




## **Impact of Fundamental Factors on Stock Prices of Nepalese Commercial Banks**

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### **Abstract**

**Purpose:** This study investigates the relationship between key financial performance indicators and the market price per share (MPS) of commercial banks listed on the Nepal Stock Exchange (NEPSE). Against the backdrop of increasing investor interest and stock market volatility, the research aims to identify the determinants that significantly influence share valuation in Nepal's banking sector.

**Methods:** Using a positivist research philosophy, the study employed a quantitative approach and utilizes secondary data from all 19 commercial banks listed in NEPSE over a selected 2015 to 2024 years financial period. Data were extracted from official bank websites, NEPSE reports, and regulatory disclosures. The strength and direction of the association between independent variables, fundamental factors and MPS, were determined using descriptive statistics, Pearson correlation analysis, and multiple linear regression modeling.

**Findings:** The findings revealed that book value per share (BVPS) and return on equity (ROE) were positively and significantly associated with MPS, indicating that stronger asset backing and profitability enhanced investor valuation. Dividend per share (DPS) also showed a positive effect but was less statistically significant. The regression model satisfied key assumptions of linearity, normality, and homoscedasticity was confirmed through residual diagnostics including studentized deleted residuals, Cook's distance, leverage values, and visual plots.

**Conclusion:** The study concludes that key financial indicators, particularly DPS, ROE, BVPS, and firm size, significantly influence the market price per share of listed firms. The findings validate major financial theories such as Signaling Theory, Residual Income Valuation Theory, Agency Theory, and Economies of Scale Theory in explaining stock price behavior.

**Implications:** This study recommends to the policymakers and financial institutions promote transparent and consistent financial reporting, particularly around profitability and equity



strength, to enhance market efficiency. Investors are advised to consider long-term performance indicators such as ROE and BVPS in portfolio decisions.

**Keywords:** book value per share, dividend per share, financial performance indicators, market price per share, return on equity

## 1. Introduction

The market price of a share is the prevailing price at which the stock of the company is traded in the stock exchange which is due to the forces of demand and supply (Ross et al., 2022). Efficient Market Hypothesis (EMH) is a hypothesis that shares prices contain all the known information and therefore share prices are always fairly priced (Fama, 1970). According to Boateng et al. (2025), financial ratios such as earnings per share and returns on equity have continued to be robust predictors of market value. DPS is the amount of earnings given to every outstanding share of common stock as a sign of shareholder returns (Ross et al., 2022). Aryal and Maharjan, (2024) have discovered that DPS has a positive and significant impact on MPS in listed companies within Nepal. Yahaya (2025) demonstrated that regular stock dividends increase the valuation of Nigerian banking stocks. Hu and Wang (2022) also noted that dividend announcement also affects investor behavior and market prices in the East Asian markets. A stock market is the keystone of the financial system of a country, where the efficient distribution of resources should occur as well as a place where governments and companies are able to raise long-term capital to support their new initiatives (Thapa, 2023), which are characterized by negative effects on capital adequacy ratios, credit risks, and shareholder dividends (Thapa et al., 2025). The BVPS is the price of the net assets of any company that is being divided amongst the outstanding common shares and is determined by dividing the total equity by the stocks of the company that are outstanding, less the preferred equity (Ross et al., 2022). According to Lamichhane (2024), the market prices in Nepal were much higher in larger firms because of the trust that investors had in them. In their research on the Southeast Asian firms, Zahra et al. (2000) observed that there is a positive correlation between size of the firm and MPS, particularly in mature industries. Abor (2007) found that Ghana capital-intensive firms were associated with an increase in share valuation than small firms. The Return on Equity (ROE) is a financial indicator that determines the profitability of a company by showing the percentage profit generated by the net income of the shareholders (Ross et al., 2022). Gautam et al. (2024) discovered a positive important effect of ROE on MPS. Juwita and Diana (2020) found that the Chinese high-ROE firms continued to have high stock prices as a result of increased investor demand. Farooq et al. (2022) also established that ROE is one of the most predictive variables of MPS amongst the listed manufacturing companies in Pakistan. One of the financial indicators which is taken to determine the capital strength of a bank is Capital Adequacy Ratio (CAR) which is the ratio of the capital of a bank to its risk-weighted assets (Ross et al., 2022). Dhami (2024) discovered that CAR has a significant effect on MPS at Nepalese commercial bank. Similarly, Wang et al. (2021) demonstrated that Chinese banks that have greater CARs are more likely to have increased stock prices because they are less risky. In Pakistan, Said et al. (2022) established the positive correlation between CAR and MPS among the listed financial institutions. A Non-Performing Loan (NPL) is a loan where the borrower has failed to service the scheduled payments within 90 days, and also, there is little chance that the loan will be paid in full (Ross et al., 2022). The negative influence of NPL on MPS in Nepal commercial banks was substantial (Subedi, 2023). In the same line of thought, Wang and Xu (2025) demonstrated that stock prices of Chinese banks did fall as a result of perceived financial risk because of the high NPL ratios in the banks.

This research is valuable to the Nepal policymakers and financial institutions. It explains major factors of stock valuation in NEPSE. Results can help investors to make better

decisions with regard to their portfolios. Banks are informed of the best policies of dividend and profitability. The study is a financial theory/local market practice gap. It improves efficiency in the market by increasing financial reporting. On the other hand, the analysis of the listing commercial banks is narrowed down to the listed commercial banks. The available research data is specifically 2015-24. Evaluation is done by relying on secondary financial disclosure. The results should be applied to the Nepalese banking industry. The research is not related to non-financial sectors. The model does not have macroeconomic variables.

