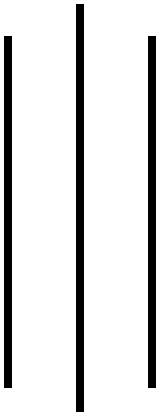
A STUDY ON RELATION BETWEEN CORPORATE PERFORMANCE AND SHARE PRICE

Submitted By:

Anil Kumar Shrestha
Shanker Dev Campus
TU Registraion No.: 10029-94
Campus Roll No.: 1782/059



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RECOMMENDATION

This is to certify that the Thesis

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Anil Kumar Shrestha

Entitled:

"A Study on Relation between Corporate Performance and Share Price"

has been prepared as approve by the Department in the prescribed format of Faculty of management. This Thesis is forwarded for examination.

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Achyut Raj Bhattarai

(Thesis Supervisor)

_____

Dr. Kamal Deep Dhakal

(Campus Chief)

_____

Laxman Raj Kandel

(Thesis Supervisor)

VIVA-VOCE SHEET

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

ANIL KUMAR SHRESTHA

Entitled:

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And found the thesis to 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

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Viva-voce Committee

Head of Research Department: - ……

Member (Thesis Supervisor) :- ……

Member (Thesis Supervisor) :- ……

Member (External Expert) :- ……

Date:

Declaration

I, hereby declare that the thesis entitled "A Study on Relation Between Corporate Performance and Share Price" submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my own work which is prepared as the partial fulfillment of the requirement of the Degree of Master of Business Studies (MBS) under the supervision of Mr. Achyut Raj Bhattarai, Associate Professor and Mr. Laxman Raj Kandel Lecturer of Shanker Dev Campus, Tribhuvan University.

Anil Kumar Shrestha
Researcher
Date:

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Anil Kumar Shrestha
Shanker Dev Campus
Date

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List of Abbreviations

NABIL	Nabil Bank Limited
SCBNL	Standard Chartered Bank Nepal Limited
HBL	Himalayan Bank Limited
EBL	Everest Bank Limited
NSM	Nepal Share Market
KFL	Kathmandu Finance Limited
PFL	People's Finance Limited
HI	Himalayan Insurance
NLO	Nepal Lube Oil
UNL	Uniliver Nepal Limited
SEBON	Security Board Nepal
NEPSE	Nepal Stock Exchange Limited
EPS	Earning Per Share
FY	Fiscal Year
ROE	Return on Equity
ROA	Return on Assets
MVPS	Market Value per share
P/E Ration	Price Earnings Ratio
Ltd.	Limited
MPS	Market Price Per Share
DPS	Dividend per Share
NWPS	Net Worth per Share
BPS	Book Value per Share
DDM	Dividend Discount Model

CHAPTER – I

INTRODUCTION

1.1 Background

Corporate performance analysis is a process of evaluating the relationship between components parts of a financial statement to be obtained a better understanding of a firm's position and performance. Corporate performance analysis can be considered as a heart of financial decisions. The growth and development of any enterprise is directly influenced by the financial policies. Rational evaluation of corporate performance of financial management is too much involved in record keeping, raising necessary funds and maintaining relationship with company and other financial institutions. Corporate performance as the part of financial management is the main indicator of the success or failure of the firm. Financial condition of business firm should be sound from the point of view of shareholders debenture holders, financial institutions and nation as a whole.

Performance evaluation in the assessment of the probability distribution of returns associated with holding a security where return is defined in terms of dividend and capital gain. They suggested analyzing the performance in terms of returns investors (Davilson and Weil; 1977: 34) similarly in 1994, Opler and Titman on analysis of financial distress and corporate performance measured the performance in terms of stock returns, growth of sales and growth of profitability. These indicate higher values of market price per share, earning per share, dividend per share, growth of sales, and growth of profitability reflect the better performance of companies. International dictionary of banking & finance defines performance as earnings or losses made on a security (Opler and Titman; 1994: 92) Weston & Copeland have broadly divided performance measures in profitability ratios, growth ratios and valuation measures. Net operating income to sales, net operating income to total assets, net operating income to total capital, net income to sales, return on equity, marginal profitability rate and marginal return to equity are the specific variables of profitability ratios

explained by them. The growth rate of sales, net operating income, net income, earning per share, dividend per share are used to measure growth ratios. And price earnings, market value of equity and dividend yield plus capital gain yield are suggested as valuation measures to analyze the performance of companies. Higher values of these variables indicate better performance & vice versa. Rational evaluation of the performance of a enterprise is essential to prepare sound financial policies and to attract potential investors. Stakeholders such as owners, managers, creditors, investors, employees, customers, tax authorities are directly interested in the corporate performance and analysis of corporate performance and analysis of financial position of the enterprise. (Weston & Copeland; 1992: 17)

Financial analysis is the main quantitative judgment process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. In financial analysis a ratio is used as an index or yard sticks for evaluating the corporate performance of the firm. Analysis and interpretation of the various ratios should give an experience and a skilled analyst a better understanding of the financial condition and performance of the firm. So financial analysis depends to a very large extent on the use of ratios through there are other equally important tool of analysis. Financial analysis helps to know the corporate performance of an enterprise. Management of the enterprise is interested in all aspect of financial analysis to adopt a good financial management system and for the internal control of the enterprise. The creditors are primarily interested in the liquidity position to see the ability of the enterprise to pay their short term claims. Government, economists, trade associations, trade unions, competitors etc. are also interested in the analysis.

The main motto of 21st century's corporations is to provide maximum benefits to its shareholders. Corporation’s performance ultimately affects its shareholders welfare. And the degree of welfare is measured by the price of equity. Shareholders shall have handsome capital gain and annual returns in term of cash dividend due to which investors are tempted to invest in equity shares. Huge participation in an IPO of any

corporation clearly reflects this fast. When the corporation's performance is well, this fact will be reflected by its equity price.

The portion of equity capital in the capital structure of any firm is obviously higher than that of other components. This equity capital is raised form the promoters and the investors. Here the important considerable point is that why investors want to invest in any firm? The only reason behind it, is the very desire of having increased wealth. Therefore, corporation's prime concern is to yield higher return for its investors. For this, corporations must have strong profitability index. The degree of investors' welfare is represented by the price of equity, they hold. Equity price is only the measuring rod, which shows the corporation's strength in generating returns over its capital employed. The main issue of this study is to identify the determinants of equity price and the degree of influences of such determinants up on equity price. In general, it is assumed that stock prices move randomly i.e. unidentified movement; however, the basic track that the prices take is due to the performance- related-indicators of the corporations. Needless to say, earning per share indicates the profitability of the corporations, dividend per share reflects the direct cash benefit to the investors, Net worth per share signifies the real or intrinsic value of shares, growth rate is related with the growth potentialities/possibilities of earnings and dividends, required rate of return indicates the rate of return which investors actually desire, last but not least, earning multiplier reflects the ratio of MPS to the EPS. In facts these variables provide the real way for the stock price movement and if we identify the factors in proper manner, we can predict the future price of equity.

In the present world most of the large businesses are established in the form of public limited companies. These companies requires large amount of capital fund for their smooth operation and survival. Both the short term and long term capital are essential to carry out the organizational activities. Particularly the long-term funds are highly significant for growth and prosperity in long term. Most of the organization generates these types of funds from financial market comprising money market and capital

market. Money market provides short-term capital for these ventures where as capital market is the only option for the long-term funds.

Capital market is a significant part of modern economy. The development of a nation to a large extent depends upon the capital market development. Its role is vital in both developed and developing economy for the mobilization of resources from savers to users. It consists of a series of channel through which savings of a community are made available for demanders of fund. An efficient capital market is an essential pre-requisite of economic development and the development of capital market is dependent upon the availability of saving, proper organization of intermediary institutions to bring the investors and business ability together for mutual interests, regulation of investment etc. With the rise of joint stock organization of production and distribution, the importance of capital market as a liaison between the investor and the entrepreneur has become paramount. It is the business of capital market to facilitate the movement of stream of command over capital to the points of highest yield. By so doing it enables control over resources to pass into the hands of those who can employ them most efficiently, thereby increasing productive capacity and swelling National dividend (Kuchhal, 1989:220).

1.1.1 Constituent of Capital Market in Nepal

Security Board, Nepal (SEBO/N)

Security Board, Nepal was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security Board has identified the policy development, legal and regulatory reform, stand arising disclosers, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector – investors, listed companies, financial and market intermediaries and in government sector – Ministry of Finance, Registrar of Companies (Ministry of

Industry, Commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Associations of Chartered Accountants have been playing vital role in promoting the capital market of the country.

The objectives of the Board are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

Nepal Stock Exchange (NEPSE)

Along with the formation of Security Exchange Board, His Majesty's Government converted the Securities Exchange Centre Ltd. into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with a view to reform the Capital market. It is a non-profit making organization operating under Securities Exchange Act 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and bylaws of NEPSE. Nepal Stock Exchange started its trading operation on 13 January 1994 through its licensed members. The Securities Board was constituted in 1993 under Sec. 1 of the Securities Exchange Act 1983.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operational) institution, whereas Securities Board is the regulatory body. Before the Board came into existence, the Securities Exchange Centre carried on both the functions. Though any corporate body desirous to carry out the transaction of securities can submit application to the Board for obtaining the license, till now Nepal Stock Exchange Ltd. alone is representing the securities market in the country.

At present, there are 22 valid member brokers (out of 27 brokers in whom 7 of them are either not working or suspended) and 135 listed companies. NEPSE has adopted an "Computerize" system. It means, transactions of securities are conducted on the computer principle on the trading floor, where the price is determined when bid and offer price match. The rate of brokerage on equity transactions ranges from 1 to 1.5 percent depending on the traded amount.

Similarly the basic objectives of the NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions on its trading floor through market intermediaries such as brokers, market makers etc. Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

NEPSE has completed almost a decade of its operation. In this period it has experienced various bullish and bearish trends. At some time there had been sufficient investors' optimism over the performance of companies making the market bullish. At other times it had been inactive and slack due to the companies' inability to match their performance to their commitments, lack of investor friendly environment, procedural delays in transactions etc. Market had been overvalued due to the imperfect practices and market rumors. Even when the earnings is not sufficient the prices of some stocks goes very high than their book values resulting overvaluation and under valuation in the market. Many people suffer loss because of investing with out understanding whether the investment truly has value. These years of NEPSE's operation has increased the experience of investors, listed companies, stock exchange staffs and market intermediaries. But it seems still Nepalese stock market has to go a long way to be a perfect market.

