

DETERMINANTS OF PRICE OF STOCK OF NEPALESE COMMERCIAL BANKS

**Prof. Bishnu Prasad Lamsal, PhD
Madhyabindu Multiple Campus, Kawasoti**

Abstract

Determinants of stock price of Nepalese commercial banks are examined. Primary goal of the study is to analyze, and evaluate the share price fluctuations of Nepalese commercial banks. A descriptive and causal comparative research design was utilized to achieve the objectives of this research. Secondary data will be gathered from the annual reports of sample seven commercial banks, the NEPSE, and other related companies. The MPS has a positive relationship with EPS, P/E ratio, and BVPS but a negative relationship with DPS. It is found that there is a strong positive association between all independent variables (EPS, DPS, BVPS, and P/E Ratio) and the dependent variable (MPS) Examined are the factors that affect Nepalese commercial banks' stock prices. The analysis and evaluation of Nepalese commercial banks' share price fluctuations is the study's main objective. The MPS has a negative relationship with DPS but a positive relationship with EPS, P/E ratio, and BVPS. The study reveals that during the study period of the Nepalese commercial banks, MPS appears to move the greatest, while price earnings ratio fluctuates the least. The study period's findings also shown a significant positive correlation between commercial banks' stock prices and their EPS, DPS, P/E ratios, and BVPS. The EPS, DPS, P/E ratio, and BVPS have a considerable positive correlation with the share price of commercial banks.

Keywords: EPS, DPS, P/E ratio, BVPS, MPS

INTRODUCTION

The variables influencing stock prices are frequently discussed. Regarding asset pricing, economists and players in the financial markets cannot agree. Fundamental factors including earnings/share, dividends/share, earnings ratio, firm size, dividend yield, management, and diversity are what essentially drive stock prices in an efficient market. Stock valuation ratios are a useful tool used by fundamental analysts to

anticipate future stock prices and ascertain a company's existing fair worth. According to Srinivasan (2012), fundamental analysts contend that if a stock's fair value and current price differ, it is either overpriced or undervalued, and the market price will eventually approach fair value.

There were 19 commercial banks in Nepal (NRB Report, 2024). Among them, 18 commercial banks are listed on the Nepal Stock Exchange (NEPSE), which is the secondary market of Nepal controlled

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by the Securities Exchange Board of Nepal (SEBON). The price of the shares of a commercial bank listed on the stock exchange is determined by the demand and supply of bank's stocks or daily trades in the secondary market. Many participants in the stock market, including investors, traders, and other interested parties, engage in day trading to increase their returns. The focus of this study is mainly on the share prices of commercial banks listed on the Nepal Stock Exchange. In Nepal, there were nineteen commercial banks. Of these, the Securities Exchange Board of Nepal (SEBON)-controlled Nepal Stock Exchange (NEPSE), the country's secondary market for Nepalis, lists eighteen commercial banks. Demand and supply for the bank's stocks, or daily transactions in the secondary market, set the price of shares of a commercial bank listed on the stock exchange. To boost their profits, a large number of stock market participants, including traders, investors, and other interested parties, day trade. The share prices of commercial banks listed on the Nepal Stock Exchange are the primary subject of this study. To do this, an examination of Nepal's secondary stock market is required in order to determine the reasons behind the daily fluctuations in bank stock prices.

There are various reasons why an individual or group would purchase shares in a corporation. It could be a power purchase, a lucrative investment, an impact investment, a safety net, or seasonal liquidity. Regardless of rationale, before opting to purchase shares of a specific

firm, an investor carefully weighs all of the choices. In an active market, a company's share price can provide investors with a solid indication of its performance and worth. In order to make wise investment decisions, investors must thereby comprehend how a variety of basic factors impact the stock price (Srinivasan, 2012).