This paper poses the question of how company-specific fundamental variables, dividend per share, book value per share, and firm size, and return on equity, capital adequacy ratio and non-performing loans influence the market price per share of Nepal commercial banks. This is why the aim of the present research is to investigate how these basic factors influence stock prices through the regression analysis.

## **2. Literature Review**

### **2.1 Theoretical Review**

The version of the market valuation theory was suggested by Fama (1970) and constituted the Efficient Market Hypothesis. He reasoned that all the available information is well represented in the price of shares. This implies that investors are not able to make excess returns all the time. The signaling theory of dividends which was put forward by Gordon (1959) focuses on the informational fact of dividends. This theory suggests that companies pay dividends as an indication of their financial position and forecasts. Miller and Modigliani (1961) claimed that in the ideal market environment dividend policy has no impact on the firm value. This is referred to as the dividend irrelevance theory. Ohlson (1995) came up with a model that relates accounting information to the value of firms. Aharony and Swary (1980) furthered the profitability theory by associating ROE with the value of the firm. Return on equity is used in the measurement of profitability of a firm that is based on the equity of shareholders. High ROE is a sign of effective utilization of capital. The theory of risk management was presented by Sufian and Chong (2008) in the banking and financial field. They claimed that capital adequacy ratio (CAR) is used to show the capability of firms absorbing losses. A high CAR means that the company is stable. Banks will be subject to a minimum CAR by regulators. Companies that have a high CAR are said to be less risky. Berger and DeYoung (1997) investigated the impact of non-performing loans on firm value (NPLs). According to credit risk theory, high NPLs are an indicator of poor quality of loans. This undermines a balance sheet of a firm. NPLs lower profitability leading to financial risk. High NPLs are dangerous signs to investors. Banz (1981) has observed a trend in which the small firms have been found to outperform the large companies. This is referred to as size effect. firm performance.

### **2.2 Empirical Review and Hypotheses Development**

#### **2.2.1 Fundamental Factors and Stock Price**

Market price of a share is one of the widely recognized indicators that summarizes investor sentiment, firm performance as well as market conditions. Various empirical studies have been conducted to understand the effects of a combination of most of the basic financial variables on stock value in both developed and emerging economies. Arsal (2021) made an experiment to investigate the correlation of DPS and share prices, and he used a regression analysis to study panel data of listed firms. Hanif (2025) concentrated on the application of the book value per share (BVPS) to determine the share prices based on a cross-sectional regression model. Waheed et al. (2021) investigated the impact of firm size on stock performance in a related study through a panel data analysis by using a fixed effects panel model. Zahra et al. (2000) investigated the effect of capital adequacy ratio (CAR) on the market

value of financial institutions. On the other hand, non-performing loans (NPLs) were found to have a negative influence on the market price as it is stressed that big NPL contains a poor quality of assets and increased risk of credit. A critical evaluation of these studies has brought out a number of important insights.

### **2.2.2 Dividend Per Share on Market Price on Share**

Arsal (2021) investigated the role of DPS on stock price based on the regression analysis of panel data in the context of emerging economies. The research indicated that DPS and market price were positively related and were statistically significant which was found to support the idea that regular dividend distributions grew investor confidence and long-term investment. Hanif (2025) examined the use of DPS as a financial measure in the stock price prediction by applying OLS regression to firm-related data in South Asian stock exchanges. The results showed that regular DPS has been viewed as a good indicator of good financial health especially in areas where investors are more dependent on dividend payments because of less investment opportunities. Farooq et al. (2022) have made a comparative analysis of the DPS impact on share prices in developed and emerging economies. The empirical data documented over the years continues to validate the fact that dividend per share is a high and worthy indicator of market price movement.

#### **H1: Dividend per Share Significantly Impacts on Market Price of a Share Book Value Per Share on Market Price of a Share**

One of the fundamental financial ratios is the Book Value Per Share (BVPS) which is used to determine the intrinsic value of a firm by dividing its net assets by issued shares. It is especially useful to study the equity base and assess the changes in stock prices. Adegboyegun (2025) carried out a study to examine the effect of the BVPS on market value by employing OLS regression analysis of cross-sectional firm-level data in the Nigerian capital market. The results found out that BVPS significantly affected the stock price, especially on companies in the manufacturing and financial industry. Alomair (2024) applied this empirical investigation to the Middle East and North Africa (MENA) region with the help of the panel data regression among firms in emerging markets. The positive relationship between BVPS and shares price is always supported by empirical literature, which attests to its use as a valuation benchmark.

#### **H2: Book Value Per Share Significantly Impacts on Market Price of a Share Market Capitalization (SIZE) on Market Price of a Share**

A key factor of share price and investor behavior is firm size, which may be measured by market capitalization. Waheed et al. (2021) empirically investigated the relation of market price on the-size of firms using panel data of listed companies in emerging markets, and discovered that the positive impact of the size of the firm is statistically significant. Cifter et al. (2021) used dynamic panel estimation methods on the firm-level data of the MENA region and found that the larger firms are less volatile in their earnings which justify higher and more stable stock price. The correlation between book value per share and MPS is positive but slightly significant (Thapa and Poudel, 2024). Msomi and Nzama (2023) reported that smaller companies are riskier but tend to generate better returns in bull business because of growth opportunities. The research found that in some situations, especially in growth industries, or when the economy is in a period of recovery, the investors might prefer smaller companies to engage in the speculative profits, which changes the size effect, albeit temporarily.