1.2 Focus of Study

Investment is common practice of those who are able to make saving from their income. Among different alternative stock market drags attention of lots of people. Investors invest in stock with the hope of getting better return on future. One is ready

to pay high price for a stock on the basis of some expectations which is backed by the corporate performance of the company in the past years.

Corporate performance under this study refers the financial performance of a company. Financial performance is the outcome of the financial decisions taken by the management of the company. The impact of these decisions is reflected in the profitability of the company. Everyone is interested to invest in those companies, which has better prospect in future. This makes the value of better performing company's stock to increase. On the other hand the stock price of poor performing companies declines. This phenomenon, in Nepalese context, is the primary focus of this study.

The study will primarily look into the major financial performance indicators which are generally considered important for investors like EPS, DPS, BVPS, ROA, ROE, Dividend yield, M/B ratio etc. Efforts will be made to analyze the stock price in relation to these indicators.

1.3 Statement of Problem

After the adoption of liberal economic policy in early nineties capital market has emerged providing option to investors. Over subscription in the market shows people are optimistic about the investment in share capital. Particularly after the establishment of NEPSE the capital market has grown rapidly with in a short span of time. However the attitude, thoughts and knowledge of most of investors is not changed. Most of the investors are not seemed to be aware of financial position of the companies in terms of financial indicators in which they are going to invest their fund through capital market.

On the other hand theory explains that the stock price is guided by the financial performance of the company. If the company does very well the value of its common stock will increase and vice versa (Weston & Copeland; 1992:10). A financially sound and better performing company should lead the price and trade volume in the market.

Further theory states that in an efficient market condition stock price reflects all the information. In other words in an efficient market, since the buyers and sellers are fully aware of facts and figures of the company, stock price equal to its intrinsic value but here the case is different.

In Nepalese capital market some common characteristics of imperfections like lack of public awareness toward the market, unavailability of timely information, lack of transparency, lack of market experts are prevailing. This reveals that the Nepalese capital market is not a perfect market. This makes the market rumor oriented. Where the price rises and falls without sufficient reason to support. The mismatch between the share price and the net worth of the company may prevail which can be very unhealthy for the shareholders, as few people can easily manipulate the whole trading. In such situation whether market price of listed companies represents the true value? Is market price of the stock representing the financial performance of the company? Is the increase in price is the outcome of the better performance? How EPS & DPS are correlated? Some of the problems tried to be explored under this study.

1.4 Significance of Study

A probe into the financial performance indicators of a company reveals the financial health of the company. Understanding of the financial figures will be more beneficial to the investors who assume overall risk by investing in stocks. Moreover the relationship between the financial performance and stock prices helps to understand the trend in the market, which is of immense importance to those who are interested to invest in the securities. This study to some extent will also provide some hint to the sample companies regarding market response towards their performance indicators and will be helpful to take future financial decisions for enhancing shareholders wealth.

Though there have been several studies in the recent years regarding the stock market, there are limitations. Technical analysis approach has been dominant where the past price changes is helpful in predicting future price movements but the core

fundamental factors have received lesser consideration. The prices of securities deeply affected by the profitability index. In general, it is assumed that the stock prices move randomly, however, the basic track that the price takes is due to the performance related indicators of the corporations. EPS indicates the profitability of the corporations, DPS reflects the direct cash benefit to the investors, net worth per share signifies the real value of share, growth rate is related with the growth potentialities of earnings & dividends, required rate of return indicates the rate of return which investors actually desires, earning multiplier reflects the ratio of MPS to EPS. In fact these variables provide the real way for the stock price movement and if these factors are identified properly future prices could be predicted easily. Moreover this study will be helpful to other researches to carry on further researches in this area.

1.5 Objectives of the Study

This study primarily aims to probe into the corporate financial performance indicators and their effects on share prices. The objectives of the study have been summarized as follows for the detailed analysis.

- To present and study the financial performance indicators of sample companies.
- To examine the relationship between performance and stock prices.
- To identify whether stocks of the sampled companies are over priced, under-priced or equilibrium priced
- To provide some meaningful suggestions on the basis of the findings of the study.

1.7 Scheme of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research methodology, Presentation & Analysis of data and summary, to conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter entitled **"Introduction"** introduces the subject, present the research problem, reason for studying, objective of the study, along with limitation.

The second chapter entitled **"Review of Literature"** concerned with the study of portfolio analysis on investment have been reviews & presented.

The third chapter discussed the **"Research Methodology"** used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

The fourth chapter deals with the **"Presentation & Analysis"** of data & scoring the empirical finding out the study through definite course of research methodology.

The last chapter i.e. **"Summary"** of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basic of these conclusion and recommendation has also been presented for consideration.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is one of the most significant parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. So, it is attempted to present brief glimpses on the common stock as well findings of the related previous studies. The review of literature has been divided into two broad categories which are as follows:

2.1 Conceptual Framework

Conceptual framework involves some of the technical terms, which are in frequent use in researches regarding corporate performance and stock price. Thus, before going into the details between the corporate performance and stock price of selected companies, some the relevant technical terms related to capital market are defined and discussed here.

2.1.1 Financial Performance

Performance refers to the output. Financial performance is the result of the financial decisions taken by the management of the firm. In modern time the financial manager's objectives is to maximize the shareholders wealth. To achieve this objective financial mangers involve in decision-making regarding the investment activities, financing activities and dividend policy of any firms. The outcome of the execution of these decisions is reflected in the financial statements of the company. Understanding of financial performance of a company requires financial performance analysis.

Financial analysis is the main quantitative judgment process of identifying the financial strength and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and income statement. (Pandey; 1995:103) The

information contained in these statements is useful for investors to form expectation about the future earnings, dividends and about the risky ness of the expected values.

Ratio analysis is commonly used tool to evaluate the financial performance of a firm. A ratio is the relationship between the variables. Analysis and interpretation of the various ratios provides meaningful understanding of the financial position of a firm. Hence financial analysis largely depends on the use of ratios as one of the convenient tools among the various tools available.

Financial performance analysis is undertaken by all the stakeholders- management, creditors, owners & potential investors. They concentrate on various aspects to be evaluated for their own purpose. Shareholders and potential investors who are going to invest their money on share capital of a firm are concerned primarily with the firm's profitability index. Specifically they are concerned on present and future earnings, distribution of earnings, value per unit of share, growth and risk associated.

2.1.2 Common Stocks

The common stocks represent ownership in a company. The holders of common stocks, called the shareholders or stockholders, are the legal owners of the company. The common stocks are the permanent and vital source of capital since they do not have a maturity date. For the capital contributed by the shareholders by purchasing commons stocks, they are entitled to dividends. The amount or rate of dividend is fixed by company's Board of Directors. The common stock is, therefore, known as variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividends after the claims of others have been satisfied. Similarly, when the company is wound up, they can exercise their claims on assets after the claims of the other suppliers of capital have been met. The common stocks are issued by the firms to raise ownership capital and the investors buy them with the expectation that they receive a share of profit periodically. The common stocks legally represent the equity of business firm, and the holders are the owners who share all the profits and losses of the business. They enjoy all earnings after

meeting the obligation of interests on debts and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital.

2.1.3 Stock Certificates

"The ownership of a firm's stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor included on the corporation's books. Dividend payments, voting materials, annual and quarterly reports and other things are then sent directly to investor, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out of the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stock holders have chosen to avoid these rather cumbersome procedures. Instead, depository trust companies are used which substitute computerized records for embossed certificates."(Sharpe, Alexander and Bailey; 2000:458)

2.1.4 Securities

When someone borrows money from a pawnbroker, he or she must leave some item of value as security. Failure to repay the loan (plus interest) interest means that the pawnbroker can sell the pawned item to recover the amount of the loan (plus interest) and perhaps make a profit. The terms of agreements are recorded via pawn tickets. When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid. In the event of default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title, issued by the state, serves as the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest.

The loan is unsecured, in the sense that there is no collateral, meaning that no specific assets have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan.

When a firm borrows money, it may not offer collateral. For example, some loans may be secured (backed) with specific pieces of property (building or equipment). Such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for corporation to simplify pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as debenture bond.

Finally, a firm may promise a right to share in its profits in return for investor's funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participation in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor's property right is represented by a share of common stock, which can be sold to someone else, who will then be able to exercise the right. The holder of common stock is said to be as owner of the corporation and can, in theory, exercise over its operation through the board of directors.

Generally, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it will go all rights and conditions. Thus everything from pawn ticket to share of GM common stock is a security."

2.1.5 Security Market

The security market is known as the market where all types of securities are traded. The security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hope the payment of federal personal income taxes on the profits from the transactions(Fisher and Jordan; 1992:16). These securities include common shares, preference shares and debentures.

The security market may be divided into two categories:

Primary Markets: In the primary market the original issuance of the financial instruments of the company is traded. The company should sell its approved share through the authorized issue and sales agent. The company has to register its shares in the SEBO to get the valid authority to the issuance of shares. Primary markets provides as important allocate function by channeling the funds to those who can make the best use of them – presumably, the most productive.

Secondary Markets: In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities. The company must list the securities in the security market for the transaction purpose.

"If the owner of 100 shares sells his/her stocks, the trade is said to have occurred in the secondary market. Thus, the market for outstanding shares or the used share is the secondary market. The company receives no new money when sales occur in this market." (Brigham; 1999:327)

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is, therefore,

a necessary condition for an effective primary market, as no investor wants to feel 'locked in' to an investment.

2.1.6 Earning Per Share

It is the most popular financial indicator. It gives close insight about the earning power of the firm. In fact it is the net profit represented in terms of per share. Equity shareholders shall receive cash dividend from this EPS. If EPS is not sufficient, shareholders entitle no any cash benefit. Therefore EPS is assumed as the source of benefit to existing shareholders. It is directly connected with the profitability of firm. It reflects the financial performance because higher the amount of net profit more will be the EPS. Investors invest their funds in equity share for future benefit. That is, their prime desire is to achieve higher divided annually. Here notable point is that cash dividend is the product of EPS. Stocks having EPS is more marketable than the stocks having lower EPS. Therefore EPS is regarded as the root determinant of MPS. It is seen that firms, having zero or negative EPS, have market value below than par. If cash dividend is not distributed from EPS, or the firm retains profit, this also benefits investors because it pushes up the amount of price appreciation. Therefore EPS is must for every organization to have higher market value of their common stock.

Corporation put their full efforts to maximize the shareholder wealth. One of the most important ways of maximizing the shareholders wealth is to generate higher EPS, which will be sufficient to distribute cash benefit, and to retain for plough back. Cash benefit is the short-term attraction where as retained earning is long term attraction because it supports to increase net worth per share.