The formalization of the Nepal Financial Market (NEPSE) occurred with the establishment of the Nepal Stock Exchange. The bulk of financial market instruments listed on the Nepal Stock Exchange (NEPSE) in Nepal are common stocks. Stocks are exchanged on the primary and secondary markets. Common stocks are frequently overpriced, undervalued, or sold at par in the secondary market yet trade at par in the primary market. In the secondary market, organizational (internal) and external factors occasionally affect the share price. Furthermore, the NEPSE index is susceptible to both firm-specific and external factors (Nepal, 2018).

Using a variety of financial metrics, including earnings per share (EPS), dividend per share (DPS), price earnings ratio (P/E ratio), and book value per share (BVPS), this study aims to examine how market price of stock (MPS) varies in Nepalese Commercial Banks. Thus, the following queries might come up:

- a. How are the sample banks' EPS, DPS, P/E ratio, BVPS, and MPS trending right now?
- b. Is there a connection between MPS and BVPS, EPS, DPS, or P/E ratio?
- c. Are investors aware of the financial indicators that affect the Commercial

Banks' MPS?

The study's objectives are to investigate, evaluate, and interpret changes in Nepal's commercial banks' share prices. The goals of this study are to investigate the present trend of sample banks' EPS, DPS, PE, BVPS, and MPS as well as the link between MPS and EPS, DPS, PE, and BVPS of particular commercial banks.

This study will help banks and the stock market by determining the elements that investors think is impacting stock prices. Once these traits or factors have been determined, banks can work very hard to maximize the value of the previously listed variables that are considered important for investment opportunities. Brokers, stock analysts, and other people who are actively involved in the stock market would also benefit from the study. Furthermore, the study is essential reading for academics and students who want to understand how the stock prices of commercial banks behave as well as for anyone who wants to work in banking or investing. This study will look at the movement of listed Nepalese commercial banks' share prices while taking all of these variables into consideration.

Literature Review

In Nepal, the market price of shares of commercial banks is influenced by an independent variable called DPS. With every issued common share, the DPS is announced. The total dividends paid throughout a full year (including interim payments) divided by the total number of outstanding common shares issued

is the dividend per share. According to Modigliani and Miller (1961), a company's value is independent of its dividend policy and is determined by its profits.

The market price is the dependent variable. We conduct tests on the factors influencing commercial banks' share prices on the Nepal Stock Exchange. Researchers like Zakir and Khanna (1982) and Malhotra (1987) have noted that variations in buying and selling pressure might result in minute-to-minute fluctuations in stock prices. Selecting which market price to utilize as the dependent variable in a regression analysis is challenging as a result of these fluctuations.

Another independent variable in this research is BVPS. It is a metric used in finance that shows the minimum value of a company's share capital as valued per share. To be more precise, this figure is calculated by multiplying the number of outstanding shares by the original value of a company's common stock after deducting any incoming (retained earnings) and outgoing (dividends and share buybacks) modifiers (Sharma, 2011).

Securities with an original maturity of more than a year are involved in the capital markets, according to research done in 2012 by Mishkin and Eakins. Among these securities are stocks, bonds, and mortgages. Capital markets have generated secondary markets. Since most investors intend to sell their stock holdings eventually and long-term bonds before they mature, a secondary market—where previously issued securities are sold—is crucial. The capital market is used by both people and

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businesses to make long-term investments. The profitability of a corporation can be ascertained by examining its earnings per share. Higher earnings per share typically translate into a higher market price. Market price and earnings per share have a positive association, meaning that the higher the earnings per share, the higher the market price, according to Malhotra and Tandon (2013) and Almumani (2014).

It describes how market value is compared to earnings per share. The degree to which a stock's price covers its earnings is shown by the price-earnings ratio. shows if the share price of a company is overpriced, undervalued, or appropriately valued. Generally speaking, investors expect more future profits growth from companies with a high P/E ratio than from those with a low P/E ratio. The price-earnings ratio and the share price of the company also showed a high positive link, according to research by Malhotra and Tandon (2013) and Almumani (2014).

