Impact of Fundamental Factors on Share Price of Non-life Insurance Companies in Nepal

Bhim Kumar Thapa ✉, Ramesh Rasik Paudel ✉

Faculty of Management, Public Youth Campus, Tribhuvan University, Nepal

Abstract

The aim of this research is to ascertain the direction in which fundamental factors impact Nepali non-life insurance businesses' stock values. This paper examines all twelve Nepal Stock Exchange (NEPSE)-listed non-life insurance companies using a quantitative, analytical, and descriptive research methodology. Nepal Rastra Bank, the Ministry of Finance and the insurance firms' websites served as secondary sources of information. The results have indicated that two significant elements affecting stock prices are the Price-to-Earnings (P/E) Ratio and Earnings Per Share (EPS). The Market Price of Shares (MPS) and EPS have the most positive association ($r = 0.606$, $p < 0.01$), whereas the P/E Ratio and EPS have the least positive correlation ($r = 0.400$, $p = 0.003$). Dividend per share (DPS) and MPS do not have a statistically significant link ($B = 0.738$, $p = 0.854$), whereas book value per share (BVS) and MPS have a marginally significant but positive correlation ($B = 1.874$, $p = 0.061$). The stock prices of the organizations in Nepal are significantly influenced by the EPS and P/E ratios. These findings suggest that higher P/E and EPS ratios are associated with better returns for investors. While DPS has minimal effect on stock prices, governments should make accurate and transparent financial reporting a priority to help investors. This paper analyzes the financial variables influencing the pricing of Nepalese non-life insurance stocks and offers advice on investment strategy and policy development.

Keywords: Book Value Per Share; Dividend Per Share; Earning Per Share; Fundamental Factors; Price Earnings Ratio; Stock Price

Introduction

The stock market facilitates investor financing of businesses, hence promoting economic growth. Issues of shares by businesses may generate capital, and investors can benefit. Investors both institutional and individual are becoming more interested in the Nepalese stock market. The non-life insurance sector of Nepal Stock Exchange (NEPSE) is special because of its distinctive features and room for expansion. General insurance businesses, or non-life insurance companies, cover liability, property, vehicle, and health insurance (Grace & Barth, 1993). These businesses' stock market performance depends on operational efficiency and financial soundness. Investors, analysts, and lawmakers must understand how these fundamental factors impact non-life insurance stock prices to make smart decisions. Market Price of Share is an essential measure of a stock market price of a company.
This price is diagnosed by market supply and demand, which are affected by the company's financial performance, investor sentiment, market conditions, and economic data. Unlike book value, which is a company's financial statements-based value, the market price fluctuates rapidly due to market perceptions and outside events. The MPS displays a company's market worth and investment possibilities in real time, so investors monitor it. Share price increases often indicate investor trust in a company's development and financial health. Declining MPS may suggest corporate or market concerns. EPS, DPS, and BVS affect market price and investor perception (Sharif, Purohit & Pillai, 2015). Because of the distinct risk profiles and regulatory landscape of the non-life insurance industry in Nepal, it is especially crucial for these organizations to comprehend the factors that contribute to MPS. Examining if there is a connection between basic elements and market stock price? Are the underlying variables affecting the Nepalese non-life insurance company's stock? The purpose of this study is to investigate the link between a few key variables and how it affects the market value of Nepali non-life insurance firms' shares.

**Review of Literature**

**Theoretical Review**

Major financial indicator Profitability per share of a corporation is measured by earnings per share, or EPS. A company's calculation is its net income less its outstanding shares. Higher EPS is often associated with higher stock prices and, in theory, with more profitability. According to signaling theory, a company's worth rises as its results demonstrate improved financial health and future prospects, hence drawing in additional investors (Basu, 1977; Fama & French, 1992). Research has consistently shown a positive relationship between EPS and stock prices, supporting the idea that profits performance plays a big role in market value. The dividend per share (DPS) of a business shows how much of its profits are given to shareholders. The dividend relevance hypothesis, put out by Gordon (1959) and Lintner (1962), contends that dividends have a significant influence on stock price. Dividends are often seen by investors as an indication of a company's success and financial health. Higher DPS companies are seen as having strong finances and reliable cash flows, which drives up stock values. The bird-in-hand argument, which argues that investors choose dividend-paying companies because they value payment certainty above possible future capital gains, lends credence to this idea. The net asset value per share, or book value per share (BVS) is an accounting indicator that is obtained by dividing the total equity of a corporation by its outstanding shares. BVS provides a benchmark by which to assess a company's intrinsic value. According to the fundamental analysis hypothesis, investors determine whether a firm is overvalued or undervalued by comparing its book value to its market price (Kothari & Zimmerman, 1995). Below book value stocks are often seen as cheap, appealing investment prospects with potential for future appreciation. As it shows robust underlying asset values, a greater BVS is thus often linked to a higher stock price. Investors who are risk averse find larger companies more appealing since they can withstand changes in legislation and economic downturns better. Larger businesses often have greater stock prices as investors seek for steady, risk-free investments.

