

Determinants of Stock Market Price in Nepalese Commercial Banks

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Abstract

This study aims to analyze determinants of stock price of Nepalese commercial banks. The study is conducted by using quantitative method followed by descriptive research to make brief and accurate study on selected variables and pooled cross-sectional data that are collected from NEPSE listed banks at one point in time. The data are collected covering the period from the F/Y 2011/12 to 2020/21. Ten commercial banks are selected as representative of target population of 26 commercial banks. The research variables are book value per share, PE ratio, firm size, dividend payment, return on equity and market price per share. Under the statistical analysis, descriptive statistics, correlation and multiple regression analysis are conducted. Descriptive statistics shows the book value per share and firm size of Nepalese commercial banks have been found steadily growing whereas the profitability, dividend and stock performance in market are quite volatile. The P/E ratio is found to be nil in some of the year due to no earnings per share of particular bank. Share price of Nepalese commercial banks is positively correlated to BVPS, PE, ROE and DIV whereas negative relationship with firm size (FS). Among the independent variables, all variable except firm size (FS) are statistically significant. Regression results reveals that BVPS, PE, ROE and DIV have positive and significant impact on MPS whereas firm size (FS) has significant and negative impact on MPS.

Keywords: EPS, MPS, dividend yield, ROA, ROE, MPS, commercial banks

Background of the Study

A stock market is a financial market for long-term securities that includes debt and equity backed securities are bought and sold. Stocks are the most common and actively traded securities in financial markets. It is regarded as a long-term source of funding. Stocks give the holder the right to receive profit in case of an entity to achieve profits or else bear the loss as much as shares, and the right to own part of a company (Arkan, 2016). Stock market provides platform to firm and investors whereby the investors invest their

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savings and the firms get to enjoy low-cost long-term capital. The stock markets play critical role in every economy of a nation. The criticality of the stock markets to the growth of every economy is based on the fact that resources are channeled to the most productive investment opportunities. They serve as a place where securities are traded as well as provide the platform for effective and efficient interactions between savers and users of capital by means of pooling of funds, sharing risk and transferring wealth among stakeholders (Ammeh, 2014). Equity shares provide major channel of investment that has the potential of yielding meaningful returns to investors. However, a number of factors such as market conditions, activities of regulatory bodies, performance of particular stocks, among others cause returns from equity investment to fluctuate. Nirmala et al. (2011) found knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms to enhance their market value.

Investment plays a key role for the development of a country. Investment, in its broadest sense, means a commitment of money and resources that are expected to generate additional money and recourses. The well understanding of investment requires the understanding of relationship between income, saving and investment, because investment is the result of interplay of these factors. Saving is not possible without earning, earning is not possible without investment and investment depends on the mobilization of savings either directly by savers.

Researchers have connected a few inner (internal) and outer (external) factors that influence stock prices. Company or internal specific factors include company performance, asset position, changes in board structure, dividends, and income. External factors that affect stock prices are government regulations, business cycles, investor attitudes, market conditions, natural disasters, and contingencies such as strikes, closures, etc. (Khan & Amanullah, 2012). Numerous studies have been carried out on the determinants of equity share price, but there are some controversial findings on the factors influencing the equity share price. Several studies found that price-earnings ratio, book value per share, dividend per share, dividend yield, firm size, and leverage are the key predictors of the equity share price, (Srinivasan, 2012; Abdelkarim, 2014; Sanjeet, 2009). While others found that book value per share, dividend per share, dividend yield, and company size have no relationship with equity share price (Khan & Amanullah, 2012; Srinivasan, 2012; Yuga, 2014; Abdelkarim, 2014). Considering a fact that, directed toward stock market and we are also aware of ups and downs trend in stock market, so to safeguard the investors' investment on stocks, one cannot ignore

the fact that there are several factors that determine the stock price of a company. The study attempts to investigate the influencing factors of stock price of commercial banks in the context of Nepal which are selected as the proxies for their sectors by considering the company financial statements. So, the factors or the financial ratios to be calculated and analyzed from the financial report are stated as: return on equity, book value per share, dividend yield, price earnings ratio and size of the firm.

