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DIVIDEND POLICY EFFECT ON SHARE PRICES: A COMPARISON STUDY BETWEEN ISLAMIC AND CONVENTIONAL BANKS IN KUWAIT

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ABSTRACT

Purpose: The objective of this study is to investigate the effect of dividind policy factors on the share prices of banks listed at Kuwait Boursa, with the aim of indentidying the different effect of these factors between Islamic and conventional banks.

Methodology: The methodology adopted for this research comprises of pool OLS regression method that is based on the data of 10 banks over the period 2014-2023. The data of this research were obtained from Boursa Kuwait and Kuwait Institute of Banking Studies (KIBS) websites.

Results and Discussion: The results obtained revealed conventional banks are more profitable than Islamic banks but they tend to retain more of their profits which led to higher dividend yield for Islamic banks. Islamic banks also showed to be more consistant in their dividends and more resilient when it comes to financial shocks, COVID-19. Results also revealed that while dividend yield showed positive effect on Islamic banks share prices, that effect was negative on conventional banks share prices.

Research Implications: The practical implication of this research is to provide some guidance to investors on the way share prices behave in regard to banks' dividend policy. While the theoretical implication of this research is to shed some light on the importance of dividend factors on banks' share prices which would help future researchers in the field of Islamic finance and banking.

Originality/Value: This study contributes to the literature by exploring the different effect of dividend policies on share prices in Kuwaiti banks and how Islamic and conventional banks share prices react differently to these policies.

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EFEITO DA POLÍTICA DE DIVIDENDOS SOBRE OS PREÇOS DAS AÇÕES: UM ESTUDO COMPARATIVO ENTRE BANCOS ISLÂMICOS E CONVENCIONAIS NO KUWAIT

Objetivo: O objetivo deste estudo é investigar o efeito dos fatores da política de dividendos sobre os preços das ações dos bancos listados na Bolsa de Valores do Kuwait, com o intuito de identificar os diferentes efeitos desses fatores entre os bancos islâmicos e convencionais.
Metodologia: A metodologia adotada para esta pesquisa compreende o método de regressão pool OLS, que se baseia nos dados de 10 bancos no período de 2014 a 2023. Os dados desta pesquisa foram obtidos nos sites do Boursa Kuwait e do Kuwait Institute of Banking Studies (KIBS).
Resultados e Discussão: Os resultados obtidos revelaram que os bancos convencionais são mais lucrativos do que os bancos islâmicos, mas tendem a reter mais de seus lucros, o que levou a um maior rendimento de dividendos para os bancos islâmicos. Os bancos islâmicos também se mostraram mais consistentes em seus dividendos e mais resistentes quando se trata de choques financeiros, COVID-19. Os resultados também revelaram que, embora o rendimento dos dividendos tenha apresentado um efeito positivo sobre os preços das ações dos bancos islâmicos, esse efeito foi negativo sobre os preços das ações dos bancos convencionais.
Implicações da Pesquisa: A implicação prática desta pesquisa é fornecer alguma orientação aos investidores sobre a forma como os preços das ações se comportam em relação à política de dividendos dos bancos. Já a implicação teórica desta pesquisa é lançar alguma luz sobre a importância dos fatores de dividendos sobre os preços das ações dos bancos, o que ajudaria futuros pesquisadores na área de finanças e bancos islâmicos.
Originalidade/Valor: Este estudo contribui para a literatura ao explorar os diferentes efeitos das políticas de dividendos sobre os preços das ações dos bancos do Kuwait e como os preços das ações dos bancos islâmicos e convencionais reagem de forma diferente a essas políticas.

Palavras-chave: Política de Dividendos, Bancos Islâmicos, Kuwait, COVID-19, Índice de Retenção, Rendimento de Dividendos.