**Empirical Review and Hypotheses**

**Earnings Per Share on Stock Price**

Association between earnings per share and stock prices has been investigated extensively in many markets and scenarios. According to Chakraborty (2012), higher earnings per share (EPS) lead to higher stock prices for Indian companies because investors trust these companies and regard them as being profitable. Malhotra and Tandon (2013) noted the favourable impact of profits per share on Indian stock prices and market values. Pradh'an et al. (2016) states that Nepalese manufacturing and commerce enterprises' stock market performance depends on EPS since it is positively correlated with it. Profitability measures are important since greater EPS values correspond with higher Pakistani stock prices (Ali, Akbar, and Ormrod, 2015). Kumar and Warne (2019) showed that EPS predicts Indian pharmaceutical stock prices, proving its relevance in corporate valuation.

- **H1:** EPS has significantly positive impact on Stock Price

**Dividend Per Share on Stock Price**

Dividend per share (DPS) also significantly affects stock prices. Gordon (1959) notion that dividends are essential to stock value is supported by the actual facts. Dividend-paying companies often had higher stock prices, as Lintner (1962) found. This is so because investors consider dividends to be a sign of the financial health of a firm. Joshi (2018) highlighted the importance of dividends in stock valuation by finding a positive association between DPS and stock prices in Nepalese commercial banks. Higher dividend payout ratios demonstrate investor preference for dividend-paying firms and have a beneficial effect on stock prices in Ghana's stock market, as pointed out by Amidu (2007). Consistent with international studies, Oyinlola and Ajeigbe (2014) also shown that DPS significantly affects stock prices in Nigeria.

- **H2:** DPS has significantly positive impact on Stock Price

**Book Value Per Share on Stock Return**

Another fundamental factor affecting stock prices is BVS. In the US market, Penman (1996) proved that BVS accurately predicts stock prices and intrinsic value. Beaver, Kettler, and Scholes (1970) found a positive link between...
book value per share (BVS) and stock prices, implying that higher book values lead to higher market prices. Fama and French (1992) shown that, in fundamental analysis, BVS has a considerable impact on stock price fluctuations. Chen, Roll, and Ross (1986) identified a strong connection between BVS and US stock prices, which confirms its usage in equity valuation.

- **H3**: BVS has significantly positive impact on Stock Price

There is little study on Nepal's non-life insurance business despite significant research on basic variables' effects on stock prices across sectors and regions. Literature focuses on general stock market dynamics, manufacturing, and banking, leaving a void in understanding how non-life insurance business features and regulatory frameworks affect stock prices. Although EPS, DPS, BVS and P/E ratio have been linked to stock prices in other settings, their impacts on the Nepali non-life insurance market are unknown. This study fills this gap by empirically examining how these fundamental factors affect the stock prices of Nepal Stock Exchange (NEPSE)-listed non-life insurance companies, enhancing our understanding of this industry’s financial determinants.

**Price-Earnings Ratio on Stock Price**

The Price-to-Earnings (P/E) Ratio, which measures a company's profitability, strongly affects stock returns. A positive link exists between P/E ratio and stock performance in all markets and industries. Bodhanwala (2014) argues that there is a positive association of greater P/E ratios and better stock returns. Freihat's (2019) study indicates that Jordanian enterprises with higher price-to-earnings (P/E) ratios had superior performance in the stock market.

This implies that investors expect more earnings and see these companies as stable. Goyal and Gupta (2019) discovered a clear correlation between an Indian company's P/E ratio and its returns. As a result, it is advised that investors looking for development opportunities consider funding these kinds of businesses. A study on the Sri Lankan market by Sajeetha, Nusaika, and Safana (2023) found that the P/E Ratio is a useful tool for increasing profits and predicting changes in stock values, making it relevant in a variety of economic scenarios. Chen, Roll, and Ross (1986) found compelling evidence between the P/E Ratio with US stock returns. This result confirms the appropriateness of using the ratio in both basic research and investment decision-making. Research, such as the one cited above, indicates that the price-to-earnings ratio (P/E) is an important indicator of market expectations and a company's value, both of which impact stock returns.