In the banking system of Nepal, Pradhan and Dahal (2016) investigated the relationship between MPS and macroeconomic and bank-specific variables. Determine the effects on MPS of earnings per share, dividends per share, book value per share, price-earnings ratio, size, GDP, inflation, and money supply. Based on a cross-sectional analysis of secondary data from 14 commercial banks between 2002–2003 and 2013–2014, the study was conducted. This study's initial application of the theory makes the assumption that a wide range of macroeconomic and bank-specific factors, including book value per share,

profits per share, dividend per share, price-earnings ratio, profitability of assets, size, GDP, inflation, and money supply, have an impact on MPS. The market price per share is little impacted by book value per share, earnings per share, and the price-to-earnings ratio. The study suggests that before making an investment decision, a rational investor should consider signals and asymmetric information, as well as the dividend per share, firm size, and money supply in the setting of an imperfect stock market like Nepal.

The primary factors influencing the P/E ratios of manufacturing businesses listed on the Dhaka stock exchange were determined by Dutta, Saha, and Das (2018). To achieve its goals, the study used regression analysis, correlation matrices, and descriptive statistics. The findings showed that the P/E ratio is significantly influenced by dividend yield, size, leverage, and net asset value per share, with dividend yield and size having a negative impact and leverage and net asset value per share having a positive influence. This study provides evidence for fundamental analysts and decision-makers to assess factors that account for fluctuations in Bangladeshi manufacturing companies' price-to-earnings ratios.

The market price per share divided by earnings per share is called the price-earnings ratio, or PE ratio. According to Sharma and Thapa (2020), it is calculated by dividing the market price per share by the earnings per share.

Dhodary (2023) examined the factors that influence Nepalese commercial banks' stock prices. In order to provide a concise

and accurate study on specific variables and pooled cross-sectional data that are collected from NEPSE listed banks at one point in time, the study is carried out using a quantitative technique followed by descriptive research. Data collection took place throughout the fiscal years 2011–12 and 2020–21. Book value per share, PE ratio, market price per share, business size, dividend payment, return on equity, and dividend payment are the research variables. Multiple regression analysis, correlation analysis, and descriptive statistics are all done under statistical analysis. According to descriptive statistics, Nepalese commercial banks' book value per share and firm size have been increasing consistently, but their profitability, dividends, and stock performance in the market have been quite erratic. In certain years of the year, the P/E ratio is zero since there are no earnings per share for that specific bank. The share price of commercial banks in Nepal has a negative correlation with firm size and a positive correlation with BVPS, PE, ROE, and DIV. Research framework

Clearly identifying the variables that could impact the market share price is the goal of the study framework. Considerable data is currently available to support the hypothesis that firm-specific factors impact stock price movements. It is anticipated that factors like profits per share, dividends per share, price earnings ratio, and book value per share will have an impact on the market price per share of commercial banks in light of theory and significant empirical facts. It is believed that the independent factors have an impact on the dependent variable,

which is the share price of commercial banks. The independent variables are selected with care for previous theoretical and empirical justifications.

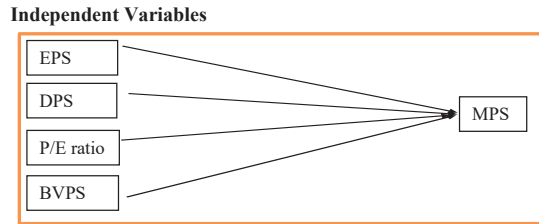


Figure 1. Conceptual Framework Source: Karki, (2018)

Many studies have been conducted in Nepal to determine the factors that affect price fluctuations in the stock market. By examining the price variations, several researches have specifically investigated the relationship between macroeconomic variables, financial indicators, and commercial bank share prices. These studies usually make use of two statistical tools: regression analyses and correlation coefficients. This study differs from previous ones in that it uses a different sample of banks, presents the data in a different fashion, and uses statistical and financial tools for data interpretation and analysis. Furthermore, when identifying the most important element influencing stock prices, the researcher gave priority to the opinions and knowledge of individual investors because they are the main information sources. Therefore, this study will be valuable to stakeholders, academics, students, teachers, and civil society in addition to other stakeholders, businesspeople, and governments from an academic and policy perspective.