EFECTO DE LA POLÍTICA DE DIVIDENDOS EN EL PRECIO DE LAS ACCIONES: A COMPARISON STUDY BETWEEN ISLAMIC AND CONVENTIONAL BANKS IN KUWAIT

Propósito: El objetivo de este estudio es investigar el efecto de los factores de la política de dividendos sobre los precios de las acciones de los bancos que cotizan en Kuwait Boursa, con el fin de indentidying el diferente efecto de estos factores entre los bancos islámicos y convencionales.
Metodología: La metodología adoptada para esta investigación comprende el método de regresión pool OLS que se basa en los datos de 10 bancos durante el período 2014-2023. Los datos de esta investigación se obtuvieron de los sitios web de Boursa Kuwait y Kuwait Institute of Banking Studies (KIBS).
Resultados y Discusión: Los resultados obtenidos revelaron que los bancos convencionales son más rentables que los bancos islámicos, pero tienden a retener más de sus beneficios, lo que llevó a una mayor rentabilidad por dividendo para los bancos islámicos. Los bancos islámicos también mostraron ser más constantes en sus dividendos y más resistentes cuando se trata de shocks financieros, COVID-19. Los resultados también revelaron que, mientras que la rentabilidad de los dividendos mostró un efecto positivo en los precios de las acciones de los bancos islámicos, ese efecto fue negativo en los precios de las acciones de los bancos convencionales.
Implicaciones de la Investigación: La implicación práctica de esta investigación es proporcionar cierta orientación a los inversores sobre la forma en que se comportan los precios de las acciones con respecto a la política de dividendos de los bancos. Por su parte, la implicación teórica de esta investigación es arrojar algo de luz sobre la importancia de los factores de dividendos en los precios de las acciones de los bancos, lo que ayudaría a futuros investigadores en el campo de las finanzas y la banca islámicas.
Originalidad/Valor: Este estudio contribuye a la literatura explorando el diferente efecto de las políticas de dividendos en los precios de las acciones de los bancos kuwaitíes y cómo los precios de las acciones de los bancos islámicos y convencionales reaccionan de manera diferente a estas políticas.

Palabras clave: Política de Dividendos, Bancos Islámicos, Kuwait, COVID-19, Ratio de Retención, Rentabilidad por Dividendo.

1 INTRODUCTION

In both Islamic and non-Islamic nations, Islamic financial institutions are becoming significant players in the financial markets. Doumpos et al. (2017) state that Islamic financial institutions have grown quickly in recent years and have proven to be highly resilient and competitive when compared to conventional institutions in many countries, especially in the Middle East and Asia. Over the past three decades, Islamic banks have grown in both size and number in both Islamic and non-Islamic financial markets, and they are now more competitive with their conventional counterparts.

Sharia law is applied by Islamic banks, which function differently from their conventional counterparts. Classifying the essential distinctions between Islamic and conventional banks is done by Ahmad and Hassan (2007). They demonstrate how all financial transactions in Islamic banks are conducted on a profit-and-loss sharing basis, as opposed to all conventional banks' financial transactions, which are based on interest and usury. Islamic banks must offer investment options and funding that abide by Sharia law; they are not permitted to employ traditional finance strategies. Adding to it, Ahmed et al. (2018), showed that the primary reason why conventional banking system deviates from Islamic Sharia law is that it comprises the subsequent elements: Qimar (gambling), Riba (interest), Gharar (a high degree of uncertainty), and furthermore, it is not an asset-backed system, which could result in extremely risky financial circumstances. Due to Islamic Sharia law restrictions, Islamic banks still suffer from the inadequate availability of Islamic financial investment methods compared to conventional banks (Jaara et al., 2017). As a result of these restrictions, Islamic financial organizations put a lot of effort into creating innovative financial instruments since maximizing shareholder value is the primary objective of any financial organization.

According to past researchers, dividend policy is among the top 10 unsolved issues in financial studies. In finance, dividend policy is one of the trickiest topics. One of the most contentious topics in corporate finance literature is dividend policy behavior, which is still widely discussed in both established and emerging economies (Hafeez & Attiya, 2009). Dividend policy is portrayed by Black (1976) as a jigsaw, a never-ending puzzle with pieces that simply do not fit together.

Dividend policy is the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim & Ziv, 2001). Dividend policy varies in the different countries because of difference in the government regulations. The dividend policy is

important for managers and investors since it is not only a source of income for investors, but it also reflects the performance of the company. Managers face a dilemma when determining how much of the profit to give investors and how much to retain for company future expansion. They make an effort to strike a balance between the demands of the shareholders, the company's financial necessities, and its market value.

