

RISK AND RETURN ANALYSIS ON COMMON STOCK INVESTMENT

(with reference of Commercial Banks in Nepal)

Submitted By:

Sabin Bhattarai

Shanker Dev Campus

Campus Roll No. 1541/062

T.U. Regd No.7-2-1-863-2002

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the degree of

Master's of Business Studies (MBS)

Kathmandu, Nepal

August, 2009

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Sabin Bhattarai

Entitled

RISK AND RETURN ANALYSIS ON COMMON STOCK INVESTMENT

(with reference of Commercial Banks in Nepal)

has been prepared as appeared by this department in the prescribed format of faculty of Management. This thesis is forwarded for examination

.....
Mr. Joginder Goet
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
Head, Research Department

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA VOCE SHEET

We have conducted the viva voce examination of the thesis presented by

Sabin Bhattarai

Entitled

**RISK AND RETURN ANALYSIS ON
COMMON STOCK INVESTMENT**
(with reference of Commercial Banks in Nepal)

and found the thesis to be 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
Master's Degree in Business Studies (M.B.S.)

Viva Voce Committee

Chairperson, Research Committee:

Member (Thesis Supervisor):.....

Member (External Expert):.....

DECLARATION

I hereby declare that the work reported in this thesis entitled **RISK AND RETURN ANALYSIS ONCOMMON STOCK INVESTMENT**(with reference of Commercial Banks in Nepal) submitted to Shanker Dev campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements of the Master's Degree in Business Studies(MBS) under the supervision of my thesis supervisor Mr. Joginder Goet, Lecturer of Shanker Dev Campus, Tribhuvan University.

.....
Sabin Bhattarai
Researcher
Shanker Dev Campus

ACKNOWLEDGEMENT

This thesis on "Risk and Return Analysis on Common Stock Investment" (with reference of commercial banks in Nepal) is prepared and submitted to faculty of management of Shanker Dev Campus, as partial fulfillment of the requirement of the degree of master's in Business Studies (MBS) under the guidance of honorable advisor, Mr. Joginder Goet.

I would like to express my sincere gratitude and obligation to my honorable advisor for his valuable suggestion, comments and continuous inspiration.

I would like to thank all the teachers and staffs of Shanker Dev Campus for help and encouragement. My sincere thanks goes to my friends Ram, Namaraj, Binod, Madhav, Durga and Bikash for their help in my thesis and valuable suggestion.

Last but not least I would like to express my sincere gratitude to my parents my wife and all of my family members for their encouragement and moral support.

Sabin Bhattarai
Researcher

TABLE OF CONTENTS

Recommendations	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study	1
1.1.1. Risk	1
1.1.2. Return	2
1.2. Focus of the study	4
1.3. Statement of the Problem	4
1.4. Objective of the Study	5
1.5 Need or Significant of the Study	5
1.6. Limitations of the Study	6
1.7. Organization of the Study	6

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Conceptual framework	8
2.2. Theoretical Review	9
2.2.1 Return	9
2.2.2 Risk	11
2.2.3 Relationship between the Risk and Return	13
2.2.4 Portfolio Risk	13
2.2.5 Portfolio Analysis	16
2.2.6 Expected Portfolio Return	17
2.2.7 Capital Market Line (CML)	17

2.3. Reviews from Journals	20
2.4. Review of Publication in the area	23
2.5. Review of Previous Research	25
2.6. Research Gap	30

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design	31
3.2 Population and Sample	31
3.3 Data Collection Procedure	34
3.4 Sample Characteristics	34
3.5 Method of Data Analysis	34
3.5.1 Market Price of Stock	34
3.5.2 Dividend	34
3.5.3 Return on Common Stock Investment	35
3.5.4 Expected Rate of return on Common Stock	35
3.5.5 Standard Deviation	36
3.5.6 Co-efficient of Variation	36
3.5.7 Portfolio Return	36
3.5.8 Portfolio risk	37
3.5.9 Risk Minimizing Portfolio	38
3.5.10 Required Rate of Return	38
3.5.11 Beta Coefficient	38
3.5.12 Portfolio Beta	39
3.5.13 Correlation Coefficient	39
3.5.14 Partitioning of Total Risk into systematic and unsystematic risk	40
3.5.15 Optimum Portfolio Portfolio	40

