

FACTORS AFFECTING THE SHARE PRICE OF NEPALESE JOINT VENTURES COMMERCIAL BANKS

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ABSTRACT

The study intended to examine the factors affecting the share price of Nepalese joint ventures commercial banks. Market price per share is selected as dependent variable while earning per share, price earnings ratio, book value per share, return on assets and size were chosen as firm specific independent variables. In order to fulfill these objectives the data were collected from the banking and financial statistics and annual report published by Nepal Rastra Bank and annual report of selected banks which is based on panel data over 11 years of period from 2012 to 2022 of selected five commercial joint venture banks of Nepal. The Descriptive and casual relationship research design has been used using secondary data. The multiple regression models were estimated to test impact of firm specific factors on share price of Nepalese joint venture commercial banks, results shows that variables like earnings per share, price earnings ratio, book value per share and return on assets are the major determining stock price having significant impact on price of share except size of firm having insignificant impact in context of joint venture commercial banks of Nepal.

Keywords: Joint venture, Share Price, Panel Data,

I. INTRODUCTION

The stock market plays a vital part in financial improvement by advancing capital formation and raising financial development. Exchanging of securities in this market encourages savers and clients of capital by finance pooling, risk sharing, and exchanging wealth. Stock market is the reflector of economy. Stock markets are essential for economic growth as they insure the flow of resources to the most productive investment opportunities (Kurihara, 2006). It plays a pivotal role in the growth of the industry and commerce of the country that eventually affects the economy of the country to a great extent. That is the reason that the government, industry and even the central banks of the country keep a close watch on the happenings of the stock market. Financial activities can be made by flow of reserves to the foremost productive investment.

Investors take choices to contribute in specific offers of companies, keeping in see their share prices. Theories suggest that there is an association between changes in share prices and changes in financial fundamental variables (Nisa & Nishat, 2011). Looking towards other side, it is also essential for shareholders and potential investors to use relevant financial information to enable them to make good investment decisions in the stock market. (Dutta, Bandopadhyay, & Sengupta, 2012).

Equity markets improve corporate productivity, spur innovation, and give an important source of capital for long-term economic improvement. They moreover provide a valuable instrument for governments to raise capital through the deal of state-owned enterprises. Besides, quity market investments constitute a vital element of individuals' assets, particularly as governments shift their pension frameworks toward the private segment.

A share price is the cost of a single share of a number of saleable stocks of a company derivation or other financial assets. The global financial crisis which influenced the world economy by the conclusion of 2007 caused extreme volatility and turbulence within the stock market. According to Rudd (2009) worldwide value markets have misplaced roughly US\$ 32 trillion in esteem since their top. Before the global financial crisis, the investment trend was focused towards the stock market where investors kept a consistent eye on rising and falling shares because it was a source of yielding noteworthy return to investors.

Fluctuation in share price happen due to the supply and demand forces (Uddin, Rahman, & Hossain, 2013). The factors behind the increase or decrease within the demand and supply of share costs can be categorized into three primary sorts: technical factors, principal factors and market sentiments (Arshad, Arshaad, Yousaf, & Jamil, 2015). Fundamental components are those that come from the share issuing company such as profit, profits, bookvalue, etc. Additionally, technical variables are those that come from exterior the company and are frequently alluded as macro components such as interest rate, inflation, economic policy, political climate, gross domestic product, trends, etc. (Sutrsino, 2017). Moreover, market assumption is the common existing state of mind of the investors towards the expected price improvement in a market. Generally, we are able to say that the factors that impact the share costs are based on inner and outside variables. But there is no appropriate information or perfect system that indicates the exact movement of share prices (Bhattarai, 2014). Not to forget, the return from equity investment for the investors is not the same in all the companies as it varies depending upon the performance and the share price.

In an efficient market, stock prices would be analyzed by technical analysis or fundamental analysis. Technical analysis evaluates the stock price movement and predicts the future stock price based on historical data of stock price. Fundamental analysis evaluates the intrinsic value of the company and compares it to the stock price. Srinivasan (2012) stated that internal factors determine the share prices for different markets: dividend, return on assets, return on equity, retained earnings, size, age of banks, earning per share, dividend

yield, leverage, payout ratio, and book value per share. Understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions. movement (Bhattarai, 2014).

Equity markets enhance corporate efficiency, spur innovation and provide a valuable source of capital for long term economic development. They also provide a useful mechanism for governments to raise capital through the sale of state owned enterprises. Moreover, equity market investments constitute an important element of individuals' assets, particularly as governments shift their pension systems toward the private sector. In short, it is clear that equities constitute an increasingly important capital market in the world economy (Mosley and Singer, 2008).