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Research Methodology

This study employed a descriptive and analytical research design. To learn more about the factors influencing the movement of the stock price of listed commercial banks on the NEPSE, data will be collected on the relationships between market price per share and earning price per share, dividend per share, price earnings ratio, book value per share, and other financial indicators.

All of the variables or observations are collectively referred to as the population. All businesses listed on the Nepal Stock Exchange make up the study's population; only commercial banks listed on the NEPSE and involved in share transactions are considered for analysis. The 19 commercial banks that are listed on the NEPSE make up the study's population. Seven of the 19 commercial banks in total were selected as a sample for the study using a practical selection technique.

Descriptive Statistics

Table 1

Descriptive Statistics of Study Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Market Price per Share	49	255.00	3385.00	713.42	587.35
Earning Price per Share	49	10.12	65.97	30.72	12.63
Dividend Price per Share	49	5.31	73.68	22.32	11.99
P/E Ratio	49	8.51	51.31	22.17	9.97
Book Value per Share	49	131.36	370.40	204.85	58.58

Table 1 presents descriptive data for the study period. It includes the mean, standard deviation, minimum and maximum values of variables related to the sample

Secondary data have been employed to gather information for the effective and successful conclusions. The secondary data sources will be the NEPSE, other related companies, and the annual reports of listed commercial banks. Another source is the year-ended equity share data sheet, which displays the balance sheet profit and loss account, EPS, DPS, P/E, MPS, BPVS, and so on. Numerous websites, already completed theses, books, journals, magazines, reports, bulletins, etc. include pertinent data for the study that can be used using statistical tools like regression, correlation, mean, standard deviation, and CV.

Results and discussion

This section's main focus is on how to show obtained data using suitable tables and figures, as well as how to use a range of statistical and financial approaches to evaluate and interpret the data.

commercial banks. From Rs. 255 to Rs. 3385, the sample banks' MPS ranges, resulting in an average of 743.42 and a standard deviation of Rs. 587.35. The range of

EPS is between Rs. 10.12 and Rs. 65.97, resulting in an average of Rs. 30.72 and a standard deviation of Rs. 12.63. The distribution of DPS is between Rs. 5.31 and Rs. 73.68, resulting in a mean of Rs. 22.32 and a standard deviation of Rs. 11.99. Similar to this, the BVPS ranges from Rs. 131.36 to Rs. 370.40, resulting in an average of Rs. 204.85 with a standard deviation of Rs. 58.58, while the P/E ratio extends from Rs. 8.51 to Rs. 51.31, leading to an aver-

age of Rs. 22.17 with a standard deviation of Rs. 9.97. The variation as indicated by standard deviation is largest for dependent variable market price per share and lowest for independent variable price earnings ratio.

Correlation Analysis:

The correlation analysis of overall data is done to find out the relationship between different independent variables with MPS.

Table 2

Relationship of MPS with EPS, DPS, BVPS and P/E Ratio

Variables	MPS	EPS	DPS	P/E Ratio	BVPS
MPS	1				
EPS	.752**	1			
DPS	.846**	.836**	1		
P/E Ratio	.779**	.262	.461**	1	
BVPS	.489**	.682**	.628**	.181	1

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

Table 2 demonstrates the high positive correlation between MPS and DPS (i.e., 0.846), P/E ratio (i.e., 0.779), EPS (i.e., 0.752), and BVPS (i.e., 0.489). At the 1% level of significance, the correlation between MPS and DPS, BVPS, EPS, and P/E ratio is substantial. According to the correlation result, a rise in independent factors raises the dependent variable, or the stock

market price, and vice versa.