The cash and non-cash flow rate that investors receive in return for their ownership of the company's shares is known as a dividend (Donald, 2011). A dividend is a profit that a bank distributes to its shareholders, in the form of cash, shares, or both and that amount varies according to the bank's share price (Baker & Weigand, 2015). Dividend distribution policy determines the percentage of profit paid as a return for the investors and the portion that must be kept for future investments (Huda & Farah, 2011). While many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy, there is no acceptable explanation for the observed dividend behavior of firms (Black, 1976; Brealey & Myers 2003). According to Elmagrhi et al. (2017) banks must retain a portion of their profits for reinvestment in the bank’s operations, expansion, and strategic initiatives. Therefore, excessive investment payments will limit the banks free cash flow to the detriment of its operational requirements (Miletkov et al., 2015). Greater growth potential suggests that additional funding is needed for expansion (Chang & Rhee, 1990) and as a result, profits are held rather than distributed as dividends.

According to Huda and Fara (2011), dividends give investors and the capital market a quick overview of the firm's performance. This is due to the fact that the pattern of dividend payments influences the share price of the company. Rafique (2012) argues that in an uncertain world, a company's dividend payout is a reliable indicator of its profitability and marketability. Bhattacharya (1979) argues that shareholders would rather receive dividends than the more alluring but intrinsically riskier capital gains because of the unpredictable nature of capital gains. Even though some investors do not give dividends much thought, yet the impact of dividends on share prices results in capital gains for investors (Fink & Theissen, 2014). According to a hypothesis on dividend policy called "clientele theory" various clienteles have varying preferences for dividend payout policies. According to Petit (1977) and Dhaliwal et al. (1999), some investors like companies that distribute a larger percentage of their net earnings as dividends, while others have other preferences.

When reviewing earlier research that looked at the relationship between share prices and dividend policy in Islamic financial institutions. Ahmed et al. (2018) looked at the factors

that influence both Islamic and conventional banks' dividend policies in Pakistan and found that between 2012 and 2016, Islamic banks' dividend policies differed from conventional banks'. The findings indicate that conventional banks pay out larger dividends than Islamic banks because conventional banks are somewhat more profitable and issue dividends without taking profitability into account. This could be because Islamic banks have more room for expansion. Alasfour et al. (2024), used the data of 23 listed Islamic and 37 listed conventional banks in the GCC region during the period 2011-2022. Results revealed that conventional banks have a higher dividend per share, while Islamic banks showed better financial stability in the historic share price. Hafsi (2016) examined the impact of dividends on the market value of the shares of thirty different companies from the Dubai Financial Market. The findings indicated that there was no correlation between retained earnings and the market value of the stock and that there was a positive relationship between cash dividends and share value. Mashkour & Sadiq (2018) employed data from a set of banking firms listed at the Iraqi stock market between 2011 and 2015 to demonstrate this association between dividends on the one hand and the market value of the stock, using a linear analytic method. Within the sample of chosen banks, the study discovered a statistically significant positive association between the share market price and the dividend distribution. Al-Amin (2009) used statistical and analytical techniques to assess the impact of dividend distribution on the shares of the Sudanese French Islamic Bank. The results showed that market share price and the bank's dividend-payout policy were found to be directly correlated by this study.

The cash dividend that the company paid its stockholders before the year in question is known as a "lagged dividend" (Pal & Goyal, 2007). In order for management to adhere to a steady dividend policy, the historical dividend trend must be substantial enough to affect the present dividend payment. The majority of theoretical and empirical research have incorporated this variable as a significant predictor. Given that the majority of businesses want to continue paying a consistent dividend. Pruitt and Gitman (1991) establish a positive correlation between lagged dividends and dividend payout. Previous dividend payments are a key predictor of a company's ability to pay dividends since they suggest that management is more likely to stick to a consistent payout policy. The relationship between dividend policies and share prices of conventional and Islamic Malaysian financial institutions was examined by Eng et al. (2013). The findings indicate a statistically significant positive correlation between revenue growth and dividend payout for conventional Malaysian financial institutions, meaning that conventional banks will increase their dividend payments in response to increases in profitability. However, only the lag in dividend

yield demonstrates a statistically significant positive correlation with dividend payments to Malaysian Islamic financial organizations. The findings imply that Malaysian Islamic banks exclusively use their historical dividend payments when estimating their future payouts.