H4: P/E Ratio has significantly positive impact on Stock Price

**Methodology**

The impact of basic variables on the stock price of Nepalese nonlife insurance businesses is explored in this study via the use of a quantitative research strategy that is both descriptive and analytical. Listed on the Nepal Stock Exchange (NEPSE), twelve non-life insurance businesses make up the population and all companies have been chosen for in-depth examination on this study. Financial data needed for this research to have to be easily accessible and comprehensive in order to be considered for selection. Secondary sources have been used for data collecting. This study gathered all the financial and stock price data we needed from the following sources: the official websites of the insurance firms, NEPSE, the Nepal Rastra Bank and the Ministry of Finance via their publications. Since these sources are well-known for supplying accurate financial information, this method guarantees that the data is reliable and genuine.

This study employed five-year data of all nonlife insurance company, undergo a battery of checks to guarantee they are suitable for advanced statistical analysis. The descriptive analysis used statistical approaches such as minimum, maximum, mean and standard deviation to describe the data and identify key patterns and dispersion. This work used correlation analysis to examine the relationships between a broad variety of independent factors and the dependent variable, the share market price. There was no dependence between the P/E ratio, EPS, DPS, or BVS. The effect of these significant features on the price of share was assessed by ordinary least squares regression analysis. This method allows a comprehensive study of the elements affecting stock value by assessing the impact of each component on the main variable in Nepal's non-life insurance market.

**Result and Discussion**

**Descriptive Analysis**

The major financial metrics of Nepalese non-life insurance businesses demonstrate substantial diversity (Table 1). The average earnings per share (EPS) value is 35.44, with a standard deviation of 59.82. The EPS values vary from -0.04 to 289.73. The results are very variable. The dividend per share (DPS) range of 0 to 38, with an average of 5.94 and a standard deviation of 6.95, illustrates the various dividend policies. Book Value per Share (BVS) ranges from 97.07 to 1514.47, with a mean of 275.64 and a standard deviation of 311.69, indicating different equity arrangements. Price-to-earnings (P/E) ratio volatility is shown by its large range of 0.00 to 9450.54, average 196.85 with a high standard deviation of 1215.30. Market Price per Share (MPS) shows significant swings in stock prices with an average of 1727.30 and a deviation of 3957.06. The range of MPS is 0.00 to 21600.00. These data shown in Table 1 show how much the basic elements impacting stock prices in this industry vary significantly.
Correlation Analysis
The correlation analysis in Table 2 examines the connections between Market MPS and several fundamental factors, including EPS, DPS, BVS, and P/E Ratio, for non-life insurance industries in Nepal. This study has shown a number of interesting correlations. Larger market prices are associated with larger profits, as shown by the quite positive and statistically significant relationship (r = .400, p = .003) between MPS and EPS. Significant positive correlations are found between MPS and P/E Ratio (r = .606, p < .01) as well as BVS (r = .589, p < .01). This suggests that higher market prices are linked to greater book values and higher P/E ratios. Although, the statistical analysis reveals that there is no significant association of MPS with DPS in a correlation coefficient of .259 and a p-value of .059. This suggests that dividend payments may not have a direct influence on stock prices within this particular sector. Moreover, BVS has strong positive associations with EPS (r = .722, p < .01) and DPS (r = .535, p < .01), but the P/E Ratio shows a negative connection with EPS (r = -.307, p = .024), although not a statistically significant link with DPS. The findings shown in Table 2 emphasize the significance of EPS, BVS, and P/E Ratio as fundamental determinants that impact stock prices. Among these parameters, BVS and P/E Ratio exhibit the most robust correlations with MPS in the non-life insurance sector in Nepal.

Regression Analysis
Regression analysis shows that fundamental variables affect Nepalese non-life insurance company stock values. The model summary indicates a good connection between MPS and the predictors (EPS, DPS, BVS, and P/E Ratio), explaining 76.9% of stock price volatility with R-squared values of 0.769 and 0.877 (Table 3). Results from the analysis of variance (F = 40.802, p < .001) show that the model is relevant (Table 4). The relationship between EPS and MPS is positive (B = 16.04, p < .001), with a 16.04 unit increase in MPS for every unit increase in EPS.

**Correlation is significant at the 0.01 level (2-tailed).**
*Correlation is significant at the 0.05 level (2-tailed).
H1: EPS has a significantly positive impact on MPS (B = 16.04, p < .001) Accepted

H2: DPS has a significantly positive impact on MPS (B = 0.738, p = .854) Rejected

H3: BVS has a significantly positive impact on MPS (B = 1.874, p = .061) Marginal Accepted

H4: P/E Ratio has a significantly positive impact on MPS (B = 9.087, p < .001) Accepted

A one-unit rise in EPS causes a 16.04-unit goes up in MPS, according to the coefficient (B = 16.04, p < .001). This industry does not see a large direct influence from dividends, since DPS does not substantially affect MPS (B = 0.738, p = .854). BVS's positive but marginally significant impact (B = 1.874, p = .061) shows that greater book values increase stock prices. The highest positive link with P/E ratio and MPS (B = 9.087, p < .001) suggests association with increasing stock prices.