The potential investors have none or small information about the components that cause the variability in share prices. On best of that, determining the share prices could be a complex and clashing assignment (Almumani, 2014). As a result, they are prone to create terrible investment choices on offers and face misfortune instead of gaining impressive returns. Essentially, the companies too discover it extreme to upgrade their market esteem without knowing almost the factors that impact the share prices as the share prices convey data to the open almost the current and future performance of firms (Poudel, 2016). So, the need of information approximately the components that impact share prices make issues for both the investors and the companies.

Numerous experimental thinks about have been conducted to discover out the determinants of share costs in several markets. As a result, different inner and outside factors have been distinguished and are anticipated to affect the share costs. So, both the inner components such as EPS, DPS, PE and ROA and the outside components such as expansion rate, bank rate and advertise capitalization are taken as autonomous factors which are anticipated to impact the advertise share costs of Nepalese commercial banks, which is the subordinate variable. Nepalese stock market is very small as compared to other neighbor country. The stock market plays an important role in economic development by promoting capital formation and raising economic growth. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital effectively. Trading of securities in this market facilitates savers and users of capital by fund pooling, risk sharing and transferring wealth.

The present study deals with an attempt to analyze the determinants of share price of commercial banks on the premise of financial statements data in Nepalese context. The objective of this study is to examine the affect of the internal factor on the stock prices of Nepalese commercial banks.. The purpose of the study is to investigate the relationship between the firm specific and macroeconomic variables as determinants and market price per share (MPS) in Nepalese banking sector. Specifically, it examines the impact of earning per

share (EPS), price earnings ratio (P/E ratio), book value per share (BVPS), return on assets (ROA) and size of the firm on market price per share.

The results of various authors contradict to each other. Though there are evidences in the context of other countries and in SAARC countries. No such evidence using more recent date exists in context of SAARC country. Based on this, the research question for this study is: Does inflation, exchange rate, broad money and external reserve has any effect on economic growth in SAARC?

II. RESEARCH OBJECTIVES

To examine the factors affecting the share price of joint venture commercial banks in Nepal.

To examine the impact of size, EPS, P/E Ratio, BVPS and ROA on stock price of selected joint venture commercial banks in Nepal.

III. REVIEW OF LITERATURE

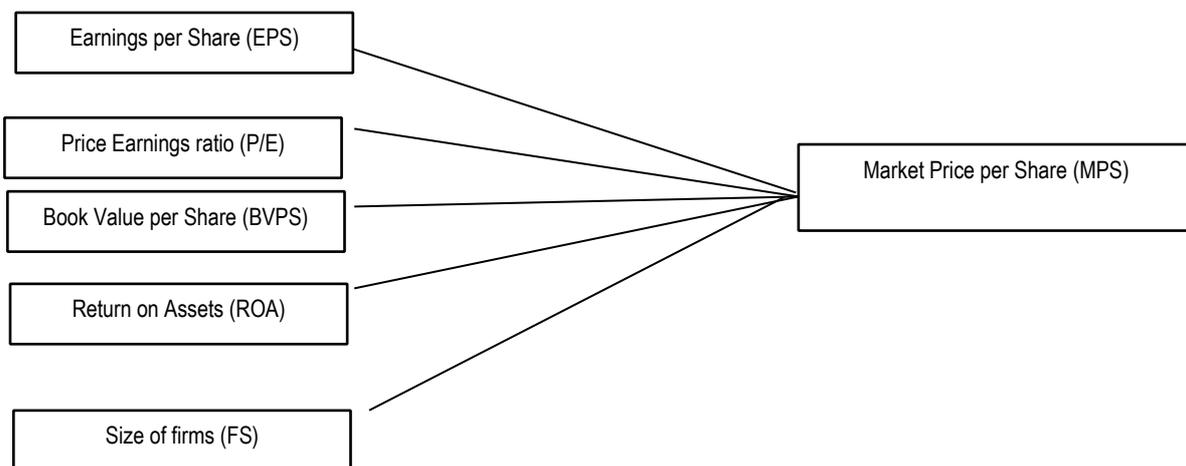
Research Framework

Figure 1

Research Framework

Independent Variable

Dependent Variable



Note. Silwal and Napit (2019); Katuwal (2021).

Hypotheses

Based on the reviews and above research framework, following hypotheses are formulated for the study:

H1: There is significant effect of EPS on stock price.