2.1.7 Dividend Per Share (DPS)

Common stocks or share represents the ownership position in a company and the holders of common stocks are the owners who share all the profit and losses of the corporation. In this ground, investor forgoes opportunity in the expectation of receiving handsome annual return with increased value of their holdings.

Dividend refers the portion of firm's net earning which are paid out to the shareholders. After the successful completion of business operation, every corporation in each fiscal year reports their financial statement from which new information about the corporation can be gathered. One of the mostly valued information is net profit. This net profit will be appropriated among various stakeholders i.e. some of its part will be distributed to the stockholder as a cash dividend and some portion will be retained for investment. When cash dividend is distributed, it is the direct benefit to the common stockholders and retained earning will benefit them in future by way of having appreciated price of the stock from which investors will able to achieve capital gain. Therefore, the amount of cash dividend is highly influenced by corporate profit and the management's decision regarding the distribution of cash dividend.

"When the board of director of a corporation declares a cash dividend, it specifies a date of record. At the closes of business that day, lists of stock holder on the list are entitled to the dividend."(Van Horne; 1998: 309)

Once a dividend is declared, stockholders become general creditors of the company until the dividend is actually paid; the declared but unpaid dividend is a current liability of the company coming out from retained earnings. The division of a earning of a company between dividend payout and retention of earning affects the market price of shares or not, is an important question. The prime objective of corporate management is to maximize the value of the company and the market price of shares of the company is considered as a competent variable to indicate the value of the company.

2.1.8 Net worth Per Share (NWPS)

It is also called book value per share. It is one of the most popular indicators among numerous financial indicators. NWPS indicates the shareholder's wealth is terms of per share. Net worth per share is the core value of equity. In other words, net worth is the shareholders capital, which includes equity contributed by shareholders along with undistributed profit. More precisely, it includes paid up capital, share premium, general reserve, special reserve, capital reserve, sinking fund, and any undistributed

profit appearing in balance sheet. However, fictitious assets must be deducted while computing shareholder capital.

By definition, there is always positive relationship between market price and net worth. Higher the amount of net worth more will be the amount of MPS. As stated earlier, net worth is the book value of shares outstanding. Net worth is also a good measuring rod of financial health of any corporation. If net worth per share is less than paid up capital per share; such companies' shares are less tradable and reliable in the security market. Investors' hesitate to buy and sell of such securities.

Financial goal of a firm is to maximize the shareholders wealth .It means that shareholders always prefer increased value of their holding .If net worth is significantly higher than paid up capital or par value of share, it brings positive information about the company which eventually affects security market. Due to the positive information, security market reports sizable closing price at the day end. Therefore analysts / prospective investors must consider NWPS before taking decision regarding the investment in share.

2.1.9 Market Price Per Share

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most of stocks are set at fairly low figures with compare to their market value, and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors.
(Van Horne and Wachowicz; 2000:546)

“Common stock holders are sometimes referred as the residual owner since in essence s/he receives what is left the residual after all other claims on the firm’s income and assets have been satisfied. All the companies issue common stock. Common stock holders are true owners of business firm. They invest money with expectation of

getting high return. The return from common stock is usually from the capital gain earned .If they increase in value after public buy them. That's why price for common shares can be more volatile. They move up and down due to the factors like economy and company performance." (Gitman; 1991:573)

The market price of share gives the value of shares, and the value of the organization. The market price of shares is that price in which shares are traded or the amount which, is paid by the buyer to the seller to purchase the stock of company. The market piece of shares varies from one company to other. Since, the common stock holders are the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of environment, i.e. internal & external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are indented to maximize the share price of the value of the firm.

Since the market price of shares is very much sensitive to the environmental forces, the shares price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demand and supply. If the earning and divided of an organization increases, then the investors have positive perception towards the organization and they like to buy the shares of the organization, as a result demand increases; on the other hand, the supplier like to hold the shares and supply decreases, and there is gap between demand and supply, so, the market price of the shares increase. The investors determine the share price they would like to pay for the shares of an organization and the sellers determine the price they would like to receive by selling shares based on their assumptions towards organization and future expectation. Such assumptions and

expectations vary from individual to individual. Since different person analyses the same situation differently with their level of knowledge.

2.2 Capitalization of Income Method of Valuation

The capitalization of income method of valuation states that the "true" or "intrinsic" value of any assets is based on the cash flow that the investors expect to receive in the future from owing the assets. Because these cash flows are expected in future, they are adjusted by a discount rate to reflect not only the time value of money but also the friskiness of the cash flows.

Angelically, the intrinsic value of an asset is equal to the sum of present values of the assets expected cash flows:

Where, Ct denotes the expected cash flow associated with the asset at time t, and k is the appropriate discount rate for cash flows of this degree of risk. In this equation the discount rate is assumed to be the same for all the periods. (Sharpe, Alexander and Bailey; 2000: 523-524)

$$V = \frac{C_1}{(1+k)^1} + \frac{C_2}{(1+k)^2} + \frac{C_3}{(1+k)^3} + \ldots\ldots\ldots\ldots$$

$$= \sum_{t=1}^{\infty} \frac{C_t}{(1+k)^t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.1)$$

2.2.1 Net Present Value

At the current time (t=0), if the cost of purchasing an assets is P, then its net present value (NPV) is equal to the difference of its intrinsic value (V) and cost.

i.e. NPV = V – P

$$= \left[\sum_{t=1}^{\infty} \frac{C_t}{(1+k)^t} \right] - p \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.2)$$

Simply, NPV is the excess of present values of al the cash flows over the present values of cash outflows (investments). Positive NPV is favorable and vice versa.

2.2.2 Internal Rate of Return

IRR approach for the investment decision making is similar to NPV approach. IRR (K*) is the discount rate, which makes the NPV of the investment equal to zero.

$$\text{i.e. } 0=\sum_{t=1}^{\infty} \frac{C_t}{(1+k)^t} - p \quad \text{.....(2.3)}$$

For rational decision making, the investment is viewed favorably of k* > k, and unfavorably if k* < k

2.2.3 Stock Valuation

Securities analysts study companies' earnings and their managements, the economic outlook, the firm's competition, market conditions, and many other factors. Then their research findings are used in the accepted models to estimate value of an equity share. If the security's price is less than its estimated value, ten it appears to be a good buy or at least worthy for further investigation. Such valuation models are presented here:

Single Price Valuation Model

"An investor who buys a share of the Avery Corporation's stock for $ 50 and then sold it for $55 a year later, after collecting a cash dividend of $ 2.50, earned a rate of earning of 15 percent.

$$r = \frac{(p_1 - p_0) + d_1}{p_1} = \frac{(55-50) + 2.50}{50} = 15\%$$

If the stock market is efficient, then 15% is an equilibrium rate of return for Avery's stock…… The single period valuation model is given by,

$$p_0 = \frac{p_1 + d_1}{1+r} \quad \text{.....(2.4)}$$

Figuring out the risk adjusted discount rate to use in the valuation model is an important part of the valuation process.

A fundamental principle of valuation says that in perfectly efficient markets, all securities in an equivalent risk class should be priced to yield the same rate of return. This principle implies that Avery's equilibrium rate of return of 15 percent should be used as the risk adjusted discount rate to find the present value of Avery's stock." (Francis; 1989:524)

Where, p_1 = market price of a security at period 1

d_1 = dividend per share for period of 0 to 1 year

p_0 = present value of stock

r = single period rate of return

Dividend Discount Model (DDM)

J. B. Williams and M. J. Gordon have developed a model relating the value of an equity share to its cash dividends. They hypothesized that the value V of a share of stock equals the present value of the infinite ($t = \infty$) Stream of dividend to be received by that stock's owner, this model is known as dividend discount model (DDM).

$$V=\frac{D_1}{(1+k)^1}+\frac{D_2}{(1+k)^2}+.....+\frac{D\infty}{(1+k)\infty}=\sum_{t=1}^{\infty}\frac{D_1}{(1+k)^1}.....(2.5)$$

Where, K is the capitalization rate, which is appropriate for the firm's risk class.

The Zero Growth Model

If the dividend amount per share paid over the past year D_0 will also be paid over the next year D_1 and year after D_2, and the year after that D_3 and so on; that is:

$D_0=D_1=D_2=D_3=.....D_n$

This is equivalent to assuming that the dividend growth rates are zero because if g =0, then $D_t = D_t - 1$: The present value of stock with zero –growth is (from equation 2.5)

$$V_0 = D_0 \left[\sum_{t=1}^{\infty} \frac{1}{(1+k)^1} \right] \text{.....(2.6)}$$

Using the property of indefinite series from mathematics, if K>0, then,

$$\sum_{t=1}^{\infty} \frac{1}{(1+k)^1} = \frac{1}{k} \text{.....(2.7)}$$

So, $V = \frac{D}{K}$ .....(2.8)

The Constant – Growth Model

"The next type of DDM to be considered is one that assumes that dividends will grow from period to period at the same rate forever and is therefore known as the constant growth model. Specifically, the dividends per share that were paid over the previous year D_0, are expected to grow at given rate 'g' so that the dividends expected over the next year D_1 are expected to be equal to D_0 (1+g) . The dividends the year after that are again to grow by the same rate g, meaning that $D_2 = D_0 (1+g)^2$ and in general:

$$D_t = D_t\text{-}1(1+g) \text{.....(2.9)}$$

$$D_t = D_o (1+g)^1 \text{.....(2.10)}$$

Now, in the equation (2.5) substituting D_t by $D_0 (1+g)^1$, we get,

$$V = \sum_{t=1}^{\infty} \frac{D_0(1+g)^1}{(1+k)^1} \text{ ..... (2.11)}$$

For zero growth models, the equation (2.12) can be simplified by noting that D_0 is a fixed dollar amount, so it can be written outside the summation sign:

$$V = D_0 \left[\sum_{t=1}^{\infty} \frac{(1+g)^1}{(1+k)^1} \right] \text{.....(2.12)}$$

If K > g, the equation (2.11) follows a property of infinite in series from mathematics.

Then,

$$\sum_{t=1}^{\infty} \frac{(1+k)^{g}}{(1+k)^{1}} = \frac{1+g}{k-g} \text{.....(2.13)}$$

Substituting the equation (2.13) into equation (2.12) results in the valuation formula for the constant growth model:

$$V = \frac{1+g}{D_0(k-g)} \text{.....(2.14)}$$

$$\text{Or,} \quad \sum_{t=1}^{\infty} \frac{(1+g)^{1}}{(1+k)^{1}} = \frac{(1+g)^{1}}{(1+k)^{1}} \text{.....(2.15)}$$

$$V = \frac{D_1}{k-g} \text{.....(2.16)}$$

Because, $D_1 = D_0 (1+g)$.