The linearity statistics show that this model has no multicollinearity since all Variance Influence Factor (VIF) values less than 10 and tolerance values are above 0.1. At first, the regression diagnostics looked at 60 data; out of them, 4 had Cook's Distance values greater than 1. Even after removing these four data and rerunning the model, Cook's Distance still exceeded 1 for a few of the remaining observations. Two further observations were removed from the dataset as a result of additional analysis, bringing the total number of observations down to 54. Rerunning the model revealed that there were no outlying spots with significant influences, since all Cook's Distance values were less than 1 (Min= 0, Max =0.801). This repeated method reduced the influence of outliers and major data points, making the model more dependable and robust. EPS and P/E Ratio are the most important MPS predictors in Nepalese non-life insurance business, followed by BVS and DPS.

The current research explores fundamental elements and Nepal's non-life insurance stock price. As EPS rises by one unit, Market Price per Share (MPS) rises by 16.04 units. Additional studies (Nalurita, 2016; Budiyono & Santoso, 2019; Sihaloho & Prabath, 2014) support this claim. Joshi (2012), Tandon and Malhotra (2013), Masum (2014), and Singh and Tandon (2019) together determined that there was no discernible influence of DPS on MPS. Sari (2021), Warrad and Warrad (2017), Tandon and Malhotra (2013), and Almujamed and Alfraih (2019) found that book value per share (BVS) positively affects stock prices. Bodhanwala (2014), Freihat (2019), Goyal and Gupta (2019), and Sajeetha, Nusaika, and Safana (2023) found a high positive correlation between P/E and MPS. These data suggest that DPS has a weaker influence on stock prices in this industry than P/E and EPS.

Table 3: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
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<td>0.877</td>
<td>0.769</td>
<td>0.750</td>
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Predictors: Constant, EPS, DPS, BVS, P/E Ratio
Dependent Variable: MPS

Table 4: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
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<th>Mean Square</th>
<th>F</th>
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<td></td>
<td>Residual</td>
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<td>29233.362</td>
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<td></td>
<td>Total</td>
<td>53</td>
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</table>

Table 5: Coefficients

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<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
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<td>Beta (β)</td>
<td>Std. Error</td>
<td>Beta (β)</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
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<td>(Constant)</td>
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<td>125.087</td>
<td>-2.997</td>
<td>.004</td>
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<td></td>
<td>EPS</td>
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<td>3.942</td>
<td>0.46</td>
<td>4.069</td>
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<tr>
<td></td>
<td>DPS</td>
<td>0.738</td>
<td>3.994</td>
<td>0.015</td>
<td>0.185</td>
</tr>
<tr>
<td></td>
<td>BVS</td>
<td>1.874</td>
<td>0.978</td>
<td>0.223</td>
<td>1.916</td>
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<tr>
<td></td>
<td>P/E Ratio</td>
<td>9.087</td>
<td>0.967</td>
<td>0.741</td>
<td>9.402</td>
</tr>
</tbody>
</table>

Dependent Variable: MPS
Conclusion and Implications

Conclusion

This study revealed that price earnings ratio and earnings per share had the most impact on the pricing of non-life insurance stocks in Nepal. Market Price per Share (MPS) rises by 16.04 units with one unit of EPS. We concur with earlier research showing that stock prices are driven by profitability. Dividends are not as significant in this company as seen by the little impact of Dividend Per Share (DPS) on MPS. It is possible that increasing book values will translate into higher stock prices since book value per share (BVS) marginally raises MPS. The important relationship between the Market Price of a Share (MPS) and the Price-to-Earnings (P/E) Ratio highlights its use as a valuation indicator. The significance of market sentiment and financial outcomes in influencing stock prices in this sector is shown by these findings.

Implications

Two things are meaning of these results. Investors may benefit more by concentrating on firms with greater EPS and P/E ratios since these metrics are closely correlated with the increase of stock prices. Buyers selecting firms to invest in this sector should bear in mind that earnings have a very little impact on stock prices. The little effect of DPS on stock prices may be found to provide useful information by regulators and policymakers. This information could affect non-life insurance sector financial regulations and dividend policy choices. More openness and precise financial performance disclosure should be encouraged by lawmakers to assist investors in making well-informed judgments. This research provides empirical data that is relevant to the non-life insurance business in Nepal, therefore enhancing the existing knowledge base. This approach prioritizes the use of essential financial indicators to determine stock prices and provides valuable information for the development of policies and investment strategies.

References