Statement of the Problem

Nepal Stock Exchange is the only one share market in Nepal which is treated as one of primary indicator of a country's economic growth and development. Share prices play a crucial role in the share market, since share price is as a major determinant for the investment decision in the share market. Therefore, it is really important to investigate the factors determining the share price in the stock market. There are considerable number of studies have been investigated to find out the factors determining the share price. However, there are very few studies have been conducted to investigate the factors determining the share prices in Nepalese context. Various literature suggests that changes of stock price depend on internal and external factors. Current price of shares are very crucial, not only for policy makers, but also for investors, investment decision makers, portfolio managers, share brokers and researchers interested in the performance of capital markets. Specially, investors should consider the internal factors and external factors of a firm, when they invest in shares of a firm in order to maximize their earnings through stock market investment. The share price is subject to extreme fluctuations depending on several factors one of which is earnings. Nepalese banking sectors playing very important role in economic growth of the country (NRB, 2019). Therefore, this study attempted to investigate the factors influencing on share prices of listed commercial banks in Nepal.

The problem toward which this study is directed is to identify the performance of common stocks listed in NEPSE. Now-a-days, investment in common stocks in Nepal is getting momentum due to flow of information through print media although not so adequate. The individual investors are investing in common stocks despite very little information because of less opportunity available elsewhere. Most of them are based on the price movement of stocks in the market. Not much information is available in the market regarding various risk factors. There are no specific agencies to provide information on the performance of various common stocks. Therefore, this study is directed towards the measurement of performance of common stocks.

Conceptual Framework

From the review of articles, the conceptual framework is designed with key independent variable which are expected to affect dependent variable share price significantly.

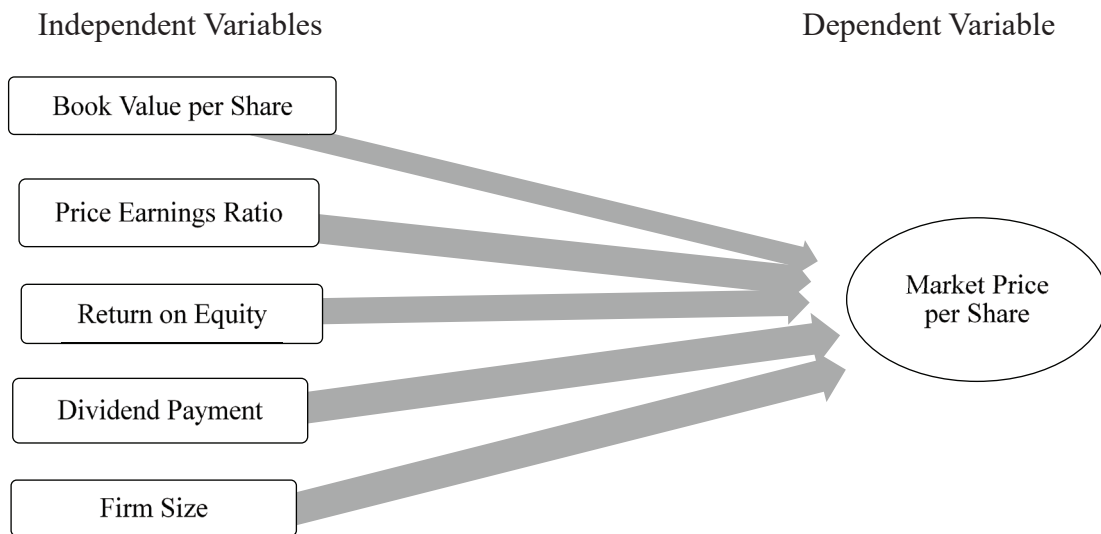


Figure 1: Conceptual Framework

Book Value per Share: (Aiyabei, Tobias, & Macharia, 2019) pointed out the meaning as the accounting value of a share of that are traded publicly. The amount per share of common stock that would be received if all of the firm's assets are sold off for their accounting value and the proceeds residual after paying all liabilities.