The equation (2.14) can be reformulated to determine the required rate of return (K) as,

$$K = \frac{D_1}{P} + g \text{.....(2.17)}$$

Where, 'V' is substituted by 'P', the current price of the security.

Valuation Based On Infinite Holding Period

The capitalization of income method valuation involves discounting all dividends that are expected throughout the future. But when an investor plans to sell the stock in a year, then the cash flows that the investor expect to receive from purchasing a share of stock of the are equal to the dividends expected to be paid one year from now and the expected selling price of the stocks. The intrinsic value of the stock to the investor is given by discounting these two cash flows at the required rate of return as follows:

$$V=\frac{D_1}{(1+k)}+\frac{P_1}{(1+k)}\text{.....(2.18)}$$

Where D1 and P1 are the expected dividend and selling price at t = 1, respectively.

"To use equation (2.18) the price of the stock at t = 1, should be expected. The simplest approach assumes that the selling price will be based on the dividends that are expected to be paid after selling date. Thus the expected selling price at t = 1 is:

$$P_1=\frac{D_2}{(1+k)^1}+\frac{D_3}{(1+k)^2}+\frac{D_4}{(1+k)^3}+\text{.....}\sum_{t=2}^{\infty}\frac{D_1}{(1+k)^{t-1}}\text{.....(2.19)}$$

Form (2.18) & (2.19) we get,

$$V=\ [\frac{D_1}{(1+k)}+\frac{D_2}{(1+k)^1}+\frac{D_3}{(1+k)^2}+\frac{D_4}{(1+k)^3}+\text{.....}]\left[\frac{1}{1+k}\right]$$

$$\text{Or,}\qquad V=\frac{D_1}{(1+k)}+\frac{D_2}{(1+k)^1}+\frac{D_3}{(1+k)^2}+\frac{D_4}{(1+k)^3}+\text{.....}=\sum_{t=1}^{\infty}\frac{D_1}{(1+k)^1}\text{.....(2.19a)}$$

This results to the equation (2.5). Thus, valuing a share of common stock by discounting its dividends up to some point in the future and its expected selling price at the time is equivalent to valuing stock by discounting all future dividends."

2.3 Doctrine of Efficient Capital Market

Capital market deals in securities. Efficient market theory advocates the security prices have been observed to move randomly and unproductively. This randomness of security prices may be interpreted to imply that investors in the capital markets take a quick cognizance of all information relating to security prices and that the security prices quickly adjust to such information. Thus the efficiency of security prices depends on the speed of price adjustment to any available information. More the speed of adjustment the more efficient the prices. "The capital market efficiency may

therefore be defined as the ability of securities to reflect and incorporate all relevant information in its prices."(Pandey; 1998:887)

Market efficiency means that the market's consensus estimate of the value of the security. If the market is efficient, it uses all information available to it in setting a price. Investors who choose to hold as security are doing so because their information leads them to think that the security is worth at least its current market price. Those who do not purchase the stock interpret their information as a lower appraisal. (VanHorne; 1998:51)

In such a market a security's price will be a good estimate of its investment value, where investment value is the present value of a security's prospects. That is, each security sells for its fair value at all times. There is no questions of the share price being under or over valued. Therefore in an efficient market investors should expect to make only normal profits and earn a normal rate of return on their investment.

There are three forms of capital market efficiency.

i. Weak Form of Efficiency

The weak form of efficient market hypothesis states that the current share prices fully reflect all information contained in the past price movements. The stock price will not follow any pattern which is known as random walk. The stock price will fluctuates less or more randomly. So, there is no value in trying to predict future price by analyzing post price movements trends as it do not offer any clues because the market has no memory.

"Weak efficiency markets in which past prices provide no information about future prices that would allow a short-term trader to buy and hold strategy." (Haugen; 1997:643) The weak form hypothesis implies that trend analysis is fruitless because the stock-price already reflects all information that can be derived by examining market trading data such as the history of past prices, trading volume or short interest.

ii. Semi-Strong Form of Efficiency

The semi-strong form of efficient market hypothesis states that current market prices also reflect all publicly available information as the current share price. The persons who can access to the information prior to its general release can earn superior or abnormal returns over the normal return expected for the associated degree of risk. The semi-strong hypothesis states that all publicly available information regarding the prospects of a firm must be reflected already in the stock price (Haugen; 1997:643) such information includes in addition to past prices, fundamental date on the firm's product line, equity of management, balance sheet composition, patents held, earning forecasts and accounting practices.

iii. Strong Form of Efficiency

The strong form of efficient market hypothesis states that current market prices reflect all the relevant information even if privately held. "Strongly efficiently markets are markets in which all information (not just publicly available information) is reflected in securities prices." (Haugen; 1997: 645) The market prices reflects the true or intrinsic value of the share based on underlying future cash flows and no one can beat the market i.e. no one can earn abnormal profit in that market. In the real world, the strong form of market does not exit at all.

The strong form of market in most of the developed countries appears in semi-strong form of efficient market hypothesis. The stock markets in the developing countries seem to be weak form of the efficient market hypothesis. The stock prices in such market walk randomly and don't follow a definite practice in the price movements.

The weak efficient and semi-strong efficient market hypothesis is well supported by the facts. But the strongly efficiently market hypothesis is not supported by the fact because it states not only that the stock price reflect all information relevant to the firm but also including the information available only to company insiders.

2.4 Review of Journal and Articles

Articles, journal and bulletins are of great significances for thesis writing. So in order to make this study more comprehensive some articles, books etc related to stock price are consulted and reviewed.

Louis Bachelier first tested the random walk model in 1990. He tested the model in commodity prices and found that those prices followed a random walk. He presented the evidence that the commodity speculation in France was a 'Fair Game'. He also concluded that the certain price of a commodity was an unbiased certain estimate of its future price. After the first discovery of the random walk model in 1990 by Louis Bachelier, empirical testing of the model in the stock market prices almost remained stagnant until 1960s.

In the journal of Financial Economics, summer 1996, entitled "Commonality in the Determinants of Expected Stock Returns" by Robert A. Haugen and Nardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Fama's study (1965) on the random walk model was one of the best definitive and comprehensive every study conducted. He observed the daily proportionate prices of

30 individual stocks of the Dow Jones Industrial Average Index (DJIAI) for the period of 1957 to 1962. He employed the statically tools such as serial correlation and runs test to draw inference about depended of the price series. He calculated auto-correlation coefficient for daily changes in log prices for lag from 1 to 30 and found that the coefficient were almost close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to zero. But on the daily price changes, 11 out of 30 stocks had correlation coefficient more than twice their computed standard errors. The coefficient ranged from smallest 0.06 to largest 0.123. However Fama concluded, "Dependence as such a small order of magnitude is, from a practical point of view, probably unimportant for both the statistician and the investor." Fama also calculated serial correlation for lag from 1 to 10 for no-overlapping differencing intervals of four, nine and sixteen days to examine the possibility if price change across longer interval shows dependence. All the results are again not significantly different from zero.

In 1997 International Monetary Fund [IMF], Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constituently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary.

Radhe Shyam Pradhan (1993), studied the market behavior in Nepal and concluded that large stocks have large PE ratios; large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks where as market value to book value of equity is more variable for the large stocks.

Large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks. Smaller dividends, lower profitability, lower assets turnover, and lower interest coverage for large stock may be attributed to the fact that most of the large stocks are at their initial stage of operation. Stocks with large market value to book value of equity, large PE ratios and lower dividends. PE ratios are more variable for stocks with large market value to book value ratios and dividends ratios are more variable for stocks with smaller market value to book value.

Stocks with large market value to book ratios have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. However, liquidity and leverage are more variable for stocks with large market value to book value ratios while earnings, assets turnover and interests coverage are more variable for stocks with smaller market value to book value ratios.

Stock with large ratios large PE has large market value to book value of equity and smaller dividends ratios. However, their ratios of market value to book value of equity, and dividends are more variable for smaller stocks than for large stocks. Stocks with large PE ratios have lower liquidity, higher leverage, lower profitability, lower assets turnover, and lower interest coverage. However, liquidity, leverage, earning turnover, and interest coverage are all more variable for stocks with smaller PE ratios as compared to large ones.

Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, assets turnover and interest coverage is more variable for the stocks higher dividends.

In Business Age (July, 2004:53) Nepal stock exchange's securities price index (NEPSE Index) during the month of June remained fluctuating. It remained bullish till June 10 reaching 216.75 and than it turned bearish continuously reaching the level of

211.31 on June 15. The rise was started with the appointment of new government and the main leader was commercial bank group the market dominating sector in the exchange understandable enough, the increase in the price was fueled by the expectation for early end of conflict between government and political parties, after the appointment of Deuba as a prime minister. But the publication of the third quarter financial result was no way less important factor for such positive impact on commercial bank sector as been in June 2004.

NEPSE index fell after reaching 216.75 on June 10 and plummeted to 211.31 over a short span of three days. This fall was however caused by notices published by some companies inviting application for their new issue as well as possible strike of the NEPSE employees and the wrangle among the political parties that delayed the formation of coalition of government.

Since June 16, the index turned bullish again till the end of the month. Despite the strike of employees of NEPSE. The market increased on June 16, one day before the strike and continued to increase during and after the strike till the end of the month. There were no any major events to cause the price of share goes up. However, the expectation of fewer disturbances after the four parties suspended the outgoing demonstration and the Maoist, student union called off the education strike, the country budget and positive development reported for the formation of coalition government etc increases the expectation of investors.The NEPSE index seems sensitive to political economical and financial sectors developments it has raised after the disclosure of financial situation by the companies and when there were positive signs of political stability and it decreased for some company shares. It shows that the investors are becoming aware about when to buy and sell the securities.

The Rising Nepal (Jan 20, 2001:6), “ADB experts have seen many obstacles to the growth of the capital market. This includes low level of investors’ confidence, disclosure of poor and manipulated financial information. Week enforcements of

regulation, absence of instructional investors, lack of diversity in range of financial instrument and the scope of active participation for the various intermediaries

2.5 Review of Unpublished Thesis

Under this section various master's level dissertation related to this study have been reviewed.