2 RESEARCH METHODOLOGY

This study aims to explore the relation between dividend policies of ten Kuwaiti banks listed at Boursa Kuwait and their effect on stock prices over the period 2014-2023. Pooled OLS regression model is used to evaluate the relation between stock price (P), as a dependent variable, against earnings per share (EPS), dividend yield (DY), previous year dividend yield (DY-1), retention rate (RR), earning to price ratio (EP), and interest rate (IR) as independent variables. The assumption is as follows,

$$P = f(EPS, DY, DY\text{-}1, RR, EP, IR) \quad (1)$$

Which can be translated into the following pooled OLS equation,

$$P_{it} = \alpha + \beta_1 EPS_{it} + \beta_2 DY_{it} + \beta_3 DY_{it-1} + \beta_4 RR_{it} + \beta_5 EP_{it} + \beta_6 IR_{it} + \varepsilon_{it} \quad (2)$$

Where:

i denotes the cross-sectional units and t denotes time.

The variables under study are described in Table 1 as follows,

Table 1

Variables Description

Variable	Symbol	Description
Share Price	P	Market share price
Earnings Per Share	EPS	Net profit divided by number of outstanding shares
Dividend Yield	DY	Dividend per share divided by share market price
Previous year Dividend Yield (lagged dividend)	DY-1	Earnings per share divided by share market price
Risk Premium	RP	Dividend yield minus bank-one-year deposit rate
Retention Ratio	RR	$\frac{EPS - Dividend\ paid\ per\ share}{EPS}$
Earning to price	EP	Earnings per share divided by share market price
Error term	ε	Error term

3 DATA AND EMPIRICAL RESULTS

This research is based on the panel data of ten banks that are listed at Boursa Kuwait over the period 2014-2023. The data used in this research were obtained from Boursa Kuwait website and Kuwait Institute of Banking Studies (KIBS) website.

Descriptive analysis is presented in Table 2, where it shows that conventional banks average share price is higher than the average share price for Islamic banks where it was 446.940 fils (1 KD = 1000 fils = US$3.3) compared to 414.48 fils for Islamic banks. But when looking at the standard deviation, it can be seen that Islamic banks share prices are more stable than those of conventional banks since when dividing the standard deviation by the mean share prices, that ratio was 50.65% for Islamic banks compared to 55.62% for conventional banks. The table also confirms Ahmed et al. (2018) observation that conventional banks are more profitable than Islamic banks, where conventional banks in Kuwait showed an average earnings per share (EPS) of 27.197 fils compared to 17.554 fils for Islamic banks. Nevertheless, Islamic banks were more consistent in their profitability since when dividing the standard deviation of earnings per share (EPS) on the average earnings per share (EPS) it was 64.90% for Islamic banks compared to 76.06% for conventional banks. When it comes to dividend yield (DY), it can be seen that Islamic banks showed a higher dividend yield (DY) than conventional banks, where the average dividend yield for Islamic banks was 6.7% compared to 6.5% for conventional banks. But when taking standard deviation into account, it can be seen that conventional banks were more consistent than Islamic banks. Conventional banks in Kuwait tend to retain around 39.3% of their profits for future expansion compared to 38.7% for Islamic banks. From an investor point of view, conventional banks are more attractive than Islamic banks since they have a higher earnings per share (EPS) to share price ratio of 5.9% compared to 4.3% for Islamic banks. Finally, when looking at the skewness and kurtosis of the data, it can be concluded that the data in this research are normally distributed since both skewness and kurtosis fall within the acceptable range of ±3 and ±10 respectively.