### **H3: Firm Size Significantly Impacts on Market Price of a Share Return on Equity on Market Price of a Share**

The panel regression analysis by Farooq et al. (2022) of the listed firms in emerging markets revealed that ROE and MPS are significantly positively correlated. They found that the upward movement of the stock price is always observed in firms that had a high ROE since investors believe that companies that have high returns on equity are well managed and profitable. Rappaport (2005) also noted ROE as an element of shareholder value maximization. A study by Akhtar (2021) on publicly traded firms in South Asia through multiple regression analysis revealed a positive relationship between ROE and share price supporting the notion that profitability is the predictor of valuation. Farooq et al. (2022) warn that ROE should be used together with the debt ratios and retained earnings in order to have a full picture of the shareholder value. The findings of the existing literature show that there is an overall positive correlation between ROE and market price per share.

### **H4: Firm Size Significantly Impacts on Market Price of a Share Capital Adequacy Ratio on Share price of a Share**

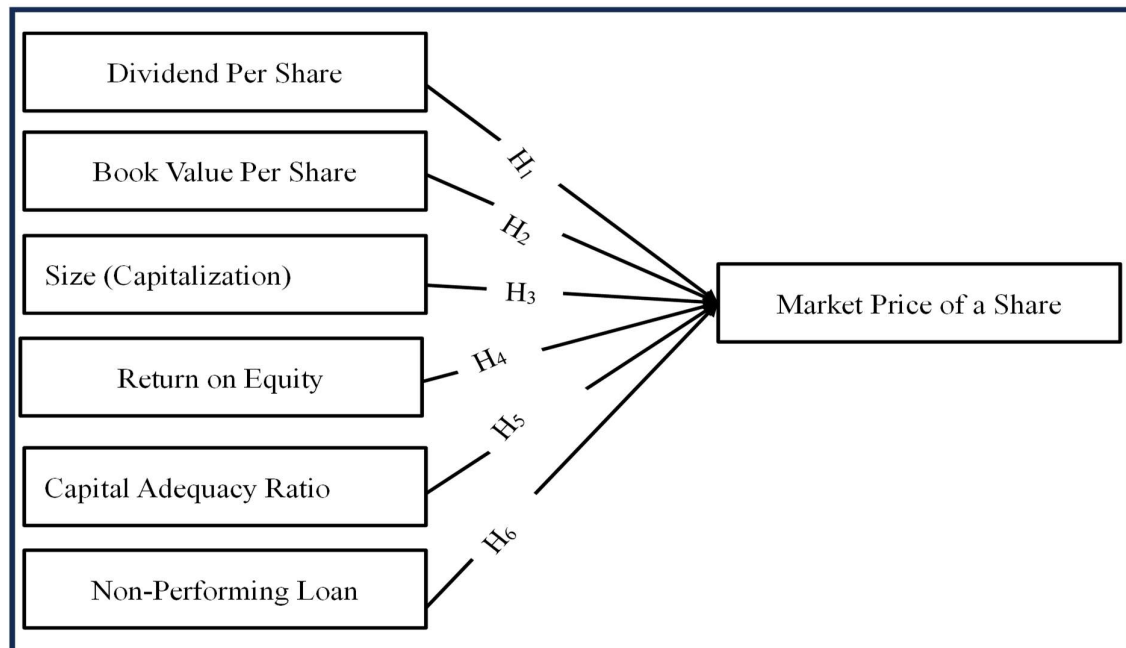
The Capital Adequacy Ratio (CAR) is a regulatory provision, which assesses the capital of a bank against its risk-weighted assets. Bashir et al. (2022) on commercial banks revealed that there is a noticeable positive relation between CAR and share prices. Their results are that the more the CAR, the more market perception of financial health and lower systemic risk and incentive to invest. Muhammad and Rashid (2020) investigated the effect of commercial banks in Pakistan on the stock prices with the use of panel fixed-effect regression and discovered that CAR positively affects stock prices, though this effect is contingent on the transparency of the market and the awareness of the investors. Abba et al. (2013) also argue that the marginal benefit of increasing CAR can decrease in case it undermines revenue-generating capabilities. Although CAR does its supportive and confidence building role in setting share prices, it most significantly impacts its effect when it is moderate and balanced; neither too low to indicate frailty nor too high to indicate inefficiency.

### **H5: Capital Adequacy Ratio Significantly Impacts on Market Price of a Share Non-Performing Loan on Market Price of a Share**

The Non-Performing Loans (NPLs) are one of the most important indicators of credit risk and financial stability in the banking industry. They are loans which no longer bring revenue to banks because of late or lost payments. A cross-country panel study was developed by Beck et al., (2013), which was based on commercial banks in the developing and developed markets. A longitudinal dataset on Eastern European banks was another support that was provided by Balgova et al. (2018). They pointed out that reduction in NPLs leads to enhancement of market confidence indicating effective credit appraisal processes and effective management of risks. Messai and Jouini (2013) examined banking statistics of the MENA and discovered that NPLs growth leads to a significant decline in market performance, which is caused by diminished capacity to conduct lending, as well as, a damaged asset growth. Their findings indicate that NPLs are also negatively associated with the return on equity (ROE) among other profitability ratios which enhance their adverse impact on stock price.