H2: There is significant effect of P/E ratio on stock price.

H3: There is significant effect of BVPS on stock price.

H4: There is significant effect of ROA on stock price.

H5: There is significant effect of FS on stock price.

Empirical Review

Srinivasan (2012) state that internal factors determine the share prices for different markets, dividend, retained earnings, size, earnings per share, dividend yield, leverage, payout ratio, and book value per share. Understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions.

Irmala, Sanju and Ramachandran (2011) focused on identifying the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare, and public sector undertakings over the period 2000-2009 and employed the fully modified ordinary least squares method. The results indicated that the variables dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Moreover, profitability is found to influence share prices only in the case of auto sector.

Bhattacharai (2014) has undertaken this study to clarify the determinants of share price of commercial banks listed on the Nepal Stock Exchange over the period of 2006 to 2014. Data were sourced from the annual reports of the nine commercial banks and analyzed using regression model. The finding of the study revealed that earning per share and priceearnings ratios have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that dividend yield, earning per share and price-earnings ratio are the most influencing factors in determining share price in Nepalese commercial banks.

Kheradyar and Ibrahim (2011) have studied whether financial ratios can predict stock returns for the period from January 2000 to December 2009 in Malaysia stock exchange. The researchers have selected three financial ratios that include dividend yield (DY), earning yield (EY) and book-to-market ratio (B/M) that have been documented to predict stock returns. The study applies generalized least squares (GLS) techniques to estimate the predictive regressions in form of simple and multiple models of panel data sets. The obtained results indicate that the financial ratios can predict stock return, as the B/M has the higher predictive power than DY and EY respectively. Furthermore, the financial ratios are able to enhance stock return predictability

when the ratios are combined in the multiple predictive regression model, (Hussainey, Oscar Mgbame, & Chijoke-Mgbame, 2011).

Aiali et.al (2019) examined the effect of dividend policy on the market value of common stocks of insurance companies listed at Kuwait stock exchange over the period 2009-2017. The results of the regression model revealed that dividend yield and dividend payout ratio had a statically significant negative effect on the share prices while earnings per share, book value per share, and market price to book value ratio had a statistically significant positive effect on the share price. The results of this study supported Miller and Modigliani (1961) dividend irrelevance theory.

Jermittiparsert, Ambarita, Mihardjo and Ghani (2019) analyzed the risk and return through financial ratios as determinants of stock price in ASEAN region. The study sample comprises 10 firms form Malaysia, Indonesia, Thailand and Singapore. The study used multiple regression techniques to determine the impact of exogenous variables on stock price. The result reveals that price earnings ratio and return on equity are the significant variables that statistically impact on the determination of stock price in ASEAN markets.

Bhattarai (2020) examined the factors that affect the market share price of Commercial banks from 2013/14 to 2017/18 of Nepalese Commercial Banks. The bank's specific secondary panel balance was collected from 12 sample commercial banks by using convenient sampling techniques and data of macroeconomic variables were collected through the economic survey which was published by the Ministry of Finance, Nepal. The data were analyzed through the pooled OLS and Fixed Effects Models as directed by the model diagnosis test. The findings from both models were more or less the same. The dividend payout patio showed negative and statistically significant with market share price. The dividend yield, earning per share were positive and statistically significant with market share per price. The bank size, gross domestic product growth rate and inflation rate were not part of the market share price and study had recommended for the management of the commercial bank to strengthen its effort for effective management of the bank specific factors to avoid the negative effect on the share price.

Katuwal (2021) examined the factors affecting the share price of Nepalese commercial banks from 2012/13 to 2019/2020 of Nepalese Commercial Banks based on descriptive research design, where 6 out of 27 commercial banks were selected by using a convenience sampling method from the list of commercial banks. The results revealed that book value per share, earning per share and price earnings ratio have significant positive relationship with market price of Nepalese commercial banks. Return on assets and size of the bank has a statistically insignificant relationship with stock price. It also concluded that book value per share is a most influential factor that determines the stock price in Nepal.

IV. RESEARCH METHODOLOGY

Research Design

The research design used in this study is descriptive and analytical research design. This research study is based on the secondary data collected from following authorized sources: World Bank for all the variables. For this article, it has used earning per share, price earnings ratio, book value per share, return on assets and size of the firm i.e. Total assets as the independent variables. The model is concerned with the relationship between Market price per share (MPS) and internal factors or variables as depicted by the following:

$$Y = \beta_0 + \beta_1 \text{EPS} + \beta_2 \text{P/E} + \beta_3 \text{BVPS} + \beta_4 \text{ROA} + \beta_5 \text{LNFS} + e \dots\dots\dots (1)$$

Where,

Y= Market price per share (MPS).

