

Overview

1. Introduction

1.1 This is the 27th in a series of publications presenting equity yields on ordinary shares quoted at the Karachi Stock Exchange. It is updated to June 2007 and statistics included are the dividend yield, earning yield, index of dividend and index of earning.

1.2 There are various ways of evaluating the performance of different types of investments. Amongst these, determination of break-up values and different types of balance sheet ratios deserve special mention. Equity yield calculations also constitute a highly important field of security analysis. The yield computations enable an investor to judge the relative return on his portfolio holdings. It also enables one to observe the trend of equity yield in relation to the stock market as a whole. This study is concerned with the dividend and earning yield of ordinary shares of the joint stock companies currently listed at the Karachi Stock Exchange (See Appendix – I for list of the companies).

1.3 The term, “yield” indicates the return per hundred rupees of the capital cost of the investment. Capital cost means the price paid for a particular security exclusive of any interest or dividend accrued thereon. That is, a yield is the ratio expressed as a percentage between the amount of an annual income and the market price of the security producing that income. The State Bank is already publishing indices of stock exchange securities and this study on dividend and earning yield seeks to amplify the availability of data for purposes of security analysis.

2. Scope

2.1 The securities fall into two broad groups viz; shares of joint stock companies and government bond, each of which have distinct characteristics. The gilt-edged securities carry a fixed rate of interest for a pre-determined number of years. The calculation of yield on fixed-interest bearing securities such as government bonds, local bodies bonds and debentures, bonds and debentures of public limited companies is comparatively an easier matter. A number of statistical tables on bond yield with different rates of interest and maturities are available. Therefore, the study has been directed towards compilation of dividend and earning yield of ordinary shares quoted at the Karachi Stock Exchange.

2.2 The corporate shares are classifiable into variable dividend (ordinary) and fixed dividend (preference) shares. The latter category consists of little scrip only and the total dividend figure has been appropriately adjusted to take into account the dividend payable to the preference shareholders. The preference shares paid-up capital has also been deducted from the overall company paid-up capital in order to obtain the equity capital for yield purposes.

3. Coverage

3.1 A number of factors are considered for the calculation of equity yield such as the number of outstanding shares, rate of dividend per share, date of dividend payable, stock exchange quotation, earning per share, etc. The requisite material has been extracted from the published balance sheet and profit & loss accounts of the company, periodic reports concerning corporate news, Karachi Stock Exchange Quotation and publications of the State Bank on the Balance Sheet Analysis of Joint Stock Companies. For practical purpose, the date of closure of shares books has been taken as the payable date for the dividend distributed or proposed to be distributed for adjustment to the share quotation as explained in section 4.1.

3.2 For earning yield computations, the earning per share has been worked out by dividing the net profits (after making provision for taxes) by the number of ordinary shares. Earning is taken as a gross profit less corporate tax, other charges and gross preference dividend.

3.3 To begin with, the equity computations have been accomplished on a monthly basis. The end-month stock market quotations have been used for the calculations. Where, however, month-end quotations are not available, use has been made of the preceding day's rate.

3.4 The number of companies included in the statistical analysis has varied from year to year as shown below: -

Year	No. of Companies	Year	No. of Companies
1997-98	738	2002-03	667
1998-99	732	2003-04	649
1999-00	729	2004-05	639
2000-01	724	2005-06	639
2001-02	690	2006-07	635

4. Dividend Yield

4.1 In case of investments on which the rate of dividend is not fixed such as ordinary shares of joint stock companies, the dividend yield percent per annum is calculated on the basis of expected yearly dividend, which might be based on the last annual dividend actually paid or announced. It is customary to eliminate the effect of dividend on the market price before the dividend yield is finally worked out. The month-end share quotation is adjusted by the amount of dividend per share for the period lapsed between the date of computation and the dividend payable date. This adjustment is deemed to be dividend accrued but not yet

due. The total market capitalization is derived by multiplying the adjusted market rate by the number of shares. The dividend yield of a company is then calculated by dividing the total dividend by its total market capitalization. The dividend yield for an industry group is the weighted arithmetic average and the dividend percentages of the constituent companies included in the group are weighted by the respective market capitalization. Analogously, the overall dividend yield is worked out by weighting the component yield percentages by the corresponding aggregate market capitalization. (See appendix – II for list of companies declared dividend/bonus shares/right shares).

4.2 The problem of bonus issues and right scrip's is very much pertinent for the equity yield calculations. An issue of rights consists of subscribing to the new issue of shares at concessional rates. If an issue of bonus or right shares has been carried out in a company, the increased share capital is deemed to be active from the date when the share prices is quoted without the fractional certificates. In the case of a bonus issue, the anticipated total dividend is considered to be unchanged and spread over the enlarged number of shares. In the case of right shares, the anticipated dividend per share is deemed to equal the last known dividend unless the issue terms provide to the contrary. In the event that bonus issue and right scrip's are both carried out the bonus issue assumes to have been made first and the dividend is determined on the basis thereof. The right shares are in turn deemed to receive the same dividend as follows from the bonus issue.

5. Earning Yield

The earning yield is the percentage, which the annual per share earning figure bears to the share price. The group-earning yield is the weighted arithmetic average of the company percentage and the weights being the market capitalization of the shares included therein. Similarly, the overall earning yield is worked out simply by weighting the earning yield percentage of all the constituent components by the corresponding market capitalization.

6. Index of Dividend / Earning

6.1 A general index of share prices such as the State Bank General Index of Share Prices represents the performance of a model portfolio where the interest in each constituent share is always proportionate to its market valuation. For example, in the case of a right issue, the model portfolio will increase its interest in that particular constituent and reduce its holdings in all others so that the resulting interests in each constituent is still proportionate to the new market valuation. Similarly, if a new share is introduced, the model portfolio will take a suitable interest in the new share and correspondingly, reduces the relative participation of its constituents. In this situation, an apparent inconsistency can arise between a group index and its components. This is, however, handled by devising a suitable statistical mechanism to deal with the cases of additions, deletions, amalgamations etc; so that the share-price index is appropriate for assessing the portfolio performance.

6.2 The index of dividend has been obtained by multiplying the appropriate monthly dividend yield by the corresponding general index of share prices with base year 1990-91 up to June, 2001 and for the subsequent period, the base year 2000-01 = 100 has been used for the purpose. The index of dividend reflects for the model portfolio the dividend income at any time relative to the corresponding figure at the base date. Similarly, the index of earning has been calculated by employing the procedure used for the index of dividend.

7. Industry Grouping

The grouping employed for the State Bank General Index of Share Prices has also been used for the equity yield. This has been primarily done to achieve uniformity in presentation of statistics on the subject for analytical purposes. Revised industry classification on the basis of Standard International Industrial Classification has been adopted w.e.f. July, 2006.