Table 2

Descriptive Analysis

Conventional	Price	EPS	DY	DY-1	RR	E/P	IR
Mean	446.940	27.197	0.065	0.064	0.393	0.059	2.811
Standard Deviation	248.608	20.685	0.031	0.032	0.235	0.047	0.997
Kurtosis	0.398	2.518	0.148	0.061	1.939	9.405	-0.263
Skewness	1.205	-0.401	0.352	0.483	0.705	-2.961	1.137
Minimum	172.00	-48.00	0.000	0.000	-0.100	-0.230	1.938
Maximum	1078.00	68.00	0.145	0.145	1.104	0.115	4.750
Count	50	50	50	50	50	50	50
Islamic	**Price**	**EPS**	**DY**	**DY-1**	**RR**	**E/P**	**IR**
Mean	414.480	17.554	0.067	0.068	0.387	0.043	2.811
Standard Deviation	209.931	11.093	0.042	0.045	0.331	0.024	0.997
Kurtosis	-0.952	-0.820	-0.964	-1.064	0.316	0.379	-0.263
Skewness	0.658	0.125	-0.147	-0.077	0.679	-0.107	1.137
Minimum	150.00	-5.09	0.000	0.000	-0.413	-0.024	1.938
Maximum	832.00	38.49	0.133	0.146	1.000	0.095	4.750
Count	50	50	50	50	50	50	50

Pearson correlation matrix is presented in Table 3, it shows that current year dividend yield (DY) is more correlated to earnings per share (EPS) in conventional banks than in Islamic banks. This would indicate higher dividend payout ratio (DPR) and a lower retention rate (RR) for conventional banks compared to Islamic banks. Also, Islamic banks dividend yield (DY) showed a higher correlation with previous year dividend yield (DY-1) than in conventional banks which means that previous year dividend yield (DY-1) have a better explanatory power for future dividend yields (DY). When it comes to retention ratio (RR), it showed a negative correlation with the share prices of both Islamic and conventional banks but in a lesser effect for conventional banks. Earnings to price ratio (E/P) showed a stronger positive correlation with dividend yield (DY) in Islamic banks than it is for conventional banks, and P/E effect on the share prices was mixed since it showed a positive correlation with conventional banks and negative correlation with Islamic banks. Since Islamic banks do not deal in interest, interest rates (IR) showed a higher correlation with conventional banks earnings per share (EPS) compared to Islamic banks.

Table 3

Pearson Correlation Matrix

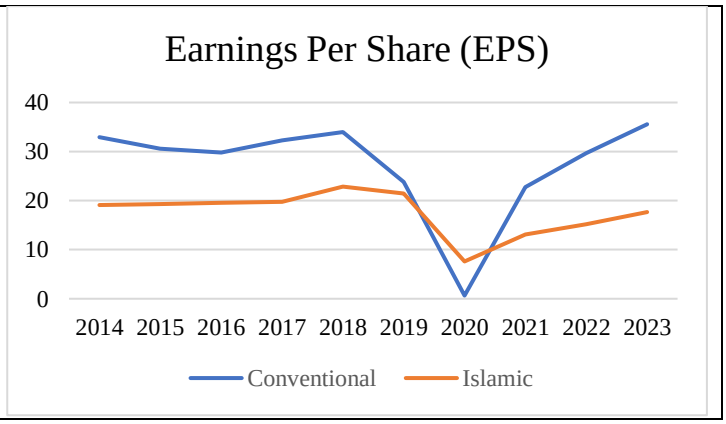
Conventional	Price	EPS	DY	DY-1	RR	E/P	IR
Price	1						
EPS	0.652	1					
DY	-0.283	0.645	1				
DY-1	0.399	0.403	0.420	1			
RR	-0.019	-0.311	-0.580	-0.235	1		
E/P	0.091	0.656	0.252	0.193	-0.468	1	
IR	-0.034	0.183	0.199	0.231	-0.323	0.201	1
Islamic	**Price**	**EPS**	**DY**	**DY-1**	**RR**	**E/P**	**IR**
Price	1						
EPS	0.679	1					
DY	0.663	0.576	1				
DY-1	0.656	0.604	0.573	1			
RR	-0.354	-0.456	-0.623	-0.489	1		
E/P	-0.034	0.636	0.488	0.343	-0.374	1	
IR	-0.038	0.049	0.014	-0.059	-0.215	0.084	1

