

FINANCIAL PERFORMANCE INDICATOR AND SHARE PRICE MOVEMENT

A THESIS

Submitted By:

Sujan Shrestha

Shanker Dev Campus

T.U. Regd. No: 7-2-31-695-2002

Campus Roll No.:1028/062

Symbol No: 10270

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree

Master's of Business Studies (M.B.S.)

Kathmandu, Nepal

April, 2012

RECOMMENDATION

This is to certify that the Thesis

Submitted By:

Sujan Shrestha

Entitled:

FINANCIAL PERFORMANCE INDICATOR AND SHARE PRICE MOVEMENT

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This Thesis is forwarded for examination.

.....
Lecturer Krishna Prasad Acharya
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

.....
Asso. Prof. Prakash Singh Pradhan
(Campus Chief)

.....
Kiran Thapa
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

Submitted By:

Sujan Shrestha

Entitled:

**FINANCIAL PERFORMANCE INDICATOR AND SHARE PRICE
MOVEMENT**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the **Degree of Master’s in Business Studies (M.B.S.)**

Viva-Voce Committee

Head- Research Department :

Member (Thesis Supervisor) :

Member (Thesis Supervisor) :

Member (External Expert) :

DECLARATION

I hereby declare that the work reported in this thesis entitled “*Financial Performance Indicator and Share Price Movement*” submitted to Shaker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement of the degree of Master of Business Studies (MBS) under the supervisors of Lecturer Krishna Prasad Acharya and Kiran Thapa of Shanker Dev Campus.

.....

Sujan Shrestha

Researcher

Shanker Dev Campus

T.U. Regd. No: 7-2-31-695-2002

Campus Roll No.:1028/062

Symbol No: 10270

ACKNOWLEDGEMENT

The thesis entitled “*Financial Performance Indicator and Share Price Movement*” has been taken in partial fulfillment of the requirement for the course on Research Methodology for the degree of Master of Business Studies (MBS) of Tribhuvan University. This research report is an honest effort to record my outcome of efforts and commitment, which would not have been possible without the contribution of many individuals which helped me in many aspects during its preparation. Therefore, I would like to take this opportunity to sincerely express my gratitude to all of them.

My heartfelt thank goes to respected Supervisors Lecturer Krishna Prasad Acharya and Kiran Thapa of Shaker Dev Campus for providing me with such research and also for his guidance, constructive criticism, unstinted inspiration and continuous support rendered to me throughout the course of this research.

I also feel highly obliged to all the people from different organization for providing me the necessary data and information related with the study. Their friendly behavior and warm co-operation helped me a lot to prepare this report.

I owe sincere thanks to my colleague of Shanker Dev Campus for providing their help and moral support to prepare this report. And last but not the least, special thanks goes to my family for their continuous inspiration and encouragement without which this report would never have been possible.

SUJAN SHRESTHA

TABLE OF CONTENTS

Recommendations	
Viva- Voce Sheet	
Declarations	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER-1 INTRODUCTION	1-8
1.1 Background of the study	1
1.2 Focus of the Study	4
1.3 Statement of Problems	5
1.4 Objective of the Study	6
1.5 Significance of the study	6
1.6 Limitation of the study	6
1.7 Organization of the Study	7
CHAPTER – II REVIEW OF LITERATURE	8-43
2.1 Conceptual Framework	8
2.1.1 Commercial Banks	8
2.1.2 Earnings	10
2.1.3 Dividend	10
2.1.3.1 Cash Dividend	12
2.1.3.2 Stock Dividend & Stock Split	13
2.1.3.3 Scrip Dividend	16
2.1.3.4 Property Dividend	16
2.1.3.5 Bond Dividend	17

2.1.3.6 Split and Reverse Split	17
2.1.3.7 Stock Repurchase	18
2.1.4 Dividend Policy	19
2.1.4.1 Stable Dividend Policy	19
2.1.4.2 No Immediate Dividend Policy	21
2.1.4.3 Regular Stock Dividend Policy	21
2.1.4.4 Irregular Pay Dividend Policy	21
2.1.5 Factors Affecting Dividend Policy	22
2.2 Review of Related Studies	27
2.2.1 Review of Major International Studies	27
2.3 Review of Major National Studies	37
2.4 Research Gap	43

CHAPTER-III RESEARCH METHODOLOGY **44-51**

3.1 Research Design	44
3.2 Population and Samples	44
3.3 Source & Technique of Data Collection	45
3.4 Data Analysis Tools	45
3.5 Regression Model Used	50
3.6 Limitation of the Methodology	51