## H6: Non-performing Loan Significantly Impacts on Market Price of a Share

Figure 1: Conceptual Framework



### 3. Methodology

The research employed descriptive and causal effect relation research design with quantitative approach with deductive reasoning following positivist that assumes that reality is objective, observable, and not subject to human perception. Positivism is based on employing empirical evidence, scientific measurement and statistical analysis in order to discover patterns, relationships, and causality. The aim of this study is to identify statistically significant correlations between these variables using regression analysis, hypothesis testing and other inferential procedures. Such approaches are rather consistent with the positivist paradigm where objectivity, replicability, and the ability to generalize findings are appreciated.

All the research relies solely on secondary data, which were gathered in a systematic manner in terms of credibility and publicly available sources. This research is based on census sampling method that encompasses all the existing 19 commercial banks listed in Nepal Stock Exchange (NEPSE). Census sampling is generally suggested in cases when the population size is sufficiently small and the entire enumeration can be accomplished (Saunders et al., 2019). The analysis of ten years of data is more reliable and is likely to indicate the structural changes in the banking sector and in the Nepalese stock market covering 2015-2024 AD.

The analysis of data involved the combination of descriptive statistics, correlation analysis, and multiple linear regression to investigate the correlations between the most important financial indicators and market price per share. Pearson correlation analysis was carried out to determine the directions and strengths of the linear relationships between variables. This move offered some initial information on how predictors interdepend and whether they would have an effect on MPS. Multiple linear regression analysis was utilized in order to test the predictive ability of the independent variables. This approach also enabled to estimate the influence of each financial variable on the market price of a share and the strength of this influence and at the same time, to address multicollinearity with Variance Inflation Factor (VIF). Residual diagnostics, including studentized residuals, Cook's distance, and leverage values, were also applied to assess the model's assumptions, detect outliers, and

confirm the robustness of the regression model. Normality of residuals was tested through both histograms and normal probability P–P plots, which demonstrated that residuals were approximately normally distributed, satisfying one of the key assumptions for OLS regression (Field, 2018).

## 4. Result and Discussion

### 4.1 Descriptive Analysis

Descriptive analysis is the statistic approach that applies quantitative descriptions of the major characteristics of a dataset. In this research, it involves the incorporation of mean, standard deviation, minimum, and maximum values to know how both dependent and independent variables are distributed and central tendency.

**Table 1:** *Descriptive Analysis*

	Unit	Minimum	Maximum	Mean	Std. Deviation
MPS	Rs	154	1042	417.61	199.374
DPS	Rs	0	49	14.67	10.199
BVPS	Rs	104	298	175.56	41.725
SIZE	Rs in M	9361.97	188143.17	40771.87	24105.84
ROE	%	0	43	13.16	5.468
Capital Adequacy Ratio	%	7	23	13.47	2.096
NPL	%	0	9	1.84	1.508

Table 1 shows the descriptive statistics of the variables used in the study on the basis of 175 valid observations. The share price in the market (MPS) varied between Rs. 154 and 1042 with an average of Rs. 417.61 (SD = 199.37), thus the prices of the stocks of the Nepalese commercial banks were very volatile. The mean looker of dividend per share (DPS) was 14.67 (SD = 10.20) with the highest amount of 49 which shows that although some banks pay their shareholders a lot, some pay them little or no dividends- this was an indication that there is inconsistency in dividend policy or earnings retention policies. The average value of the book value per share (BVPS) was Rs. 175.56 (SD = 41.73) and this suggests that intrinsic value of shares varies across banks perhaps because of the difference in the strength of their assets or retained earnings. The size of the firms was 9,361.97 million to 188,143.17 million with mean of 40,771.87 million (SD = 24,105.84). Such a high difference implies that Nepalese commercial banks conduct their activities on very different levels, which can determine their operational performance efficiency, competitiveness, and investor trust. Return on equity (ROE) had a mean of 13.16 percent (SD = 5.47), with a range between 0 and 43, indicating that even though some of the banks yield high returns to shareholders, others were performing poorly or just profitable, which was also a cause of concern regarding the performance of the managers, and financial stability. The average capital adequacy ratio (CAR) was 13.47 percent (SD = 2.10) indicating that most of the banks have been retaining regulatory capital ratios but some of the banks were close to the minimum capital requirements (7 percent), which implies that they might be exposed to higher risks during financial crises. Non-performing loans (NPL) ranged between 0 and 9 with the mean value of 1.84 (SD = 1.51) meaning that the credit risk in most banks was low but was still a concern of few banks and this could impact investor confidence and profitability.

### 4.2 Correlation Analysis

The strength and direction of linear relationship between the market price of share (MPS) and the selected fundamental factors, which include DPS, BVPS, Firm size, ROE, CAR and NPL, is analyzed through correlation analysis in this study.