EPS= Earnings per share (EPS).

P/E = Price earnings ratio.

BVPS= Book value per share.

ROA= Return on assets.

LNFS= Natural logarithm of size of the firm.

B0 =Constant term, B1, B2, B3, B4, B5.

e = Error term.

V. RESULT AND ANALYSIS**Table 1***Descriptive statistics*

Particulars	MPS	EPS	P/E_RATIO	BVPS	ROA	LNFS
Mean	976.7364	29.1251	27.9115	201.027	1.6789	25.2478
Median	666.0000	27.2000	25.2100	188.4300	1.7600	25.3267
Maximum	3600.000	72.6000	78.3300	335.6023	2.8000	26.2651
Minimum	180.0000	2.6100	11.6700	113.3430	0.2800	23.6408
Std. Dev	794.1401	13.1962	13.9154	54.0668	0.5161	0.5625

Note. Output of E-views 12 (LBC digital library)

Table 1 shows the descriptive statistics of the dependent and independent variables. MPS is the dependent variable which is fluctuated in between 691 and 3600 with average of 1041.06 with a standard deviation by 805.0585 respectively. And among independent variables, EPS fluctuates in between 2.61 and 72.6 with an average of 30.0142 with a standard deviation of 13.6414. P/E ratio fluctuates in between 11.67 and 78.33 with an average of 29.08 with a standard deviation of 14.0713. BVPS fluctuates in between 113.3430 and 335.6023 with an average of 188.7150 with a standard deviation of 55.5704. ROA fluctuates in between 0.25% and 2.8 with an average of 1.7174% with a standard deviation of 0.5182%. The natural log of size of firm fluctuates in between 23.6408% and 26.1681% with an average of 25.1766% with a standard deviation of 0.5333%.

Table 2

Pearson correlation matrix

Correlation Probability	MPS	EPS	RE_RATIO	BVPS	ROA	LNFS
MPS	1.000000					

EPS	0.595542	1.000000				
	0.0000	----				
PE_RATIO	0.615661	0.138201	1.000000			
	0.0000	0.3143	----			
BVPS	0.721060	0.429017	0.207667	1.000000		
	0.0000	0.0011	0.1282	----		
ROA	0.473212	0.680942	-0.129540	0.489283	1.000000	
	0.0003	0.0000	0.3459	0.0002	----	
LNFS	-0.249242	-0.268666	-0.270934	0.023494	-0.121530	1.000000
	0.0665	0.0473	0.0454	0.8648	0.3768	----

Note. Output of E-views 8 (LBC digital library)

Table 2 shows the correlation matrix concerning an independent variables and shows that none of the variables have very high correlation coefficients. The highest correlation is 0.731894. The result indicates that EPS, R/E ratio, BVPS, ROA have a positive association with MPS while LNFS have negative association with MPS. All the correlation matrix variables value is less than 0.8, therefore there is no presence of multi-collinearity. Therefore, the coefficient of the variables is well suited for the regression analysis.

Table 3

Breushman pagen test

	Cross-section	Time	Both
Breusch-Pagan	0.042188	7.848107	7.890295
P-value	(0.8373)	(0.0051)	(0.0050)

Note. Output of E-views 8 (LBC digital library)

Here, the p-value is $0.0000 < 0.05$ so, the POLS model is rejected.

Table 4

Analysis of output

Variables	Beta Coefficients	Std. Error	t-Statistic	Prob.
EPS	15.00354	5.200066	2.885260	0.0060
PE_RATIO	30.52521	3.882736	7.861776	0.0000
BVPS	8.006016	1.547984	5.171900	0.0000
ROA	358.2906	136.5889	2.623131	0.0119
LNFS	-17.65416	87.14049	-0.202594	0.8404
C	-20770479	2296.924	-0.904461	0.3706

Model Summary

R-squared	0.870942
Adjusted R-squared	0.845130
S.E. of regression	312.5219
F-statistic	33.74223
Prob (F-statistic)	0.000000
Durbin-Watson stat	2.08250

Note. Output of E-views 12(Student Version)

The result of the panel regression analysis based on the fixed model as presented in table 4 shows that earning price share, price earnings ratio, book value per share and return on assets are found among the independent

variables to have statistically significant effects on market price per share, whereas size of firm is found to have a statistically insignificant effect on Market price per share at the 5% level of significance.

