



# The impact of dividend announcement in advancing and declining markets: Evidence from Stock Exchange of Thailand

by Yuwarat Supredanuwat\*,  
Araya Thippayarat\*\*,  
and Piyapas Tharavanij\*\*\*

## Abstract

This paper investigates abnormal returns when listed companies in Thailand Stock Exchange (SET) announce a dividend increase, stable or decrease. We divide dividend announcements by the direction of market movement: advancing markets and declining markets. The signaling theory predicts that dividend increase announcements during declining markets would generate higher positive abnormal returns than during advancing markets. The rationale is that it would give a more credible signal of an increase in profitability, even when the economy is in a recession. The research applies an event study approach and uses a market model to calculate an abnormal return. The data cover dividend announcements of SET's listed companies in 2002 to 2011.

This study finds that a constant or an increase in dividend announcement would generate a statistically significant positive abnormal return both during an up or down market. Moreover, the effect is even more pronounced during a down market. The result is consistent with the theoretical prediction from the signaling theory. However, we do not find any abnormal return in case of a decrease in dividend announcement. Our results hold even after we split the sample into high-low cash flow and high-low future earning. This implies that it is the dividend announcement itself that matters and not so much of other information like cash flow or futures earning. The investment implication is that investors could have a positive abnormal return if they invest in stocks that announce a constant or an increase in dividend especially during a down market. In doing so, investors could make a profit both from a dividend and an increase in stock price.

**Keywords:** Dividend, Dividend policy, Abnormal return, Event study

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\* Ms.Yuwarat Supredanuwat is an officer at KGI Securities (Thailand) PCL.

\*\* Ms.Araya Thippayarat is an officer at TISCO Bank PCL.

\*\*\* Dr.Piyapas Tharavanij is a full-time faculty of college of management, Mahidol University. (Corresponding author)  
E-mail: cmpiyapas@mahidol.ac.th