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Individual Commercial Bank	42
4.1.1 Nepal Arab Bank Ltd.	42
4.1.2 Himalayan Bank Limited	45
4.1.3 Bank of Kathmandu Ltd.	47
4.1.4 Nepal SBI Bank Ltd.	50
4.1.5 Everest Bank Ltd.	52
4.2 Inter Bank Comparison	54
4.3 Inter Sector Comparison	56
4.4 Comparison and Analysis of Market and Its Return	59
4.5 Market Sensitivity	61
4.6 Correlation	63
4.7 Portfolio Analysis	64
4.8 Analysis of Diversification	64
4.9 Systematic and unsystematic risk and its proportion	65
4.10 Optimum Portfolio Construction	66
4.10.1 Establishing a cut-of rate	67
4.10.2 Optimum Portfolio	68
4.11 Major Finding of the study	69

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary	72
5.2. Conclusions	73
5.3. Recommendations	74

Bibliography

Appendix

LIST OF TABLE

3.1 List of All established commercial banks	33
4.1 MPS, Dividend and EPS of NABIL	43
4.2 RRR,ERR, S.D., and C.V. of Common Stock of Nabil	44
4.3 MPS, Dividend and EPS of HBL	45
4.4 RRR,ERR, S.D., and C.V. of Common Stock of HBL	47
4.5 MPS, Dividend and EPS of BOK	48
4.6 RRR,ERR, S.D., and C.V. of Common Stock of BOK	49
4.7 MPS, Dividend and EPS of SBI Bank	50
4.8 RRR,ERR, S.D., and C.V. of Common Stock of SBI Bank	51
4.9 MPS, Dividend and EPS of EBL	52
4.10 RRR,ERR, S.D., and C.V. of Common Stock of EBL	53
4.11 Expected Return, Standard Deviation and CV of each Banks	54
4.12 Market Capitalization of Different Sectors	56
4.13 Sector-wise NEPSE index of different sector during the fiscal year 2001/02 to 2006/07	57
4.14 Expected Return, Standard Deviation and CV of Different Sector	58
4.15 Market Return, Standard Deviation and CV	59
4.16 Beta Coefficient of Each Banks	61
4.17 Required Rate of Return, Expected Rate of Return and Price situation	62
4.18 Correlation Between Nabil and Others	63
4.19 Portfolio Return Risk, and CV of different Banks with Nabil's Stock	65
4.20 Systematic and Unsystematic Risk and it's proportion	66
4.21 Ranking the Stocks on the basis of excess return to beta	67
4.22 Calculation of Determining cut-of rate	68

LIST OF FIGURE

2.1 Relationship between the risk and return	13
2.2 Impact of number of securities on portfolio risk	15
2.3 Capital Market Line	18
2.4 Security Market Line	19
4.1 Year-End price and EPS movement of NABIL	43
4.2 MPS and EPS Movement of HBL	46
4.3 MPS and EPS Movement of BOK	48
4.4 MPS and EPS Movement of SBI Bank	51
4.5 MPS and EPS Movement of EBL	53
4.6 Expected Return, S.D. and C.V. of each Bank	55
4.7 NEPSE Index movement	60

LIST OF DIAGRAM

4.1 Annual Return of Common Stock of NABIL	44
4.2 Annual Return of Common Stock of HBL	47
4.3 Annual Return of Common Stock of BOK	49
4.4 Annual Return of Common Stock of SBI Bank	52
4.5 Annual Return of Common Stock of EBL	54
4.6 Industry-wise expected return S.D. and C.V.	58
4.7 Market Return Movement	60

LIST OF CHART

4.1 Market Capitalization	56
---------------------------	----

ABBIVIATIONS

AD	Anno Domini
BOK	Bank of Kathmandu Ltd.
BS	Bikram Sambat
CAPM	Capital Assets Pricing Model
CML	Capital Market Line
CS	Capital Structure
CV	Coefficient of Variation
EBL	Everest Bank Ltd.
EPS	Earning Per Share
ER	Expected Return
ERR	Expected Rate of Return
GDP	Gross Domestic Product
HBL	Himalayan Bank Ltd.
i.e.	That is
Ltd.	Limited
MBS	Master's in Business Studies
MPS	Market Price Per Share
NABIL	Nepal Arab Bank Ltd.
NEPSE	Nepal Stock Exchange
NI	NEPSE Index
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
Pvt.	Private
RRR	Realize Rate of Return
SBI	State Bank of India
SD	Standard Deviation
SEBON	Securities Board of Nepal
SIM	Simple Index Model
SML	Security Market Line
T.U.	Tribhuvan University
UAE	United Arab Emirates
USA	United States of America