**Table 2: Correlation Coefficient**

	MPS	DPS	BVPS	Ln_SIZE	ROE	Adequacy	NPL
MPS	1						
DPS	.694**	1					
BVPS	.289**	.262**	1				
Ln_SIZE	.348**	.159*	.383**	1			
ROE	.527**	.445**	-0.026	-0.083	1		
Adequacy	0.063	.177*	.353**	.193*	0.025	1	
NPL	-.367**	-.423**	0.048	0.039	-.386**	-0.081	1

\*\* p<.01; \* p<.05

Table 2 shows the Pearson correlation coefficient between the market price of share (MPS) and the chosen fundamental factors of Nepalese commercial banks. The outcome reveals that there was a high positive correlation between MPS and DPS ( $r = .694$ ,  $p < .01$ ), which implies that increased payments of dividends were closely related to increased share prices. ROE had a strong and positive correlation with MPS ( $r = .527$ ,  $p < .01$ ), meaning that firms that had higher returns to equity holders had higher share prices as it was preferred by investors in regard to profitability. The size of the firm (Ln\_SIZE) had a moderate positive relationship with MPS ( $r = .348$ ,  $p = .01$ ), implying that bigger banks could had the economies of scale, stronger brand name, or investor confidence, thereby drawing higher share valuations. There was a weak yet significant correlation between BVPS and MPS ( $r = .289$ ,  $p < .01$ ) which shows that intrinsic book value does not have a strong effect on market price.

Conversely, there was no significant relationship between CAR) and MPS ( $r = .063$ ,  $p > .05$ ) indicating that regulatory capital adequacy might not have a direct impact on investor perception and share price in the short term. Non-Performing Loans were significantly correlated with MPS in a negative manner ( $r = -.367$ ,  $p < .01$ ), which implies that the greater the credit risk, the lower the price of its share. This correlation highlights that investors were pricey towards the quality of assets and the greater the level of bad loans the worse the market valuation. NPL and ROE and DPS also had a negative correlation value implying a synergistic effect on the quality of assets on both profitability and dividend payout

### 4.3 Regression Analysis

The analysis determines the level of significant prediction of a change in the share price of Nepalese commercial banks by each independent variable with other variables held constant.

**Table 3: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.803	0.644	0.632	121.002

a Predictors: (Constant), NPL, Ln\_SIZE, Adequacy, ROE, BVPS, DPS

b Dependent Variable: MPS

Table 3 represents a model summary of the multiple linear regression analysis, implemented to evaluate the effects of the fundamental factors on the MPS of the commercial banks in Nepal. The model had a multiple correlation coefficient (R) of 0.803 which shows high positive relationship between the observed and predicted values of the dependent variable. The value of R square was 0.644 which implies that about 64.4 percent of variance in MPS can be attributed to the overall contribution of six independent variables.

**Table 4: ANOVA Analysis**

	Sum of Squares	df	Mean Square	F value	P value
Regression	4456741.751	6	742790.292	50.732	.000
Residual	2459755.801	168	14641.404		
Total	6916497.552	174			

Dependent Variable: MPS

Predictors: (Constant), NPL, Ln\_SIZE, Adequacy, ROE, BVPS, DPS

The ANOVA results of the multiple regression equation that was used to predict the market price of shares (MPS) of Nepalese commercial banks are shown in Table 4. The regression mean square was 742,790.29 and mean square of the residuals was 14,641.40. F value was 50.732 and  $p < .001$  which shows that the regression model as a whole was statistically significant.

**Table 5: Beta Coefficient**

Variables	Unstandardized Coefficients		Standardized Coefficients		P value	VIF	Hypotheses
	B	Std. Error	Beta	t value			
(Constant)	-2507.6	472.501		-5.307	.000		
DPS	9.174	1.128	0.469	8.133	.000	1.573	H <sub>1</sub> : Supported
BVPS	0.545	0.259	0.114	2.107	.037	1.386	H <sub>2</sub> : Supported
Ln_SIZE	112.09						H <sub>3</sub> : Supported
ROE	6	19.929	0.284	5.625	.000	1.202	H <sub>4</sub> : Supported
Adequacy	11.664	1.96	0.32	5.952	.000	1.365	H <sub>5</sub> : Supported
NPL	-12.245	4.721	-	-2.594	.01	1.164	H <sub>6</sub> : Not Supported
	-9.546	7.022	0.072	-1.359	.176	1.333	

Dependent Variable: MPS

Table 7 shows the findings of the multiple regression on the determinants of market price per share (MPS) of the Nepalese commercial banks. Dividend per share ( $\beta = 0.469$ ,  $p < .001$ ) affects MPS significantly in a positive manner since the dividend was a consistent indicator of financial stability and an instant income to the investor in a developing market. Book value per share ( $\beta = 0.114$ ,  $p < .05$ ) had a positive impact on MPS since the greater the net asset value per share, the better investors think of the intrinsic company value, but its effect was not so strong. The firm size ( $\beta = 0.284$ ,  $p < .001$ ) had significant positive impact of MPS because, the bigger the bank, the more it was diversified, the market power, and investor confidence. The ROE ( $\beta = 0.320$ ,  $p < .001$ ) had a positive influence on MPS since the increase in profitability was a good indicator of effective management and a high probability of earning in the future. Conversely, capital adequacy ratio reports a large negative correlation with MPS ( $\beta = 0.129$ ,  $p > .05$ ) thus indicating that excessive capitalization can stem down on the ability to generate returns and attract ability to investors. There was a negative but non-significant impact of non-performing loans on MPS ( $\beta = -0.072$ ,  $p > .05$ ) which shows that credit risk is priced in or not given much attention by the investors of the Nepal banking industry.

#### 4.4 Diagnostic Tests

The studentized deleted residuals, cook's distance and central leverage value were analyzed the statical diagnostic tests to locate the outliers, effect on the estimates and influential or high-leverage cases.