H1: Book value per share has positive and significant impact on market price of stock.

Return on Equity: Sharif, Purohit, and Pillai (2015) found it as it a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. Generally, the higher the return on equity, the better off are the owners.

H2: Return on equity has positive and significant impact on market price of stock.

PE Ratio: Constand, Freitas, and Sullivan (1991) explained PE ratio as a common measure used to indicate market assessment of a company's performance. It is used to assess the company's appraisal of share value. It measures the amount that investors are willing to pay for each rupee of the firm's income.

H3: Price earnings ratio has positive and significant impact on market price of stock.

Dividend Payment: Bhattarai (2014) depicts dividend as the percentage of dividend declared in a financial year with respect to its paid-up capital. It is the amount of money a firm pays to shareholders for owning a share of its stock divided by its current share price. It is estimated a year return of an investment in a stock based only on the dividend payment.

H4: Dividend payment has positive and significant impact on market price of stock.

Firm Size: Size is an important financial measure used to represent the volume of the bank, in many ways, the size of the firm can be measured for example, through turnover, paid-up capital, capital employed, total assets, net sales, market capitalization, etc. In this study bank size is measured by total asset scaled in natural logarithm. The study conducted by Gautam and Bista (2019) revealed that the firm size has a negative significant relationship with the market price of share.

H5: Firm size has negative and significant impact on market price of stock.

Research Methodology

Research Design

This study has employed causal comparative research design to deal with the relationship between variables, also referred as interrelationship because they trace relationship among the facts obtained to gain a deeper insight into the situation. The data are collected from the F/Y 2010/11 to 2019/20.

Population and Sampling Procedures

Commercial banks listed in Nepal Stock Exchange (NEPSE) is the population of the study which are 26 in number till June, 2021. Ten commercial banks has been selected as representative of target population on the basis of simple random sampling technique.

Nature and Sources of Data Collection

The study is based on secondary data. The required secondary data are collected from the financial statements of listed commercial banks, publication by NEPSE, SEBON and NRB. Besides this, further data are collected from published and unpublished reports, journals, internet, thesis etc. The data in this study covers the period from FY 2011/12 to FY 2020/21 with total 100 observations.

Data Collection Procedures

The required data are gathered by visiting sample banks, websites and interact with personnel of selected banks. The financial data are sourced from the annual reports of the selected banks.

Method of Data Analysis

For analysis of this study, different financial and statistical tools are used. By applying financial and statistical tools, the relationship between different relevant financial variables are examined. The calculated results are tabulated and compared and interpreted.

Statistical Analysis

Under the statistical analysis, descriptive statistics, correlation and multiple regression analysis will be conducted. Descriptive statistics includes mean, standard deviation and coefficient of variation. Correlation analysis includes Karl Pearson correlation method and multiple regression analysis are carried out.

Results

Descriptive Statistics

The descriptive statistics regarding the data of dependent and independent variables for the sample banks are summarized in table 1. The data covers from the FY 2011/12 to FY 2020/21 and the total observations of the study are 100 bank years. Also, the table shows the mean, standard deviation, minimum and maximum values for the dependent and independent variables, the variables described for include: book value per share (BVPS), price-earnings ratio (PE), return on equity (ROE), dividend payment (DIV), firm size (FS), and market price per share (MPS).

Table 1: Descriptive Statistics of Research Variables over FY 2011/12 to FY 2020/21.

Variables	Unit	N	Minimum	Maximum	Mean	Std. Deviation
BVPS	Rupee	100	104.590	206.540	142.969	24.666
PE	Times	100	.000	76.090	20.888	12.574
ROE	Percent	100	.090	23.360	12.745	4.575
DIV	Percent	100	.000	39.000	14.799	8.769
FS	Ln	100	7.880	12.520	10.778	.780
MPS	Rupee	100	126.000	876.000	371.890	171.516

