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# Reaction Paper on Salita's "On Stock Dividends, Share Prices, and Shareholder Wealth"

By *Edwin B. Villanueva*

The study "On Stock Dividends, Share Prices, and Shareholder Wealth" by Nelson Salita is very relevant particularly in a market like the Philippine stock markets where dividend yields are relatively lower. Shareholder wealth in our market is enhanced largely through capital appreciation. The study demonstrates that share prices generally fall after stock dividends but not to the fully adjusted price. Thus, shareholder wealth is created by stock dividend declarations.

The study, however, needs further refinement for the following reasons: First, the sample is quite limited to 12 observations covering a 5-year period. The sample was further restricted to commercial and industrial issues. Perhaps the study can be more conclusive if the number of observations were increased and the sample expanded to include all types of issues available in the stock market.

Secondly, the choice of the issues has an effect on the expectations model developed in the first stage of the author's methodology. The results in Table 1 where six out of twelve stocks demonstrated a strong linear relationship between the individual stock returns and the market returns actually restates the obvious because of the heavy weighting that the issues PNB, PLDT and Ayala have on the market return. Stating it another way, these three issues determine the market return because their high market capitalization affects the total market.

Finally, limiting the observation period to 3 days prior and 3 days after the ex-date fails to capture other opportunities where shareholder wealth is enhanced.

Stock dividends can also increase shareholders wealth even though the investor does not hold the stock until its ex-date. Usually, the major reaction to the stock dividend occur on the declaration date and the impact gradually recedes as the ex-date nears. This is specially true if the bonus is substantial. One reason for this price behavior is that some investors prefer to take advantage of the rally and start selling. They would rather take their profits than wait for the ex-date. A good example of this was the 400% stock dividend of Sanitary Wares Manufacturing Corp. On the date of the announcement (22 June 1990), its share price rose 47% at ₱98.50. However, on the day prior to the ex-stock, the share price had gone down to ₱45.50. Comparing the price on declaration date to the price on ex-stock, the adjustment does not reflect the full extent of the dividend.

Furthermore, some investors do not wait for the ex-stock date before selling their shares. One of the reasons for this is that shareholders can not immediately sell their entitlement. Usually, the payable date is set one month after the record date of the bonus. In some cases, the delivery of the certificates pertaining to the stock dividend may even take longer. Thus, this restricts the investors from taking their profit. As a result, the price of the stock may undergo another adjustment when investors start selling their stock dividends.

*Edwin Villanueva is President of Sun Hung Kai Securities, (Phil.), Inc.*