Earning price per share (EPS) has positive and significantly impacts the market price per share (MPS). The coefficient value of 15.0035 indicated that a unit change in EPS would result to positively 15.0035 growth in MPS; P/E ratio has positively and significantly impacts on MPS. The coefficient value of 30.5252 indicated that a percentage P/E ratio would result to 30.5252% growth in MPS. Book value per share has positively and insignificantly impacts the MPS. The coefficient value of 8.0060 implies that as the BVPS grows by a percentage, the real GDP would increase by 8.0060 rupees; ROA has positively and significantly impacts on MPS having 358.2906 coefficient which implies that MPS grow by a percentage, ROA would increase by 358.2906%. Natural log on size of firm has negative insignificant impact on MPS.

The null form of the test is $DW > R^2$, which states that the Durbin-Watson result should not be greater than the R-squared figure. As seen in the analysis's results, $DW = 2.08$ and $R^2 = 0.8709$, rejecting the null hypothesis, indicating that the regression estimate result is valid. R-squared for the regression is 0.8709 which implies that the variables in the current study can explain 87.09 percent of the variations in the MPS can be explained by explanatory variables and remaining 12.91 percent of variations of the MPS under investigation can be explained by other factors not included in the model. Furthermore, regarding the statistical significance of the model it's p value= 0.0000 is less than 5% level, indicating that the estimated model has a high statistical significance, which increases the model's reliability and validity.

VI. DISCUSSION

This study used descriptive and multiple regression analysis to examine the factors affecting the Market share price of Nepalese joint venture commercial banks. The findings of this study shows that earning price share (EPS) has positive significant impact on market price per share (MPS). The result in line with Bhattarai (2020), Silwal & Napit (2019), Pradhan & Dahal (2016), Almumani (2014), Arshad, Arshaad, Yousaf, & Jamil (2015), Sharma (2011), Bhatt & JK (2012) which reveals that EPS is a determining factor that affect the MPS. The explanatory variable price earnings ratio (P/E_ratio) is found to be statistically significant and displayed a positive relationship to MPS consistent with Bhattarai (2020), and Pradhan & Dahal (2016). Similarly, book value per share (BVPS) shows positive significant impact on MPS. The result in line with the literature: Sharma (2011), Emamgholipour et al.,(2013), Bhattarai (2020), Silwal and Napit (2019), Tandon, Malhotra and Technology (2013). The explanatory return on assets (ROA) is found to be statistically significant and has a positive impact on MPS where the result in line with literature: Pradhan & Dahal (2016) and Almumani (2014), Radhe, Pradhan & Dahal (2016), while contradictory with Naveed and Ramzan (2013),

Katuwal (2021). The result of size obtained from the research is consistent with Silwal and Napit (2019). The explanatory variable natural log of size of the firm (LNFS) is found to be statically negative insignificant impact on MPS which is similar with Katuwal (2021) while contradictory with Ramzan (2011), Radhe, Pradhan & Dahal (2016),), Silwal & Napit (2019).

VII. CONCLUSION AND IMPLICATION

The study used panel data from 2012 to 2022 to examine the factors affecting the share price of Nepalese joint ventures commercial banks of selected joint venture commercial bank countries of 11 years. Thus, above discussion and statistical evidences, this research conclude that, internal factors have significant effect on the market price of share of selected joint venture commercial banks of a countries. With regard to independent variables: EPS, P/E_RATIO, BVPS, ROA are found to be statistically significant factors of MPS of selected joint venture commercial banks of a countries but LNFS is statistically insignificant i.e. no explanatory power toward stock price movement significantly as per the result. Size of firm has negative insignificant relationship to MPS. EPS, P/E_RATIO, BVPS, ROA displayed as positive relationship to MPS. The findings of this study revealed that increase in EPS, P/E_RATIO, BVPS, ROA increases the growth of MPS. This study concludes that the earnings per share, price earnings ratio, book value per share and return on assets are the major determinants of share price of Nepalese joint venture commercial banks.

It is advised that regulators and policymakers take into internal variables in order to improve the price stability of joint venture banks. Investors and portfolio analysts can use the information regarding the factors they should consider for their investment decisions and while predicting the stock market prices. The implication of this study suggests a rational investor's need to consider earning per share, price earnings ratio, book value per share and return on assets before making investment decision along with signaling and asymmetric information in context of imperfect stock market like Nepal.

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