CHAPTER-IV DATA PRESENTATION AND ANALYSIS **52-89**

4.1. Analysis of Overall Performance of Companies	52
4.1.1. Market Price per Share (MPS)	52
4.1.2. Net Worth per Share (NWPS)	54
4.1.3. Earnings per Share (EPS)	56
4.1.4. Dividend per Share (DPS)	58
4.1.5. Price Earnings Ratio (P/E Ratio)	60
4.1.6 Dividend Yield	62
4.2. Financial Tools	64
4.2.1. Liquidity Ratios	64

4.2.2. Return on Total Assets (ROA)	66
4.2.3. Return on Equity (ROE)	67
4.3. Turnover Ratios	69
4.3.1. Fixed Assets Turnover Ratio	69
4.3.2 Total Assets Turnover	71
4.4. Correlation and Regression Analysis	72
4.4.1 Correlation and Regression Analysis between MPS and EPS	73
4.4.2 Correlation and Regression Analysis between MPS and DPS	74
4.4.3 Correlation and Regression Analysis between MPS and Dividend Yield	75
4.4.4 Correlation and Regression Analysis between MPS and P/E Ratio	76
4.4.5 Correlation and Regression Analysis between MPS and NWPS	77
4.4.6 Correlation and Regression Analysis between MPS and CR	79
4.4.7 Correlation and Regression Analysis between MPS and ROA	80
4.4.8 Correlation and Regression Analysis between MPS and ROE	81
4.4.9 Correlation and Regression Analysis between MPS and NI/TA	82
4.5 Multiple Regressions of MPS with Different Explanatory Variables	83
4.6 Partial Hypothesis Test (T-Test)	84
4.7 Major Findings	86

CHAPTER – V SUMMARY, CONCLUSION AND

RECOMMENDATIONS

90-94

5.1 Summary	90
5.2 Conclusion	92
5.3. Recommendations	93
Bibliography	
Appendix	

LIST OF TABLES

	Page No.
Table 4.1 Market Price per Share of Sample Banks	53
Table 4.2 Net Worth per Share of Sample Banks	55
Table 4.3 Earnings per Share of Sample Banks	57
Table: 4.4 Dividend per Share of Sample Banks	59
Table: 4.5 Price Earnings Ratio of Sample Banks	61
Table: 4.6 Dividend Yield of Sample Banks	63
Table: 4.7 Current Ratio of Sample Banks	65
Table: 4.8 Return on Total Assets of Sample Banks	66
Table: 4.9 Return on Equity of Sample Banks	68
Table: 4.10 Fixed Asset Turnover of Sample Banks	70
Table: 4.11 Total Assets Turnover of Sample Banks	71
Table: 4.12 Correlations and Regression Analysis between MPS and EPS	73
Table: 4.13 Correlations and Regression Analysis between MPS and DPS	74
Table: 4.14 Correlation and Regression Analysis between MPS and Dividend Yield	75
Table: 4.15 Correlation and Regression Analysis between MPS and Price Earnings Ratio	76
Table: 4.16 Correlation and Regression Analysis between MPS and NWPS	77
Table: 4.17 Correlation and Regression Analysis between MPS and Current Ratio	79
Table: 4.18 Correlation and Regression Analysis between MPS and ROA	80
Table: 4.19 Correlation and Regression Analysis between MPS and ROE	81
Table: 4.20 Correlation and Regression Analysis between MPS and NI/TA	82

LIST OF FIGURES

	Page No.
Figure: 4.1 Market Price per Share of Sample Banks	54
Figure: 4.2 Net Worth per Share of Sample Banks	56
Figure: 4.3 Earnings per Share of Sample Banks	58
Figure: 4.4 Dividend per Share of Sample Banks	60
Figure: 4.5 Price Earnings Ratio of Sample Banks	62
Figure: 4.6 Dividend Yield of Sample Banks	64
Figure: 4.7 Current Ratio of Sample Banks	66
Figure: 4.8 Return on Total Assets of Sample Banks	67
Figure: 4.9 Return on Equity of Sample Banks	69
Figure: 4.10 Fixed Assets Turnover of Sample Banks	71
Figure 4.11 Total Assets Turnover of Sample Banks	72

LIST OF ABBREVIATION

A.D.	:	Anno Domini
ABBS	:	Any Branch Banking System
Adv	:	Advances
AM	:	Arithmetic Mean
ASEAN	:	Association for South East Asian Nation
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sambat
BP	:	Bills Purchase
C.V.	:	Coefficient of Variation
DPS	:	Dividend per Share
D/P	:	Dividend payout Ratio
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
IRR	:	Internal Rate of Return
JVB	:	Joint Venture Bank
M.B.S	:	Master of Business Studies
MPS	:	Market price per share
NWPS	:	Net worth per Share
NEPSE	:	Nepal Stock Exchange Limited
NRB	:	Nepal Rastra Bank
ROE	:	Return on Equity
S.D.	:	Standard Deviation
T.U	:	Tribhuvan University
USA	:	United States of America
www	:	World Wide Web