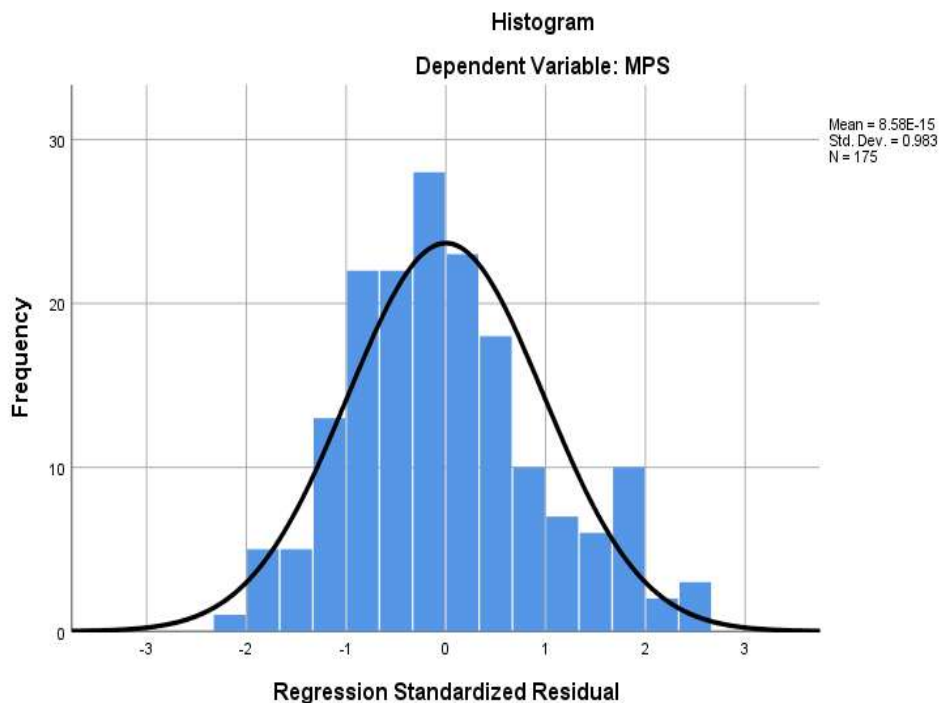
**Table 8:** *Residual Diagnostics Statistics*

Indicators	Minimum	Maximum	Threshold	Source
Stud. Deleted Residual	-2.25	2.75	$\pm 3.0$	Hair et al. (2019)
Cook's Distance	0.00	0.18	$< 1.0$	Cook (1977)
Centered Leverage Value	0.00	0.31	$< 3(k+1)/n = 0.12$	Hair et al. (2019)

The table 8 indicates the residual statistics and the diagnostic measures of the regression analysis. The standardized residual values lay within 2.20 to 2.60 ( $M = 0.00$ ,  $SD = 0.98$ ), the studentized values lay in the range of 2.25 to 2.75 ( $M = 0.01$ ,  $SD = 1.02$ ), which means that the standardized residual values were approximately normally distributed and there were no severe outliers above the range of (3) standard deviations. The range of Cook values was between 0.00 and 0.18 which was significantly lower than the value of 1 that was generally acceptable to ensure that the values of individual observations do not have an undue effect on the estimates of the regression model. Also, the values of centered leverage were in the range of 0.00 to 0.31 and the mean of 0.03 value was not above the critical cut off point (which is usually  $2(k+1)/n$ ) revealing that there were no high leverage values that might have a disproportionate influence on the regression outcome. Combining these diagnostics promotes validity of the regression model in that the assumptions of normality and lack of influential or high-leverage cases were met adequately.

#### 4.5 Histogram

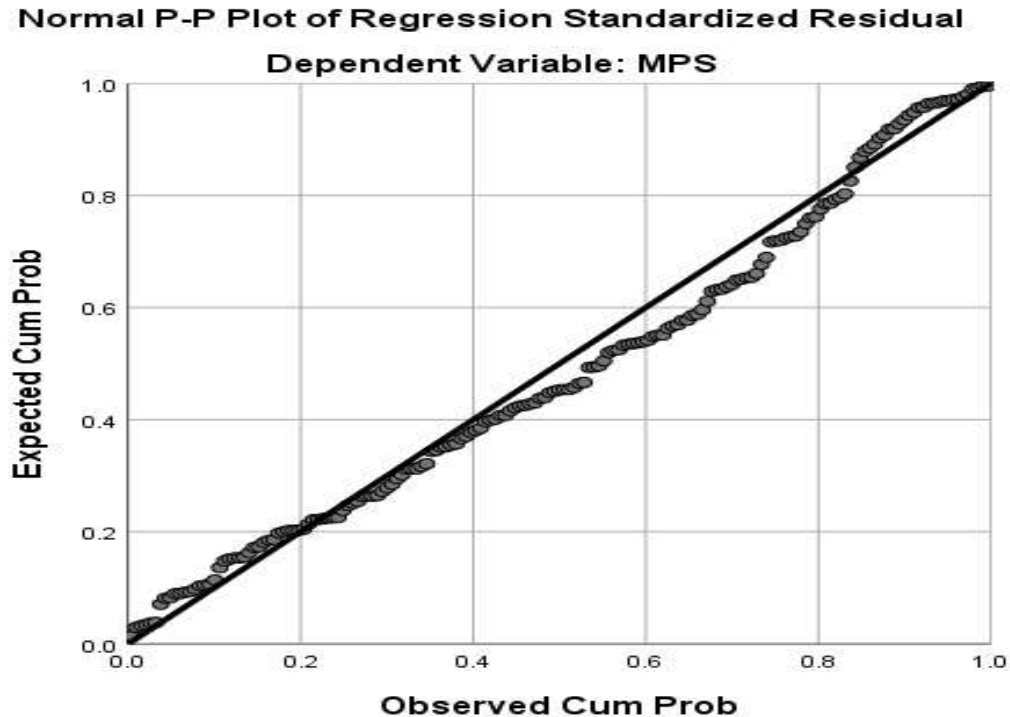
**Figure 1:** *Histogram of Regression Standardized Residuals*