Niranjan Phuyal (2004), has conducted research on "***Stock Price Behavior of Selected Banking and Insurance Companies"*** in 2004 is related with stock price behavior. He has tried to show the functional relationship of MPS with other financial indicators: DPS, EPS, NWPS and price appreciation along with the fundamental concept of stock market. He has attempted to show the behavior of chartists (Technicians) and fundamentalists in relation to projection of equity prices. To achieve the basic aim of this study, he set following objectives at the time of research.

- To identify the major financial indicators which affect on determining MPS.
- To examine and evaluate the relationship of MPS with various financial indicators like; EPS, NWPS, DPS and current years dividend.
- To identify whether stocks of the sampled companies are over priced, under-priced or equilibrium priced.
- To study the singling and informational effect on share price.
- To examine Nepalese investors' response on the change of stock.

To achieve the above objective, he has taken 5-year financial data of 5 leading commercial Banks, 3 finance companies and 2 Insurance companies. He applied econometric model to show the relationship between the independent variables and their linear impact on MPS. Correlation coefficient and regression equations were calculated and derived to estimate future MPS. However, this study covered very few variables due to which the inferences drawn might lead to wrong conclusion. In research design, he explained, "To draw inferences on the market performance of stock market and price formation, different measures have been used, while collecting and interpreting relevant data, facts and figures with a view to systematic data

collection and data's interpretation. Simple statistical tools have been used to finish this research works, which represent the explanatory and descriptive analysis of the relevant information and data." Nevertheless, this study tries to explore the determinants of equity price by way of showing the functional relationship between the equity price and financial indicators along with the fundamental knowledge of stock market in Nepalese context. The major findings of this study are given below:

- Nepalese investors have limited knowledge about security market. It lacks of professional investors.
- Most of the stocks of banking and finance companies are under valued in the stock market.
- Investors are trading the stocks without proper analysis of the financial indicators.
- The price fluctuating trend is not predictable by general investors.
- Signaling factors should be analyzed on regular basis by the concerned authority so that the future movements of price can be predicted from the side of analyst and investors.

Surya Chandra Shrestha (1999), has conducted research on ***"Stock Price Behaviour in Nepal"***. This study has focused to examine the efficiency of the stock market in Nepal. The serial correlation coefficient of the daily change for 1 and lag2 days and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange. Therefore, the random walk theory is not a suitable description for the stock price behaviour in Nepal. The dependence in the series of price changes observed simply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expectation profit that they would be under naïve-buy-and-hold strategy. Therefore, opportunities are available to sophisticated investors to earn higher return in the market. The existence and participation of the sophisticated investors have dominated in the market that can

cause prices to diverge significantly from intrinsic values because the very existence of the sophisticated traders causes to erase the opportunities of persistence in price which established independence of successive price changes."

Mukti Aryal (1995), has conducted research on "***The General Behaviour of stock market prices"***, the main objectives of this study were to discuss the main objectives of this study were to discuss the movement of stock market prices and develop the empirical probability distribution of successive price change of an individual common stock and a stock market as a whole. This study is based on secondary information obtained from Nepal Stock Exchange. This study converts almost 8 months period and took about 21 stocks listed in NEPSE. He has applied run test as statically tools to analyze the data and get results. He has conducted that the assumption of independence, as predicted by random walk model of security price behaviour, has been refuted at least for Nepalese context as the first approximation even in the rough way for curly days of stock market operation. This rejection of hypothesis made clear that the knowledge of past and now become useful in predicting the future movements of stock market prices. The investors, on the floor of stock exchanges for security, can make higher expected price in the future based on these historical price series. In other words, the dependence nature of price series produced by general market fluctuation statistically implied, today's price change is positively depending upon yesterday price change. This implied that there is a sufficient lack of financial and market analysis who are sophisticate and superior in analyzing the general market fluctuations, predicting the occurrence of future potential and economic events that their eventual affects on price series."

P.K. Poudyal (2002) *on "**A study on Share Price Behavior of Joint Venture Banks in Nepal***" is undertaken by using financial and statistical tools and revealed that:

- The growth rate analysis as a stand alone may not be adequate for the analysis of share prices behavior and may not represent the bank's performance in the secondary market.

- The ordinary least square equation of the book value per share on market value per share reveals that the independent variable does not fully explain the dependant variables on the basis of above mentioned two points; Nepal Stock Exchange operated in a weak form of efficient market hypothesis, including that the market prices move randomly. The market value per share does not accommodate all the available historical information.
- Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture bans emerge as a blue-chip in the Nepalese Stock Market.
- The beta coefficient, which measures the risky ness of individual security in relative term, suggests that none of the shares of eight sampled banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks. The shares of publicly quoted joint venture commercial banks are less risky as compared to the other average stocks traded in the stock exchange.

Apar Neupane (2004), made a research entitled ***"Determinants of Stock Price in NEPSE"*** and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting;

Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behavior.

In NEPSE, DPS, BPS & EPS individually do not have constituent relationship with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS & DPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.

- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & processing, trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.
- Companies' performances (earning, dividend, book value, risk etc) information disclosed , timely AGM , political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the share price in NEPSE, according to the respondent of survey. Interest rate, retention ratio, cost of equity, tax rate, gold price , value of US $, global economy, market liquidity, season, day of the weak, size of the firm, change in the management do not significantly affect the price of the share in NEPSE.
- There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.
- Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not able to act according to the shareholders' interests. The performance of most of the listed companies is not transparent.
- Since NEPSE is in increasing trend, in spite of unfavorable environment for investment, Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.
- With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

Khagendra Prasad Ojha (2000), has conducted a research on ***"Financial Performance and Common Stock Pricing"***. The main objectives of his research were;

- To study and examine the difference of financial performance and stock prices.

- To examine the relationship of dividends and stock price.
- To explore the signaling effects in stock price.

Nepalese stock market is in infancy stage, in general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices. There is a positive correlation between the net worth per share and stock prices of banking, airline and hotel industries, there is no perfect correlation between the net worth per share and common stock price."

Sadakar Timilsina (1997), has conducted research on ***"Dividend and Stock Price"*** **,**The study was carried out by the data for 16 enterprises from 1900 to 1994. The main objectives of that study were as follows:

- To test the difference between dividend per share and stock prices.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the price behavior, the study used simultaneous equation model as developed by Friend and Puckett (1964). The main findings of that study were as follows:

- The difference between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share prices variedly in different sectors.
- Changing the dividend policy or dividend per share might help to increase the market price of share.
- The difference between stock prices and retained earnings per share is not prominent.
- The difference between stock prices and lagged earnings ratio is negative.
- Though there were above mentioned studies in the context of Nepal, it has overcome necessary to find out whether their findings are still valid.

Timilsina's study was based on 45 observations. The number of companies included in the same was only 16, which is quite low. Studies on dividends conducted in the context of Nepal are based on Secondary data only. No study has been conducted on dividends by using primary data as yet. There is a need to conduct is survey of financial executives in order to find out more qualitative facts on dividends which can not be determined through the use of secondary data. This is the first attempt that studies dividends based on questionnaire survey. Moreover, the earlier studies on dividends have become old and need to be update and validated because of the rapid changes taking place in financial market of Nepal.

Rishi Raj Gautam's Study (1998), has conducted a research by using the three commercial bank data from 1992 through 1997 carried out "A Comparative Study of Dividend Policy in Commercial Banks".The main objectives are as follows:

- To identify the type of dividend followed by banks.
- To examine the impact of dividend on stock. Price.
- To identify the relationship between dividend per share and other financial Indicator.
- To know the uniformity among the DPS, EPS, and DPR, of the same banks.

The major findings of the study are as follows

- An Average earning per share and dividend per share of all concerned banks are satisfactory.

- No commercial banks seems to be guided by clearly defined dividend stratify inspire of good earnings and potentials.
- Shares of the financial institutions are actively traded and market prices are increasing.
- One of the most striking findings of this study is that no commercial bank sample for this study has clearly defined strategy the one hand and on the other hand, there is significant relationship presence between earning and dividend of expansion program.
- Average indicates that there is the largest fluctuations in EPS and DPS on the one hand and on the other hand have relatively more consistency dividend per share in all the sample banks.

Firstly, number of sample selected for the study are small i.e. only three banks are selected, it would not be reasonable to quote dividend policy is good or worst by comparing three banks only.. Secondly, there are many factors, which affect the dividend policy. They are DPS, EPS, MPS, DPR, last year dividend paid, liquidity, and net worth. But they used only a few financial factors among them; therefore, validity of result is not worthwhile.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings;

3.1 Research Design

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to determine the relation between corporate performance and stock price of listed companies in the NEPSE.

3.2 Variables

A variable is a symbol to which numerals or values are assigned. So, the variables can take on values. This research intends to identify the factors that affect share price in NEPSE. So, the market price of the share is the dependant variable, which is affected by many variables, such variables are regarded as the independent variables in the study. The entire factors that affects the market price of shares , such as, earnings,

dividends, interest rate, liquidity, book value of share, economy of the nation, peace & prosperity, rumors and whims etc. are the independent variables.

3.3 Population and Sample

This study has been totally confined to the institutions listed in the Nepal stock exchange. Total numbers of organization listed are 135. These listed organizations according to their nature of business are categorized into six groups also called sectors. These sectors are;

1. Banking
2. Finance
3. Insurance
4. Hotel and Service
5. Manufacturing
6. Trading

This study has been limited to the 3 banking, 2 finance, 2 insurance and 2 manufacturing sector. Banking sector has a large impact on total performance of the stock exchange. The purposive sampling method is applied in the study to select the listed stocks of the NEPSE. Eleven organizations have been selected from the population of 135 listed stocks. The selected stocks are as follows:

Banking sector

1. NABIL Bank Ltd.
2. Everest Bank Ltd.
3. Standard Chartered Bank Nepal
4. Himalayan Bank Ltd.

Finance Sector

5. Nepal Share Markets
6. Kathmandu Finance
7. People Finance

Insurance Sector

8. Everest Insurance
9. Himalayan Insurance

Other Sector

10. Nepal Lube Oil
11. Uni Lever Nepal

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3.4 Sources of Data

Data have been obtained from secondary sources. The sources of secondary data are AGM reports of listed companies, SEBO/N, NEPSE, and other concerned organizations, bulletins, publications, researches, journals, unpublished thesis reports, newspapers, journals, and internet. The sample period cover the period of five years commencing from 2002/03 to 2006/07. Using these data financial performance as well as relation has been developed. The facilities available at Shanker Dev Library, Central Library and concerned agencies researcher used which have a wide range of related books journals and other publication.