Figure 1, illustrates the earnings per share (EPS) for both conventional and Islamic banks during the study period. It can be seen from the figure that conventional banks has always performed better in terms of profitability except during COVID-19 period where Islamic banks performed better indicating that Islamic banks are more resilient during crisis periods. During the study period, conventional banks produced mean earnings per share (EPS) of 27.197 fils compared to 17.554 fils for Islamic banks. Given that COVID-19 started in late 2019, it did not have much impact on banks financial position during 2019 in terms of profitability, but had an impact on the dividend policy of the banks. The real impact on profitability started in 2020. Eliminating the year 2020 out of the calculation, it can be seen that conventional banks produce average earnings per share (EPS) of 30.15 fils compared to 18.66 fils for Islamic banks.

Figure 1

Earnings per Share (EPS)

EPS	Conventional	Islamic
2014	32.900	19.068
2015	30.560	19.306
2016	29.820	19.556
2017	32.260	19.760
2018	33.980	22.854
2019	23.812	21.478
2020	0.648	7.600
2021	22.780	13.068
2022	29.650	15.212
2023	35.562	17.634
Mean	**27.197**	**17.554**

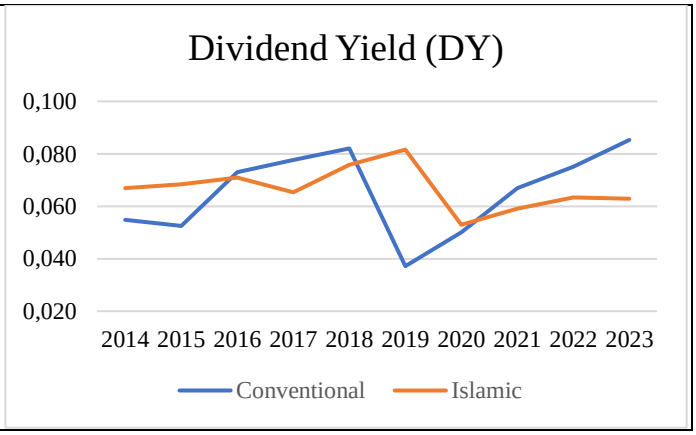


Dividend yield (DY) comparison is demonstrated in Figure 2, where it can be seen that Islamic banks showed a higher average dividend yield (DY) of 6.7% compared to 6.5% for conventional banks. Again during crisis periods, Islamic banks were able to provide their shareholders with much higher yields on their investments than conventional banks. It can also be observed that the yields on Islamic banks shares are more stable compared to volatile yields on conventional banks yields making Islamic banks more consistent in that area. But after 2019, the dividend yield has shifted to conventional banks and the difference has become wider. The 2019, COVID-19 period, was exceptional year, since banks did not know what to expect the following year, taking it out of the equation, it can be seen that on an average, conventional banks produced higher dividend yield (DY) of 6.86% compared to 6.51% for Islamic banks.

Figure 2

Dividend Yield (DY)

DY	Conventional	Islamic
2014	0.055	0.067
2015	0.052	0.068
2016	0.073	0.071
2017	0.078	0.065
2018	0.082	0.076
2019	0.037	0.082
2020	0.050	0.053
2021	0.067	0.059
2022	0.075	0.063
2023	0.085	0.063
Mean	**0.065**	**0.067**