The following histogram showed the distribution of regression standardized residuals of the dependent variable, Market Price of Share (MPS). The form of the histogram was almost as a normal distribution curve because it had a bell-shaped structure of the same form, which was symmetrical around zero. The range of -2 to +2 covers most of the residuals and there were very few extreme residuals indicating that skewness and kurtosis were not significant.

#### 4.6 P-P Plot

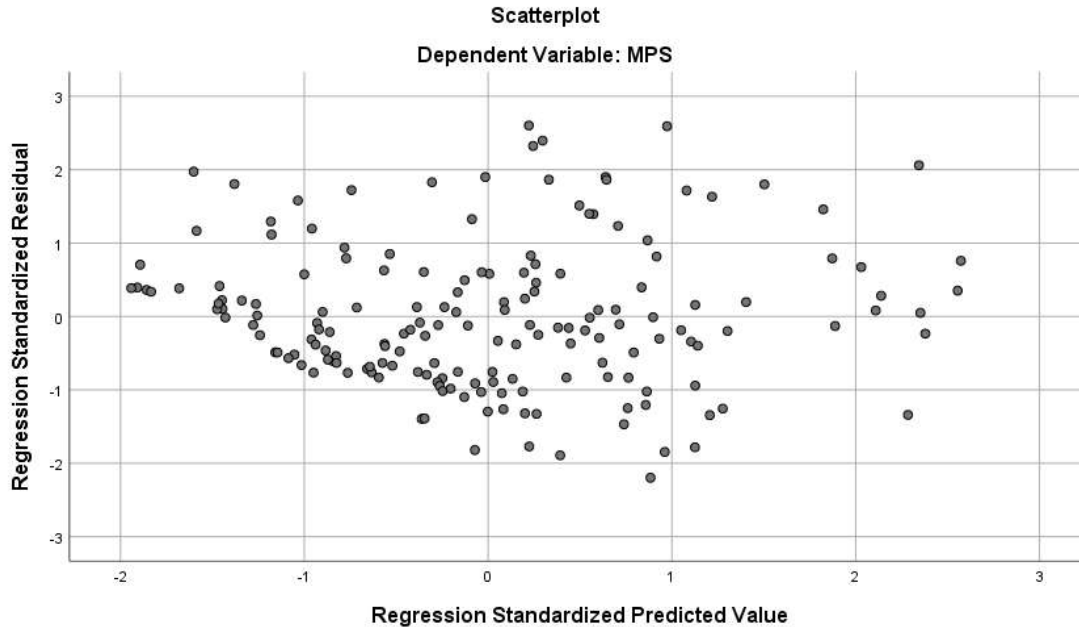
**Figure 2:** Normal P-P Plot of Regression Standardized Residual



The Assessment of Normality of Residuals of regression model is determined by the use of the Normal P -P Plot of Regression Standardized Residuals (Graph No. 4) which is one of the main assumptions in multiple regression analysis. The cumulative probabilities in this plot were observed and plotted on the horizontal axis and the expected cumulative probabilities in a perfectly normal distribution plotted on the vertical axis. The diagonal line is used as a reference line of perfect normality. The data points reflecting the standardized residues were observed to be close to the diagonal line with slight deviations at the lower and upper sides.

#### 4.7 Scatterplot

**Figure 3:** *Scatterplot of the Regression Standardized Residuals*



Graph No. 5 is a scatterplot of regression standardized predicted values versus the regression standardized residuals. This plot is mainly employed in determining two significant assumptions of multiple regression analysis; linearity and homoscedasticity (uniform variance of residuals). Each point includes an individual case in the dataset in this graph. In the X-axis, the values of standardized predicted were plotted with the Y-axis showing the standardized residuals. The fact that not a single pattern (e.g. a funnel shape or curve) was found and that the points was scattered randomly all over the horizontal axis suggests that the condition of linearity was satisfied and that the residuals had the same variance. On the whole, the scatterplot proves that the regression model had satisfied the main assumptions of linearity and homoscedasticity, which proves the credibility of predictions of the model.