EPS and DPS, P/E ratio, and BVPS are found to have a significant and positive relationship when examining the universal link between independent variables. Similarly, there is a significant positive correlation between DPS and P/E ratio and BVPS, as well as a significant positive correlation between P/E ratio and BVPS.

Regression Analysis

Table 3

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
	.951	.947	135.78541

- a. Predictors: (Constant), BVPS, P/E Ratio, DPS, EPS
- b. Dependent Variable: MPS

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Examining the universal link between independent variables reveals a significant and positive association between EPS and DPS, P/E ratio, and BVPS. Likewise,

a noteworthy positive relation has been shown between DPS and both P/E ratio and BVPS, as well as P/E ratio and BVPS.

Regression Analysis

Table 4

Regression Model

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-758.643	84.335		-8.996	.000
EPS	19.307	3.115	.415	6.198	.001
DPS	14.486	3.397	.296	4.265	.001
P/E Ratio	32.308	2.297	.548	14.067	.001
BVPS	-.785	.463	-.078	-1.694	.097

Dependent Variable: Market Price per Share

Additionally, Table 4 shows that the p-values of the independent variable P/E ratio, DPS, and EPS are less than the significance level ($p < 0.05$), indicating significant findings. Nevertheless, the results for BVPS are not significant because the p-value for the independent variable is more than 0.05. This demonstrates that increases in MPS of 19.307, 14.486, 32.308, and -0.785 are produced by increases in EPS, DPS, P/E ratio, and BVPS of one unit.

Conclusions

The study revealed the current status of financial indicators, with the market price experiencing the highest level of fluctuation. It exhibited the most volatile EPS, and banks-maintained consistency in their earnings. The DPS appeared unappealing due to its high level of fluctuation in terms of dividend payment. Similarly, banks exhibited higher fluctuations in their price earnings ratios. Ultimately, the

study concludes that MPS experienced the highest level of fluctuation, while the price earnings ratio exhibited the lowest level of fluctuation over the study period of the Nepalese commercial banks.

The study period's findings also shown a significant positive correlation between the price of commercial banks' stock and its book value per share, earnings per share, dividend per share, and price-earnings ratio. The price-earnings ratio, book value per share, earnings per share, and dividend per share all have a substantial positive correlation with the share prices of commercial banks.

Discussion

One may argue that the regression analysis demonstrates a positive correlation between MPS and EPS, DPS, and P/E ratio. The results can be explained by the fact that rising earnings per share will always cause equities share values to rise sharply. Significantly, this result aligns

with the conclusions drawn by Sharma (2011), Malhotra and Tandon (2013), and Almumani (2014), which all found that earnings per share has a significant role in determining stock prices. Likewise, there is an inverse correlation between market price and dividend per share. The result is supported with the findings of Almuman (2014), Malhotra and Tandon (2013).

A further empirical finding from the regression study indicates that the P/E ratio and BVPS with MPS have a positive association. The findings can be explained by the expectation that the share prices will rise along with the P/E ratio and BVPS. This result is in line with research by Sharma (2011), Aalmumani (2014), and Malhotra and Tandon (2013), which found that BVPS and P/E ratio significantly increase share prices.

Implications

The research substantiates the notion that the choice to declare a dividend is influenced by the bank's earnings position. Subsequent investigation has demonstrated

that the announcement of a dividend has bearing on the bank's valuation prior to the purchase of shares in the market. Therefore, it is advised that investors consider the banks' profitability before purchasing shares because their earnings position will indicate their potential for dividend announcements, which will raise the share price. It is advised that because the market price of the chosen commercial banks' stock fluctuates over the study time, they keep an eye on matters pertaining to stock determinants. Only the DPS and EPS could not be able to cover the return due to the related risk. Investors are advised not to view the company's performance just through the lenses of EPS, DPS, P/E ratio, and BVPS. It's important to take into account additional essential elements including the non-performing loan percentage, corporate governance of the business, and cost of capital. It is advised that investors purchase the company's shares only after conducting thorough technical and fundamental research and only after assuming a measured risk.

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