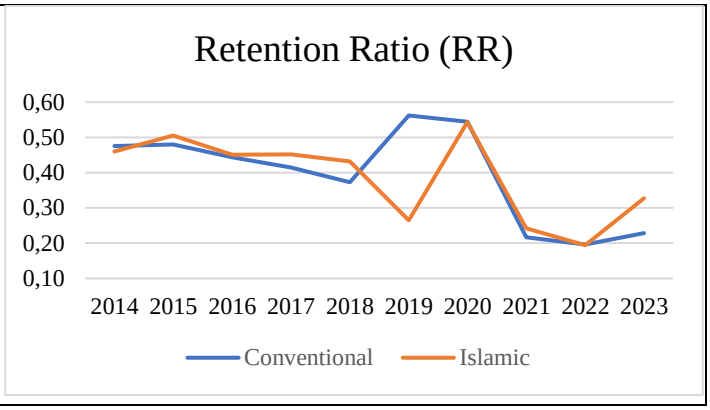


Retention ratio (RR) is the percentage of profits that a bank do not distribute on its shareholders but rather keep them for future expansion. In can be seen from Figure 3, that despite having higher retention ratio (RR) in six out of the ten years observation period, Islamic banks showed lower retention rate (RR) average of 38.7% compared to 39.3% for conventional banks. The reason for that is that during the year 2019, COVID-19 period, Islamic banks had a dividend payout ratio (DPR) of 73.5% of their profits compared to 43.8% for conventional banks which explains the higher dividend yield (DY) for Islamic banks during that year over conventional banks. This would indicate that conventional banks in Kuwait are more conservative and took the worst-case scenario for the future compared to Islamic banks that were shortsighted and did not take COVID-19 consequences into consideration. Taking the year 2019 out of the calculation, it can be seen that during the study period Islamic banks usually, on average, have a retention ratio of 40.07% compared to 37.46% for conventional banks.

Figure 3

Retention Ratio (RR)

RR	Conventional	Islamic
2014	0.475	0.460
2015	0.480	0.505
2016	0.443	0.451
2017	0.414	0.452
2018	0.373	0.432
2019	0.562	0.265
2020	0.544	0.543
2021	0.216	0.242
2022	0.196	0.194
2023	0.229	0.328
Mean	**0.393**	**0.387**

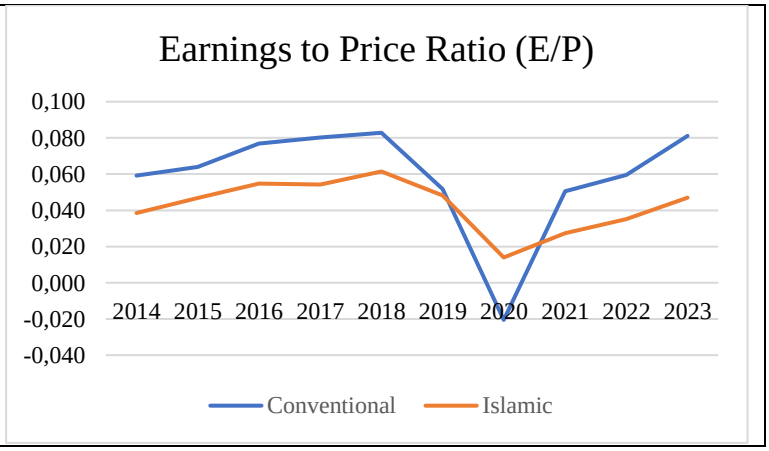


Investors conduct many methods in evaluating share prices, one of these methods is earnings to price ratio (E/P). In a perfect market that ratio should be the same for all shares, but since there is no such thing as a perfect market that ratio differs from one bank to another. Investors prefer shares with high earnings to price ratio (E/P) since it would indicate higher probability of future capital gains and that would push the share price higher. Figure 4, compares that ratio between conventional and Islamic banks in Kuwait. It can be seen that conventional banks were more attractive to investors than Islamic banks in nine of the ten study years, except for the year 2020 where the impact of COVID-19 started showing on banks profitability. During the whole of the study period, conventional banks showed a ratio of 5.9% compared to 4.3% for Islamic banks. When taking the year 2020 out of the calculations, it can be seen that conventional banks ratio was 6.73% compared to 4.6% for Islamic banks.

Figure 4

Earnings to Price Ratio (E/P)

E/P	Conventional	Islamic
2014	0.059	0.039
2015	0.064	0.047
2016	0.077	0.055
2017	0.080	0.054
2018	0.083	0.061
2019	0.052	0.048
2020	-0.021	0.014
2021	0.050	0.027
2022	0.059	0.035
2023	0.081	0.047
Mean	**0.059**	**0.043**



