouts. However, no negative CAR could be found when dividends were decreased. Furthermore, attention has been paid to abnormal returns in different business sectors. In 2008, financial service and insurance companies were expected to decrease their dividends in order to save cash, because of the financial crisis. As a consequence, these dividend cuts should have resulted in significant negative CAR. Quite surprisingly, there was only one firm that decreased its dividend. Most companies have left their payouts unaltered or had even increased dividends.

Many studies simply use historical dividends as a measure for the dividend surprise. Contrasting to this, as analysts' forecasts incorporate more actual news than the historical dividend, using analysts' forecasts should give a refined measure more closely related to abnormal returns. Therefore, a comparison was made between these two alternative measures and how the size of the dividend surprise in each case is associated with CAR. The results have shown that the signs of abnormal returns are more related to historical dividends. No conclusive answer could be given how the dividend surprise and CAR are associated. However, there is evidence that analysts' forecasts are in fact more accurate than historical dividends, although analysts tend to overestimate the actual announcements on average.