3.5 Data Collection Techniques

The researcher has visited the different libraries, concerned companies, NEPSE, SEBO-N and other useful book stores; and collected related publications and periodicals. Official websites were searched in order to collect required information. Furthermore, secondary data related to common stocks of concerned companies have been downloaded from the official website of NEPSE, http://www.nepalstock.com.

3.6 Data Analysis Tools

The data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted to analyze such data. The collected data has been no meaning, if such data are not analyzed. To analyze the data in this research, the researcher has used some statistical and financial tools, which are explained here.

3.6.1 Financial Tools

Except the statistical tools, some financial tools are also used in this research work. The major financial tools used in this research are

Earning per share

The earning per share (EPS) is the share of a stock on the earning of the company.

$$\text{EPS} = \frac{\text{Toal Earning of Company}}{\text{No. of Shares Outstanding}}$$

Dividend per Share

The DPS is the amount paid as dividend to the holder of one share of the stock.

$$\text{DPS} = \frac{\text{Toal Dividend Paid}}{\text{No. of Shares Outstanding}}$$

Market Price per Share

The MPS is amount in which a share of the stock is traded in the market.

$$\text{MPS} = \frac{\text{Toal Market Capitalization}}{\text{No. of Shares Outstanding}}$$

Book Value per Share

The BPS represents the real net worth per share. It is simply the ratio of net worth (share capital plus retained earnings i.e. ownership capital) and the number of existing shares.

$$\text{BPS} = \frac{\text{Net Worth}}{\text{No. of Shares Outstanding}}$$

Return on Assets (ROA)

Return on assets represents the real profit from the total assets. It is simply the ratio of net profit to total assets.

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Return on Equity (ROE)

Common shareholders are entitled to the residual profits. The rater of dividend is not fixed. Nevertheless, the nets profit after taxes represent their return. Return on shareholders equity is calculated to see the profit ability of shareholders investment.

$$\text{ROE} = \frac{\text{Net Profit After Tax - Preferred Stock Dividend}}{\text{Net Worth}} \times 100$$

Price Earning Ratio (P/E Ratio)

The price-earning ratio is widely used by the security analyst to value of the firm performance as expected by investors. Therefore P/E ratio can be a yardstick measurement of stock pricing. The reciprocal of earning yield is called the price-earning ratio.

$$\text{P/E Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Market/Book Ratio

This ratio measure the value that the financial market attach to the management and organization of the firm as the growing concern

$$\text{Market to Book Value Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

Holding Period Return

Generally, single period return or holding period return is represented by R and expressed in terms of percentage basis. It is calculated as

$$\text{HPR} = \frac{\text{Ending Price - Beginning Price + Cash Dividend}}{\text{Beginning Price}}$$

Symbolically,

$$HPR = \frac{P_t - P_{t-1} + D_t}{P_{t-1}} = \text{Capital Gain + Dividend Yield}$$

Where, P_t = Price of a stock at time t

P_{t-1} = Price of a stock at time t-1

D_t = Dividend per share at time t

Risk and Return Analysis of Market

Return on Market

Annual return on market is the average return of market based on the index of market. It is denoted by R_m. Under this study, NEPSE index will be used. It is a value weighted index and comprises of all the stocks listed in NEPSE. The NEPSE index is used for the study.

$$\text{Annual Market Return } (R_m) = \frac{\text{Ending NEPSE Index - Beginning NEPSE Index}}{\text{Beginning NEPSE Index}}$$

$$\text{Average Market Return } (\overline{R_m}) = \frac{\sum R_m}{N}$$

where $\sum R_m$ = Summation of annual market return

N = Number of observations

Risk of Market Return

Risk of market return is also measured by the standard deviation of the returns of market. The standard deviation of market returns is computed as

$$\text{Standard Deviation } (\sigma_m) = \sqrt{\frac{\sum \left(R_m - \overline{R_m}\right)^2}{N-1}}$$

Market Sensitivity Analysis

Covariance

The covariance measures how two variables co-vary. It is a measure of the absolute association between two variables. Here, how the returns of individual stocks and the

market return co-vary will be measured by covariance between the return of individual stocks and market return. It is computed as

$$\text{Cov}\left(R_j, R_m\right) = \frac{\sum\left(R_j - \overline{R_j}\right)\left(R_m - \overline{R_m}\right)}{N-1} = \rho_{jm}\sigma_j\sigma_m$$

If two variables are independent, their covariance is zero.

3.6.2 Statistical Tools

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data.

Correlation Coefficient

When the relationship is of quantities nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative, but the correlation coefficient always remains within the limit of + 1 to – 1. By Karl person, the simple correlation coefficient (r)

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - \left(\sum X\right)^2} - \sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

Where,

r_{xy} = is the correlation coefficient between two variables x & y

'r' lies between +1 to -1

When r = +1, there is perfect positive correlation

When r= -1, there is perfect negative correlation

When r = 0, there is no correlation

When r lies between 0.7 to 0.999 9 (or -0.7 to -0.999), there is high degree of positive or negative correlation

When r lies between 0.5 and 0.699, there is moderate degree of correlation

When r is less than 0.5, there is low degree of correlation.

Coefficient of (Multiple) Determination (r^2)

The coefficient of determination gives the percentage variation in the dependant variable that is accounted for by the dependant variable/s. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e. r^2

$$\text{Coefficient of Determination } \left(r^2\right) = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Regression Equation of X on Y

The regression equation is expressed as;

$$X = a + bY$$

We shall get the normal equation for estimating 'a' and 'b' as

$$\sum Y = na + b\sum X$$
$$\sum XY = a\sum X + b\sum X^2$$

Where,

Y= the value of independent variable

a = Y-intercept

b = slope of the trend line/coefficient of regression

X = value of dependent variable

Coefficient of Regression

The coefficient 'b', which is the slope of line of regression of X on Y is called the coefficient of regression of X on Y. It represents the increment in the value of the independent Y for a unit change in the value of the independent variable Y. In other

words, it is represent the rate of change. The convenient way to calculate the variable of ‘b’ is as;

$$b = \frac{n\sum XY - \sum X \sum Y}{n\sum Y^2 - \left(\sum Y\right)^2}$$

Similarly, the value of Y-intercept can be computed as;

$$a = \overline{X} - b\overline{Y}$$

Test of Regression Coefficient by t-Test

It was developed for the significant contribution in the theory of sampling applicable in case of small samples. When population variance is not known, the test is commonly known as student’s t-test and is based on the t-distribution. As the sample size gets larger, the shape of the t-distribution loses its flatness and becomes approximately equal to the normal distribution.

For applying t-test in context of small samples, the t-value is calculated first of all and then compared with table value‘t’ at certain level of significance for given degree of freedom. If the calculated value of ‘t’ exceeds the table value say ($t_{0.05}$) it infers that the difference is significant at 5% level but if ‘t’ is less than the concerning table value of ‘t’, the difference is not treated as significant.

The test is used when two condition are fulfilled;

- The sample size is less than 30.
- The population standard deviation must be unknown.

Let r be the observe sample correlation coefficient a sample of n pairs of observations from bivarate normal population. In order to test whether the sample correlation coefficient is significant of any correlation between the variables in the population, t-test for significance of an observed sample correlation coefficient is applied. The steps for testing of significance of an observed sample correlation coefficient are as follows.

Null Hypothesis (H_o): $\rho = 0$ that is population correlation coefficient is zero. In other words, the variable are insignificantly correlated in the population i.e. 'r' is not significant of correlation in the population.

Alternative Hypothesis (H_1): $\rho \neq 0$ that is population correlation coefficient is not zero. In other words, the variable are significantly correlated in the population i.e. 'r' is significant of correlation in the population.

Test Statistic, under H_o, the test statistic is

$$\text{t-Test} = \frac{r\sqrt{n-2}}{\sqrt{1-(r)^2}}$$

i.e. follows t-distribution with (n-2) d.f., n being the sample.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is the backbone of the research. In this chapter, secondary data are presented in systematic manner. The sources of data were company brochure, annual reports, NEPSE website, SEBO/N website and library. Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variables is presented in graphs and figures. The analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter, the secondary as well as primary data, collected from different sources are presented in understandable form and analyzed separately using both qualitative and quantitative measures whichever is appropriate.

Listed Companies by the End of the Fiscal Year 2006/07

S.N.	Sector	Number of Listed Company	Percent
1	Commercial Bank	15	11.11
2	Development Bank	16	11.85
3	Finance Company	53	39.26
4	Insurance Company	16	11.85
5	Hotel	4	2.96
6	Mfg. & Process. Co.	21	15.56
7	Trading Company	5	3.70
8	Other Company	5	3.70
Total		**135**	**100**

4.1.1 Corporate Performance of NABIL

Being the oldest bank and out performance, the share of the NABIL has been ranked on the top priority for investment. Table 4.1 present the financial performance position of NABIL for the last five years commencing 2002/03 to 2006/07.

Table 4.1
Financial Performance of NABIL

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	416.25	455.32	518.63	635.26	673.96
No. of Share Outstanding (Million)	4.9099	4.9099	4.9099	4.9099	4.9099
Total Assets (Million)	16562.61	16745.61	17186.33	22329.97	27253.39
Earning Per Share (EPS) Rs	84.66	92.61	105.49	129.21	137.08
Dividend Per Share (DPS) Rs	50	65	70	85	140
Market Value Per Share (Rs)	735	1000	1505	2240	5050
Book Value Per Share(Rs)	267.30	301.37	337	381	418
Return on Assets (ROA) %	2.43	2.73	3.06	3.23	3.97
Return on Equity (ROE) %	31.72	30.77	25.15	33.96	32.84
P/E Ratio	8.74	10.80	14.26	17.34	36.84
Dividend Payout %	59.05	70.18	66.36	65.78	102.13
M/B Ratio	2.75	3.32	4.46	5.88	12.08

Sources: Annual Report of NABIL 2002/03 to 2006/07

Net profit is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity. Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization influence the prices of securities and thus stock market. The amount of profit of NABIL is in increasing trend it is growing every year, highest profit is Rs 673.96 million in 2006/07 and lowest is Rs 416.25 million in 2002/03.

The EPS of NABIL has been also good. If we concentrate on the table it is found that EPS was Rs 84.66 in year 2002/03. In rest of the year it has achieved some momentum. EPS can't be interpreted in isolation. Till the last year where EPS has increasing when net worth is divided by no. of shares outstanding the results there comes is book value per share. The book value per share is in increasing till last year. In the first year the book

value per share is Rs 267.30 and highest in the year 2006/07 is Rs 418 during the study period.