The results of the pooled OLS regression are presented in Table 4, where it can be seen that both models were able to explain 87.6% and 83.6% of the share prices of conventional and Islamic banks respectively using the factors under study. Both models can also be labeled as a "good fit" since significance *F* was zero for both of them. By looking at the factors under study, it can be seen that earnings per share (EPS) showed statistically significant direct relation at the 99% confidence level for both conventional and Islamic banks. Dividend yield (DY) showed mixed results, where it showed significant inverse relation with the share price of conventional banks but on the other hand that factor despite having direct relation with Islamic banks share price that relation was statistically insignificant. Again, previous year dividend yield (DY-1) showed significant direct relation with conventional banks share prices, that relation was insignificant with Islamic banks shares. Retention ratio (RR) showed an inverse with both conventional and Islamic banks share prices, but that relation was significant for Islamic banks and insignificant for conventional banks share prices. Earnings to price ratio (E/P) showed mixed results, where it showed significant direct with conventional banks share prices, that relation was significantly inverse in Islamic banks share prices. Finally, interest rate (IR) showed inverse relation with the share prices of both conventional and Islamic banks but that relation was statistically insignificant.

Table 4

Pooled OLS Regression output

Conventional Banks				
Regression Statistics				
R Square	0.891			
Adjusted R Square	0.876			
F	58.864			
Significance *F*	0.00			
Observations	50			
	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	372.100***	75.771	4.911	0.00
EPS	15.200***	0.915	16.607	0.00
DY	-1503.563**	594.094	-2.531	0.02
DY-1	997.408**	473.891	2.105	0.04
RR	-75.064	76.434	-0.982	0.33
E/P	3915.355***	401.333	9.756	0.00
IR	-16.175	13.481	-1.200	0.24
Islamic Banks				
Regression Statistics				
R Square	0.856			
Adjusted R Square	0.836			
F	42.708			
Significance *F*	0.000			
Observations	50			
	Coefficients	*Standard Error*	*t Stat*	*P-value*

Intercept	486.885***	86.231	5.646	0.00
EPS	27.784***	3.532	7.866	0.00
DY	1939.908	1275.648	1.521	0.14
DY-1	172.603	631.860	0.273	0.79
RR	-203.502***	78.304	-2.599	0.01
E/P	-7604.296***	737.646	-10.309	0.00
IR	-5.319	13.414	-0.397	0.69

*,**,*** represents the confidence level at 90%, 95%, and 99% respectively.

4 CONCLUSION

The aim of that study was to examine the effect of profitability and dividend policy factors on the share prices of banks listed at Boursa Kuwait and whether or not those factors have different effect when it comes to conventional and Islamic banks. Using the data of ten banks over the period 2014 to 2023, results showed that, Islamic banks had a lower earnings per share (EPS) compared to conventional banks, this made conventional banks share prices more attractive to investors since it provided them with higher earnings to price ratio (E/P). But when it comes to dividend yield (DY), it was observed that Islamic banks provided their shareholders with higher yield than conventional banks. By looking at the retention ratio (RR), results showed that conventional banks retained more of their profits for future expansion than Islamic banks.

During the sample period, COVID-19 crisis hit the financial market in Kuwait. COVID-19 had an effect on banks dividend policies during the year 2019 and their profitability in 2020. Taking these years out of the calculation, results showed that conventional banks outperformed Islamic banks in terms of earnings per share (EPS), dividend yield (DY), and earnings to price ratio (E/P) and on the other hand Islamic banks showed that they are more focused on future expansions since they had higher retention ratio (RR) than conventional banks.

When it comes to the effect of the factors under study on the share prices of Islamic and conventional banks in Kuwait, results revealed that those factors had mixed effect on share prices. In terms of earnings per share (EPS), that factor showed significant positive effect on the share prices of both conventional and Islamic banks. While current year dividend yield (DY) showed significant negative effect on the share prices of conventional banks, that relation was insignificant when it came to Islamic banks share prices. Previous year dividend yield (DY-1) showed significant positive effect on conventional banks share prices, and insignificant on Islamic banks share prices. Retention ratio (RR) exhibited negative effect on banks share prices, in which it was significant negative effect on Islamic banks share prices, and insignificant for conventional banks share prices. Earnings to price ratio (E/P) also revealed mixed results, while

it showed statistically significant positive effect on conventional banks share prices, and significant negative on Islamic banks share prices. Finally, interest rate (IR) showed insignificant negative effect on both conventional and Islamic banks.

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