

**STOCK RETURN PREDICTABILITY WITH
FINANCIAL RATIOS: AN EMPIRICAL STUDY OF
LISTED MANUFACTURING COMPANIES IN
SRI LANKA**

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DECLARATION

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any other University or Institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text and a list of references is given.

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ABSTRACT

This study attempts to investigate financial ratios' predictive power, using the time series data over the period of 2011/2012 – 2016/2017 for 33 listed manufacturing companies in Colombo Stock Exchange. This empirical study specifically identifies financial ratios, which are known as the predictors of stock returns in the share market, to test the stock return predictability on the Sri Lankan market. The financial ratios include the ratio of dividend yield, earnings per share, earnings yield, return on equity and current liability to total asset ratio which are most useful and effective on stock return predictability in order to cover a wide range of predictions which have been used by almost all the previous researches. The results of OLS regression indicate that there exists significant impact of financial ratios on stock return. Furthermore, based on the fixed effect it is confirmed that the stock return has positive relationship with earning yield, Earning per share and Firm age. The regression results show high predictability power, since the R²-values are high and the coefficients are very significant using heteroscedasticity and autocorrelation corrected standard errors. The results show that all ratios hold a somewhat predictive power regarding stock returns of the Listed Manufacturing Companies in Colombo Stock Exchange.

Keywords: Dividend yield, Earning yield, Earning per Share, Stock return, Colombo Stock Exchange.

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