Table 1 shows the average indicators of variables computed from the financial statements and the standard deviation that shows how much dispersion exists from the average value. According to Kothari (2004), a low standard deviation indicates that the data point tends to be very close to the mean, whereas high standard deviation indicates that the data point is spread out over a large range of values. Book value per share (BVPS) shows the Nepalese commercial banks have on average a positive of Rs. 142.969 over the last ten years. The range of BVPS was a maximum of Rs. 206.54 and a minimum of Rs. 104.59. That means the most successful banks among the sampled banks have net worth Rs. 206.54 per share. The value of the standard deviation for BVPS is Rs. 24.666; this implies that the BVPS of Nepalese commercial banks varies from the mean by Rs. 24.666, which indicates that there was medium variation from the mean, the lower standard deviation is a good indication that most of the observations are concentrated around the mean. Similarly, P/E ratio is revealed in second row with minimum 0 times, maximum 76.09 times, average of 20.888 times and SD of 12.574 times. The results show that the share performance in secondary market topped to Rs. 76.09 to earn Rs. 1 earnings, averaged on Rs. 20.888 and deviated by Rs. 12.574. The zero P/E ratio is resulted due to no earnings per share in particular year of particular bank. In other words, the investors have to invest 20.888 times more on stock of selected commercial banks to earn profit. Return on equity (ROE); The mean value for ROE measured by net profit to total equity (12.745 percentage) with minimum and maximum of (0.09 percentage) and (23.360 percentage) respectively the standard deviation is medium (4.575 percentage) which means the ROE of the banks vary from bank to bank and from time to time. In other words, on average, Nepalese commercial banks are providing Rs. 12.745 to their equity shareholders per Rs. 100 investments in stocks and the shareholders of most successful banks have been benefitted with Rs. 23.360 on their investment.

Dividend payment ratio (DIV); the mean value for DIV measured by dividend to paid up capital was (14.799 percentage) with minimum and maximum of (0.000) and (39.00 percentage) respectively and the result indicates the commercial banks have been paying dividend approximately Rs. 15 in each of Rs. 100 paid up capital on average including both cash and bonus share. However, the standard deviation is high (8.769 percentage) which indicated that there was a high dispersion from the mean value of DIV of Nepalese commercial banks.

Firm size (FS); Firm size measured by logarithm of total asset is used as a proxy of size. The mean of the logarithm of total assets during the period was (10.778), having

the minimum and maximum of (7.880) and (12.520) respectively and also there is relatively very small variation in the size of the commercial banks in Nepal as the standard deviation is (0.780). The results also present the size of selected banks are growing each year. Market price per share (MPPS); the average value of MPPS was (Rs. 371.890) with minimum and maximum of (Rs. 126.00) and (Rs. 876) respectively. And the standard deviation is very high which is (Rs. 171.576), and it indicates that there is a high dispersion from the mean value of MPS on Nepalese sampled banks.

Correlation Analysis

Table 2: Matrix of Karl Pearson's Correlation Coefficient between Research Variables

Variables	BVPS	PE	ROE	DIV	FS	MPS
BVPS	1					
PE	-.251* .012	1				
ROE	.369** .000	-.329** .001	1			
DIV	.481** .000	-.051 .617	.540** .000	1		
FS	.425** .000	-.248* .013	.310** .002	.301** .002	1	
MPS	.392** .000	.273** .006	.429** .000	.591** .000	-.049 .629	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 2 shows the correlations between research variables book value per share (BVPS), price- earnings ratio (PE), return on equity (ROE), dividend payment ratio (DIV), firm size (FS) and market price per share (MPS). The study used the significance level of alpha = .05 (95 percentage) and 0.01 (99 percentage). The correlation coefficient with single asterisk is significant at 5 percentage and with double asterisk is significant at 1% at two tail tests.