M/B ratio in the year 2006/07 is highest which is 12.08, a good indication that the investor are valuing it more worthy. M/B ratio of NABIL has been twelve times more than its book value in its high range where as two times the book value is the least price. This is better shown in the graph below, by the space between the MVPS and BVPS curve. Regarding the performance of the share in the market it is observed from the above table that market price of NABIL has under gone through increasing. At the end of year 2005/06 it has reached its top price at Rs 5050 where as it has been to its level at Rs 735 in the year 2002/03. Market has tried to place accurate value of the share.

4.1.2 Corporate Performance of SCBNL

Table 4.2
Financial Performance of SCBNL

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	506.95	537.80	536.24	658.76	691.67
No. of Share Outstanding (Million)	3.3954	3.7464	3.7464	3.7464	4.1325
Total Assets (Million)	21000.50	23642.06	21893.58	25776.33	28596.69
Earning Per Share (EPS) Rs	149.30	143.55	143.14	175.84	167.35
Dividend Per Share (DPS) Rs	100	110	110	140	130
Market Value Per Share (Rs)	1640	1745	2345	3775	5900
Book Value Per Share(Rs)	403.15	399.25	422.38	468.22	512.12
Return on Assets (ROA) %	2.41	2.27	2.46	2.56	2.42
Return on Equity (ROE) %	37.03	35.95	34.07	37.55	32.68
P/E Ratio	10.98	12.15	16.38	21.47	35.25
Dividend Payout %	66.98	76.63	76.85	79.62	77.68
M/B Ratio	4.07	4.37	5.55	8.06	11.52

Sources: Annual Report of SCBNL 2002/03 to 2006/07

Being listed in the stock exchange its share has also been the best option and the choice of investors. Table 4.2 provides the financial indicators of SCBNL during the past five year from 2002/03 to 2006/07. SCBNL has been successful in earning profit. The amount

of profit has been growing. In the year 2002/03 the amount of profit has Rs 506.95 million and it reaches up to Rs 691.67 million. 2006/07 can be said successful regarding its profit.

Due to the poor performance in 2003/04, 2004/05 and 2006/07, the EPS, which was considerably taking momentum in its growth, dropped down to Rs 143.55, Rs 143.14 and Rs. 167.35. This decline has been experienced due to issue of bonus share. SCBNL can be label as being investors friendly if we see the dividend payment. Its dividend payout has always been above 50% with maximum payout being almost 79.62% of the earning and least being 66.98% of its earning. Book value per share, which is Rs 403.15 Rs 399.25, Rs 422.38, Rs 468.22 and Rs 512.12 in the year 02/03, 03/04, 04/05, 05/06 and 2006/07 respectively, in increasing trend. The trend in the BVPS is clearly supported by the BVPS curve in the figure.

M/B ratio is providing a different view. The shares are performing quite well. The securities were selling 4.37 than the BVPS in the year 03/04,and it increasing at the beginning of the year 2002/03 the share are selling 4.07 times their book value. This concludes that the shares are successful in gaining confidence among the investors. The gap between MVPS and BVPS is widening in figure. Increasing trends are observed during the study period in the market price of the shares. Commencing from Rs 1640 in the year 2002/03 it has faced change with lots of upheavals. The price has plugged up to Rs 5900 in year 2006/07, which can be said as the correct movement.

4.1.3 Corporate Performance of EBL

Table 4.3 shows some of the financial performance indicator during the period 2002/03 to 2006/07.

Table 4.3
Financial Performance of EBL

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	94.17	143.57	170.81	237.29	296.41
No. of Share Outstanding (Million)	3.1500	3.1500	3.1500	3.7800	3.7800
Total Assets (Million)	8052.20	9608.57	11792.21	15959.28	21432.57
Earning Per Share (EPS) Rs	29.90	45.58	54.22	62.78	78.40
Dividend Per Share (DPS) Rs	20	20	20	25	40
Market Value Per Share (Rs)	445	680	870	1379	2430
Book Value Per Share(Rs)	150.10	171.53	219.87	217.67	292.75
Return on Assets (ROA) %	1.16	1.49	1.44	1.49	1.38
Return on Equity (ROE) %	15.37	21.10	22.19	28.84	26.79
P/E Ratio	14.88	14.92	16.05	21.97	30.99
Dividend Payout %	66.89	43.88	36.89	39.82	51.02
M/B Ratio	2.96	3.96	3.96	6.34	8.30

Sources: Annual Report of EBL 2002/03 to 2006/07

The first and most important aspect of any institution is the profitability. Net profit of EBL, which was Rs 94.17 million in 2002/03 has attained a great height, the profit has scored to Rs 296.41 million in the year 2006/07. Net profit has been increasing per year.

Earning per share, which is another indication of the good financial health, has a magnificent trend. EPS, which was just Rs 29.90, has continuously been growing to Rs 45.58, Rs 54.22, Rs 62.78 and Rs 78.40 in the year 2003/04, 2004/05, 2005/06 and 2006/07 respectively.

Regarding its dividend payment constant pay out is followed. Its dividend per share has been very nominal if compare to SCBNL and NABIL. Another important ingredient of financial health is the BVPS. Initially during the study period the BVPS was higher than that of paid up value. In the 2006/07 year the book value of share has been worthy and has reached Rs 292.75 per share. Investors have been valuing the share of EBL with the better prospective.

Large fluctuations are observed during the five years in the market price of the shares. Commencing from Rs 445 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged up to Rs 2430 in year 2006/07, which can be said as the correct movement. The market hasn't reacted properly toward the bonus share issue in 2006/07 as a result of which the share price has scored to Rs 2430 instead of decreasing. As M/B ratio develop the relationship between the market performance and book value. The share of EBL has been eight times more than its book value in its higher range where as two times the book value is the least price. This is better shown in the graph below, by the space between the MVPS and BVPS curve.

4.1.4 Corporate Performance of HBL

Table 4.4 present the financial performance position of HBL for the last five years commencing 2002/03 to 2006/07.

Table 4.4
Financial Performance of HBL

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	212.12	263.05	308.27	457.46	491.82
No. of Share Outstanding (Million)	4.2900	5.3625	7.7220	7.7220	8.1081
Total Assets (Million)	23279.34	24762.02	27844.69	29460.39	33519.14
Earning Per Share (EPS) Rs	49.45	49.05	39.92	59.24	60.66
Dividend Per Share (DPS) Rs	1.32	20	20	35	55
Market Value Per Share (Rs)	836	840	920	1100	1740
Book Value Per Share(Rs)	444.26	427.40	380.57	228.72	264.74
Return on Assets (ROA) %	0.91	1.06	1.11	1.55	1.47
Return on Equity (ROE) %	13.37	11.48	10.49	25.90	22.91
P/E Ratio	16.91	17.13	23.05	18.57	28.68
Dividend Payout %	2.67	40.77	50.10	59.08	90.67
M/B Ratio	1.88	1.97	2.42	4.81	6.57

Sources: Annual Report of HBL 2002/03 to 2006/07

Net profit of is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity.

Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization influence the prices of securities and thus stock market.Net profit as extracted from the trading report shows that HBL hasn't suffered loss during the study period instead it has earned a reasonable amount growing every year.

As net profit hasn't looked back, EPS should have also followed the same trend. EPS which took off with Rs 49.45 in the year 2002/03 has declined to its lowest of Rs 39.92 in 2004/05. This decline has been experienced due to issue of bonus share. Better than in numeric figures, the figure shows the trend where EPS curve is heading up. Some effect can also be slighted in the dividend which following the decline trend sliding down from Rs 55 per share in 2006/07 to Rs 1.32 per share in 2002/03.

Fluctuations are observed during the study period in the market price of the shares. Commencing from Rs 836 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged up to Rs 1740 in year 2006/07. Book value per share dropped down in the year 2003/04, 2004/05 and 2005/06 and this trend has been seen with some improvement in the year 2002/03 and 2006/07. The decline trend cannot be used, as a tool to conclude, the other side of the coin that is announcement of bonus share is also important. Due to the increase in the number of share, BVPS has dropped down. On evaluating the M/B ratio of HBL from the year 2002/03 it has been selling one times more than its book value. The investor paid seeing its future prospect and the ROE it was providing was 13.37%. On the other hand ROA is increasing in trend but decreased in last year 2006/07 and ROE is in fluctuating trend.

4.1.5 Corporate Performance of Nepal Share Market

Table 4.5 shows some of the financial performance indicator during the period 2002/03 to 2006/07.

Table 4.5
Financial Performance of Nepal Share Market

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	2.51	(2.78)	2.90	13.13	35.38
No. of Share Outstanding (Million)	0.6	1.2	1.2	1.2	1.6
Total Assets	956.46	1247.20	1442.91	1553.03	1907.07
Earning Per Share (EPS) Rs	4.18	(2.32)	2.42	10.94	22.11
Dividend Per Share (DPS) Rs	0	0	0	10	20
Market Value Per Share (Rs)	125	103	120	120	300
Book Value Per Share(Rs)	103.04	95.94	106.88	106.88	133.66
Return on Assets (ROA) %	0.26	(0.22)	0.20	0.85	1.86
Return on Equity (ROE) %	4.06	(2.41)	2.26	10.24	16.54
P/E Ratio	43.10	44.39	49.59	10.97	13.57
Dividend Payout %	0	0	0	91.41	90.46
M/B Ratio	1.21	1.07	1.12	1.12	2.24

Sources: Annual Report of NSM 2002/03 to 2006/07

Net profit of NSM is not attractive. Even though one of the oldest companies it has suffered loss during 2003/04. The amount of loss amounts to Rs 2.78 million. But the NSM has been successful to earn profit in the other four years to which the study has been confined. The profit amount has continuously been growing and reached to Rs 35.38 million in the year end 2006/07.

Due to loss suffered the EPS in the year 2003/04 has been negative but after the recovery EPS has claimed up to Rs 2.42. The EPS curve has been sloping downward and has gone below x-axis, which depicts negative earning. Dividend payment has been nil in three year during the study period but Rs 10 and Rs 20 in last two year.

Fluctuations are observed during the study period in the market price of the shares. Commencing from Rs 125 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged down to Rs 103 in year 2003/04. Book value per share dropped down in the year 2003/04 and this trend has been seen with some improvement in the year in all of the rest year. The decline trend cannot be used, as a tool to conclude,

the other side of the coin that is announcement of bonus share is also important. Due to the increase in the number of share, BVPS has dropped down. On evaluating the M/B ratio of NSM from the year 2002/03 it has been selling 1.21 times more than its book value. The investor paid seeing its future prospect and the ROE it was providing was 4.06%. On the other hand ROA and ROE is fluctuating trend

4.1.6 Corporate Performance of Kathmandu Finance

Table 4.6 present the financial performance position of KFL for the last five years commencing 2002/03 to 2006/07.