#### 5. Discussion

Dividend Per Share (DPS) positively affects MPS, meaning the higher dividends are, the more investor confidence and market attention are expected. The Signaling Theory theoretically justifies this, and according to it, dividend announcements are associated with positive information on future prospects of the firm and its financial health (Bhattacharya, 1979). This finding is in line with the works of Al-Tamimi (2015) who discovered that dividends are the key determinants of the stock price in emerging markets, and Uddin (2009) who exhibited the same trend in Dhaka Stock Exchange. Book Value Per Share (BVPS) is also positively related with MPS, implying that intrinsic asset support is perceived and valued by the investors. On the view of the Fundamental Analysis, BVPS reflects the net asset position and may signify financial stability. This association is consistent with the Residual Income Valuation Theory according to which the intrinsic value of a company is based on the book value of an organization and the present value of future residual income to which the company is expected to benefit. The theory focuses on the accounting-based measures that include the book value and earnings as used in explaining the stock prices. The same results were mentioned in the work of Hao et al. (2011). Growth in investments and correlation among the equity value, earnings and equity book value. The role of it in long-term valuation plans and strategies was reinforced by Graham and Dodd (2008) and its importance in asset-based

valuation models was emphasized by Srinivasan and Parlikad (2017). Firm Size ( $\ln\_SIZE$ ) has a significant and positive impact on MPS which means that the size of firms can be more diversified, stable, and most probably it can provide constant returns. This is equivalent to the Economies of Scale Theory, which states that larger companies have the cost advantage, which could be converted into improved profitability and market value. The same outcome was observed by other researchers such as Fama and French (1992) who did not omit the size of the firm as an important factor in their asset pricing equation. Similarly, Ahmed and Nanda (2001) and Auret and Sinclair (2006) also affirmed the size effect that is positive in stock valuation under other market settings. ROE becomes a powerful predictor of MPS, which emphasizes the significance of returns on shareholders in the market pricing. Under the Residual Income Valuation Model, companies with consistent higher ROE are ranked higher in the market. This outcome corresponds to the conclusions made by Chen et al. (1986) where the ROE was proven to be a vital factor in the interpretation of stock returns. Farooq et al. (2022) supported the productive role of ROE in affecting investor sentiment and share price. Capital Adequacy has a negative correlation with MPS, which means that an increase in capital reserves can be viewed as surplus and unproductive capital particularly when there are good financial days. This can indicate the preference of the investors to deploy the capital either in growth or payment of dividend instead of hoarding reserves. This observation is in line with Trade-Off Theory; the cost of capital compared with the financial safety. Similar results were observed by Berger and Bouwman (2013) who demonstrated that the increased capital buffers decline the market valuation during non-crisis periods. In addition, Pasiouras and Kosmidou (2007) and Molyneux and Thornton (1992) discovered that capital adequacy has both positive and negative impacts on profitability and market returns. Non-Performing Loans (NPL) exert a negative and statistically non-significant impact on MPS, which indicates that credit risk, even though theoretically significant, may not be directly reflected in market values unless it is at a critical level. This is in line with the Credit Risk Theory that argues that the concentration of bad loans worsens the quality of assets and jeopardizes future returns. Though this outcome is not vivid, the long-term adverse implications of increasing NPLs on the performance and valuation of banks are demonstrated by empirical research works by Louzis et al. (2012), and Boudriga et al. (2009).

## **6. Conclusion and Implications**

### **6.1 Conclusion**

MPS is positively affected by DPS, ROE, size and BVPS. These results are in line with Signaling and Fundamental Analysis theories. The payment of dividends demonstrates the stability and views of the firm in the future. ROE is an aspect that connects management effectiveness to stockholder interests. This association confirms the principles of Agency Theory. BVPS is an advocate of Residual Income Valuation Model. Book value is an important intrinsic price element. The Economies of Scale Theory is proved by the firm size. Bigger companies are more efficient and have the confidence of investors. On the other hand, capital adequacy has an inverse relationship with market price. The regulations can be incompatible with perceived efficiency in the market. Non-performing loans give relatively small negative outcomes that are not statistically significant. Different investors have different tolerance to credit risk in the state of stability. The two indicators, both a return and asset, drive firm valuation.

### **6.2 Implications**

The results have crucial implications to financial stakeholders. There are sensitive markets in terms of dividends and profitability. High rate of dividend policy increases the confidence of investors. The sustainable ROE is crucial towards shareholder wealth. The boards should be able to match long-term health with dividends. Share prices are positively related to the growth of assets. Economies of scale are conveyed by increased size of firms. Capital adequacy affects market prices in a negative way. Growth and financial security should be equally regulated. The effective use of capital is one of the regulatory priorities. There are negligible impacts of non-performing loans at the moment. The long-term valuation is guaranteed by asset quality management. The credit risk management cushions companies against instability. Market literacy is boosted in investor educational programs. The stakeholders must be familiar with financial valuation mechanisms.

### **6.3 Further Research Area**

The current research leaves multiple research gaps that can be filled in the future. Firstly, although the present analysis has concentrated on the basic financial ratios, future research can use the market-related variables like investor sentiment, trading volume, and macroeconomic indicators (e.g., interest rates or inflation) in coming up with a more comprehensive model of stock price determination. Secondly, one question that can be investigated is the role of the corporate governance variables, including the board structure, concentration of ownership, and transparency practices and determine their mediating or moderating impact on the relationship between the financial performance and market valuation. Third, industry-related research can also bring out industry-specific effects, particularly between capital-intensive and services-based companies. A comparative study within emerging and developed markets can also have more insight on how the institutional circumstances mediate the investor reactions to financial indicators.

## **7. Conflict of Interest**

The authors declare no conflict of interest.

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### **Ethical Statement**

This study did not require ethical approval as it involved no human or animal subjects.

### **Originality Statement**

The authors affirm that this manuscript is original, has not been published elsewhere, and fully complies with established research ethics and academic standards.

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