The table shows correlation coefficient of dependent variable market price per share (MPS) with independent variables book value per share (BVPS), price- earnings ratio (PE), return on equity (ROE), dividend payment ratio (DIV) and firm size (FS) are .392, .273, .429,

.591, and -.049 respectively, that means share's price is positively correlated to BVPS, PE, ROE and DIV whereas negative relationship with firm size (FS). Among the independent variables, all variable except firm size (FS) are statistically significant at 1% significance level as shown by p-value less than 0.01 which are placed in parenthesis. It can be interpreted that bank specific factors net worth, price earnings ratio, profitability and dividend policy have real and positive association with market price per share. In other words, share price of selected commercial banks increases with positive growth of BVPS, PE, ROE and DIV and negative growth of firm size (FS). The results is in line with the findings of Sukhija (2014), Bhattarai (2014), Sharif et al. (2015), Silwal & Napit (2019) and Thapa (2019), and opposed to the findings of Shammout (2020) and Veronika & Zuhroh (2021). Regarding the relationship of profitability with net worth and dividend payment, there is moderate positive and significant relationship as a result of correlation coefficient of ROE with BVPS and DIV are .369 and .540 respectively with p-value of .000 for each whereas ROE has negative and significant relationship with price earnings ratio as indicated by correlation coefficient -.329 and p-value .001. The results show that bank's net worth and dividend payment scaled up with growth of profitability. Similarly, firm size is positively related to BVPS, ROE and DIV and negatively related to PE and such relationship is found to be significant at 1% and 5% significance level. It means growth of bank investment helps to increase profitability and dividend payment and to some extent, stock price in market declines.

Regression Analysis

Multiple regression analysis is carried out to see the degree of impact of independent variables on dependent variable. In this section, analysis of model summary, ANOVA and regression statistics are analyzed.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.784 ^a	.614	.593	109.375

a. Predictors: (Constant), FS, PE, DIV, BVPS, ROE

The R^2 is a measure of the goodness of fit of the net worth, price earnings ratio, profitability and dividend policy factors variables in explaining the variations in Share's market price. Based on the study, correlation coefficient (R) was .784 and the coefficient of determination (R^2) was .614 indicating that 61.40 percentage of the share price of commercial banks can be predicted by the net worth, price earnings ratio, profitability and dividend policy factors identified in the study. The adjusted R^2 is an improved estimation of R^2 in the population. The value of adjusted R^2 is 0.593. This adjusted measure

provides a revised estimate, i.e. 59.3 per cent of the variability in share price of banks due to the fitted model. Since the correlation of .784 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between selected independent variables and share price of commercial banks.

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1787829.247	5	357565.849	29.889	.000 ^b
Residual	1124516.543	94	11962.942		
Total	2912345.790	99			

a. Dependent Variable: MPS

b. Predictors: (Constant), FS, PE, DIV, BVPS, ROE

Table 4 reveals the ANOVA to report quantities related to the overall explanatory power and significance of the regression model. Since p-value is less than 0.01 (critical level of significance), it is concluded that there is significant relationship between bank specific factors and Share's price of banks. Table 4.4 shows F- value of 29.889, with a corresponding p-value of 0.000, which means that the overall fitness of the model is well justified. This means that the model using net worth per share, profitability, price earnings ratio, dividend distribution and firm size to measure the market price per share (MPPS) of banks can be relied on to explain the variability on share price. In general, the regression analysis results revealed that the selected independent variables BVPS, PE, ROE, DIV and FS have relation to price of banks Shares. Thus the model is statistically significance in predicting how net worth per share, profitability, price earnings ratio, dividend distribution and firm size affect the market price per share of commercial banks.

Table 5: Regression Result of Market Price per Share

Model	Unstandardized		Standardized	t	Sig.	Collinearity	
	Coefficients		Coefficients			Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	374.534	167.988		2.230	.028		
BVPS	2.240	.550	.322	4.072	.000	.656	1.524
PE	5.605	.971	.411	5.775	.000	.811	1.232
ROE	12.846	3.076	.343	4.176	.000	.610	1.639
DIV	7.072	1.644	.362	4.301	.000	.581	1.721
FS	-65.724	15.996	-.299	-4.109	.000	.776	1.288

Dependent Variable: Market Price per Share

Table 5 presents the constant value and regression coefficients of regression model along with t-statistics, p-value and collinearity statistics. With reference to collinearity statistics, the tolerance rate is higher than 0.500, whereas VIF coefficients in all the independent variables are less than 2. According to Gujarati (2004), the tolerance rate ranges from 1 to 0, the nearer the 1 is the lower the collinearity, while the VIF less than 10 is lower the collinearity. It is therefore an indication that the assumption is fulfilled and independent variables are really independent and there is absence of multi-collinearity problem. The model of share price (MPS) on selected independent variables implies that a unit increase in 1 unit of BVPS, PE, ROE and DIV leads to 2.240, 5.605, 12.846 and 7.072 units increase in MPS whereas increase in 1 unit of firm size (FS) leads to 65.724 decrease in MPPS and all of selected variables are statistically significant to shape the share price at 1% significance level as pointed by p-value 0.000 for these variables which are less than 0.01. The result shows that the selected variables BVPS, PE, ROE, DIV and FS are strong factors in determining MPS of Nepalese commercial banks. The results of significant effect of BVPS, PE, DIV, FS and ROE on MPPS is in line with the findings of Sukhija (2014), Bhattarai (2014), Sharif et al. (2015), Silwal & Napit (2019) and Thapa (2019), and opposed to the findings of Shammout (2020) and Veronika & Zuhroh (2021). Similarly, the regression results has supported the signaling theory and the signal that is conveyed is in the form of a financial report or annual report by management as a form of information. A good and positive signal is a reflection that the company has experienced growth and improvement in terms of income and this will be informed to investors through the company's financial statements (Widagdo, 2020).

The standardized beta coefficients shows that the share's price (MPS) has been greatly impacted by price earnings ratio (PE) with the highest standardized beta .411 and followed by DIV with .362 standardized beta. The least affected variables is firm size with standardized beta of -.299.

From table 5 above, the established multiple linear regression equation becomes:

$$\text{MPS} = \alpha + \beta_1 \text{BVPS} + \beta_2 \text{PE} + \beta_3 \text{ROE} + \beta_4 \text{DIV} + \beta_5 \text{FS} + e_i$$

$$\text{MPS} = 374.534 + 2.240(\text{BVPS}) + 5.605 (\text{PE}) + 12.846 (\text{ROE}) + 7.072 (\text{DIV}) - 65.724(\text{LEV})$$

The above model shows that when all the factors are held constant the market price per share would be Rs. 374.534. A unit change in BVPS, PE, ROE, DIV and FS, holding other factors constant would change MPPS by 2.240, 5.605, 12.846, 7.072 and -65.724 units.

Conclusion

The book value per share and firm size of Nepalese commercial banks have been found steadily growing whereas the profitability, dividend and stock performance in market are quite volatile. The P/E ratio is found to be nil in some of the year due to no earnings per share of particular bank. The investors have to invest 20.888 times more on stock of selected commercial banks to earn profit. On average, Nepalese commercial banks are providing Rs. 12.745 to their equity shareholders per Rs. 100 investments in stocks and the shareholders of most successful banks have been benefitted with Rs. 23.360 on their investment. The commercial banks have been paying dividend approximately Rs. 15 in each of Rs. 100 paid up capital on average including both cash and bonus share. Moreover, there is a high dispersion from the mean value of MPS on Nepalese sampled banks. Share price of Nepalese commercial banks is positively correlated to BVPS, PE, ROE and DIV whereas negative relationship with firm size (FS). Among the independent variables, all variable except firm size (FS) are statistically significant. It can be interpreted that bank specific factors net worth, price earnings ratio, profitability and dividend policy have real and positive association with market price per share. In other words, share price of selected commercial banks increases with positive growth of BVPS, PE, ROE and DIV and negative growth of firm size (FS). BVPS, PE, ROE and DIV have positive and significant impact on MPS whereas firm size (FS) has significant and negative impact on MPS. The result shows that the selected variables BVPS, PE, ROE, DIV and FS are strong factors in determining MPS of Nepalese commercial banks. The share's price (MPS) has been greatly impacted by price earnings ratio (PE) and followed by DIV. The least affected variables is firm size.

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