Table 4.6
Financial Performance of Kathmandu Finance

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	4.27	6.25	0.83	5.39	6.61
No. of Share Outstanding (Million)	0.2	0.2	0.3	0.3	0.3
Total Assets (Million)	325.72	346.14	356.80	373.88	390.66
Earning Per Share (EPS) Rs	21.35	31.25	2.76	17.97	20.04
Dividend Per Share (DPS) Rs	16	10.53	0	10.53	15
Market Value Per Share (Rs)	235	205	171	138	203
Book Value Per Share(Rs)	154.40	155	138.93	138.93	175.31
Return on Assets (ROA) %	1.31	1.81	0.23	1.44	1.69
Return on Equity (ROE) %	13.83	15.24	1.99	12.93	12.57
P/E Ratio	11.01	5.56	7.51	7.68	10.13
Dividend Payout %	74.94	33.70	0	58.60	74.85
M/B Ratio	1.52	1.32	1.23	0.99	1.16

Sources: Annual Report of Kathmandu Finance 2002/03 to 2006/07

Net profit of is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity. Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization influence the prices of securities and thus stock market. Net profit as extracted from the trading report shows that KFL hasn't suffered loss during the study period instead it has earned a reasonable amount growing

every year except during 2004/05. The chunk of profit has slide than the previous year 2003/04 but hasn't suffered loss.

As net profit hasn't looked back, EPS should have also followed the same trend. EPS which took off with Rs 21.35 in the year 2002/03 has declined to its lowest of Rs 2.76 in 2004/05. This decline has been experienced due to issue of bonus share. Better than in numeric figures, the figure shows the trend where EPS curve is heading up. Some effect can also be slighted in the dividend which following the decreased trend sliding down from Rs 16 per share in 2002/03 to Rs 0 per share in 2004/05 and then increased till last year.

Decreased are observed during the study period in the market price of the shares. Commencing from Rs 235 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged down to Rs 138 in year 2005/06. Book value per share dropped up in the year 2002/03 and 2003/04 this trend has been seen with some decline in the year 2004/05 and 2005/06. The decline trend cannot be used, as a tool to conclude, the other side of the coin that is announcement of bonus share is also important. Due to the increase in the number of share, BVPS has dropped down. On evaluating the M/B ratio of KFL from the year 2002/03 it has been selling 1.52 times more than its book value. The investor paid seeing its future prospect and the ROE it was providing was 13.83%. On the other hand ROA and ROE is fluctuating trend.

4.1.7 Corporate Performance of People's Finance

Table 4.7 present the financial performance position of PFL for the last five years commencing 2002/03 to 2006/07. Net profit of is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity. Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization

influence the prices of securities and thus stock market. Net profit as extracted from the trading report shows that PFL hasn't suffered loss during the study period instead it has earned a reasonable amount growing every year.

Table 4.7
Financial Performance of People Finance

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	0.77	4.66	7.05	7.05	8.73
No. of Share Outstanding (Million)	0.2	0.4262	0.4262	0.400	0.6
Total Assets (Million)	225.81	279.39	435.50	594.19	625.43
Earning Per Share (EPS) Rs	3.85	10.93	16.54	17.63	13.14
Dividend Per Share (DPS) Rs	0	0	10	10	0
Market Value Per Share (Rs)	90	102	100	100	127
Book Value Per Share(Rs)	72.01	90	84.23	128.80	143.87
Return on Assets (ROA) %	0.30	1.67	1.62	1.19	1.40
Return on Equity (ROE) %	5.35	10.72	19.64	13.68	10.11
P/E Ratio	23.38	9.33	6.04	5.67	9.67
Dividend Payout %	0	0	60.46	56.72	0
M/B Ratio	1.08	1.13	1.18	0.78	0.88

Sources: Annual Report of People Finance 2002/03 to 2006/07

Due to minimum net profit the EPS in the year 2002/03 has been very low but after the recovery EPS has climbed up to Rs 17.63 in 2005/06. The EPS curve has been increasing after forth and last year it is increasing highly and decreasing in last year. Dividend payment has been nil in three years. In the last to year 2004/05 and 2005/06 the finance has announced dividend payment of 60.46% and 56.72%, which resulted in DPS of Rs 10 in each two year.

Book value per share during the study period increasing trend except in year 2004/05. BVPS is the major indicator of financial health. Every financial decision should lead to shareholder value maximization, which is reflected in the BVPS. BVPS which is Rs 72.01 in 2002/03 has declined up to Rs 143.87 in year 2006/07. Increase in the number of the share outstanding is the basis reason behind this. The above said sentence about trend

in the BVPS is clear supported by the BVPS curve in the figure below. M/B ratio providing a different view. The shares are performing quite well. The securities were selling 1.08 than the BVPS in the year 2002/03. Fluctuations are observed during the five years in the market price of the shares. Commencing from Rs 90 in the year 2002/03 it has faced drastic change with upheavals. The price has plugged from Rs 90 in year 2002/03, which can be said as the correct movement, effect of bonus share has been noticed.

4.1.8 Corporate Performance of Everest Insurance

Table 4.8 present the financial performance position of EI for the last five years commencing 2002/03 to 2006/07. Net profit of is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity.

Table 4.8
Financial Performance of Everest Insurance

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	19.56	17.16	18.52	10.12	12.54
No. of Share Outstanding (Million)	0.3	0.3	0.3	0.3	0.6
Total Assets (Million)	230.50	299.38	304.67	274.89	341.31
Earning Per Share (EPS) Rs	65.20	57.22	61.73	33.73	20.9
Dividend Per Share (DPS) Rs	0	0	0	0	0
Market Value Per Share (Rs)	610	610	350	325	325
Book Value Per Share(Rs)	125.33	138.83	157.08	86.59	314.65
Return on Assets (ROA) %	8.48	5.73	6.08	3.68	3.67
Return on Equity (ROE) %	52.02	41.20	39.30	38.96	6.64
P/E Ratio	9.35	10.66	5.67	9.64	15.55
Dividend Payout %	0	0	0	0	0
M/B Ratio	4.87	4.39	2.23	3.75	1.03

Sources: Annual Report of Everest Insurance 2002/03 to 2006/07

Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization influence the prices of securities and

thus stock market.Net profit as extracted from the trading report shows that EI hasn't suffered loss during the study period instead EI has been not successful in earning profit. The amount of profit has been fluctuated. The amount of profit has dropped from Rs 19.56 million in year 2002/03 to Rs 17.16 million, 2003/04 can be said successful regarding its profit, which has climbed to Rs 18.52 million.

Due to the poor performance in 2003/04 and 2005/06, the EPS, which was considerably taking momentum in its growth, dropped down to Rs 57.22 and Rs 33.73. This decline has been experienced due to issue of bonus share. Dividend payment has been nil in all the year. Book value per share, which has declined down to Rs 86.59 in the year 2005/06 and again increasing. The trend in the BVPS is clearly supported by the BVPS curve in the figure.

M/B ratio is providing a different view. The shares are performing under the weather. The securities were selling 4.87 than the BVPS in the year 02/03,and it decreasing at the beginning of the year 2002/03 the share are selling 4.39 times their book value. This concludes that the shares are unsuccessful in gaining confidence among the investors. The gap between MVPS and BVPS is widening in figure. Large fluctuations are observed during the study period in the market price of the shares. Commencing from Rs 325 in the year 2005/06 and 2006/07 it has faced drastic change with lots of upheavals. The price has plugged down to Rs 610 in year 2002/03 and next year, which can be said as the correct movement.

4.1.9 Corporate Performance of Himalayan Insurance

Table 4.9 has outlined some financial indicators of HI from the year 2002/03 to 2006/07. After its establishment even though due to the steep competitive market Nepal HI has been successful in earning profit. The amount of profit has been fluctuating. In year 2004/05, 2005/06 and 2006/07 the amount of profit has drastically dropped from Rs 36.86 million, Rs 11.01 million and Rs 7.53 million. In year 2002/03 and 2003/04 to Rs

38.41 million and Rs 39.86 million respectively. Its profit is fluctuated only by petite amount

Table 4.9
Financial Performance of Himalayan Insurance

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	38.41	39.86	36.70	11.01	7.53
No. of Share Outstanding (Million)	0.3	0.3	0.3	0.3	0.3
Total Assets (Million)	130.07	146.51	227.71	176.78	180.76
Earning Per Share (EPS) Rs	128.03	132.87	122.33	36.7	25.10
Dividend Per Share (DPS) Rs	0	0	0	15	5.79
Market Value Per Share (Rs)	190	175	205	205	300
Book Value Per Share(Rs)	185.05	134.90	171.61	200	218.53
Return on Assets (ROA) %	29.53	27.21	16.12	6.22	4.16
Return on Equity (ROE) %	69.19	98.49	71.28	18.35	11.49
P/E Ratio	1.48	1.32	1.68	5.59	11.95
Dividend Payout %	0	0	0	40.87	23.07
M/B Ratio	1.03	1.30	1.19	1.03	1.37

Sources: Annual Report of Himalayan Insurance 2002/03 to 2006/07

Due to the poor performance in 2004/05, 2005/06 and 2006/07, the EPS which was considerably taking momentum in its growth dropped down to Rs 122.33, Rs 36.70 and Rs 25.10 and Dividend per share is in decreasing during the study period. It decreases from Rs15 to 5.79 in year 2005/06 to 2006/07.

Fluctuations are observed during the study period in the market price of the shares. Commencing from Rs 190 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged down to Rs 175 in year 2003/04. Book value per share dropped down in the year 2003/04 and this trend has been seen with some improvement in the year in all of the rest year. The decline trend cannot be used, as a tool to conclude, the other side of the coin that is announcement of bonus share is also important. Due to the increase in the number of share, BVPS has dropped down. On evaluating the M/B ratio of HI from the year 2002/03 it has been selling 1.03 times more than its book value.

The investor paid seeing its future prospect and the ROE it was providing was 69.19%. On the other hand ROA and ROE is fluctuating trend.

4.1.10 Corporate Performance of Nepal Lube Oil

Table 4.10 shows some of the financial performance indicator during the period 2002/03 to 2006/07. Net profit of NLO is not attractive. The amount of profit has been fluctuating. In year 2003/04 and 2004/05 the amount of profit has drastically dropped from Rs 4.24 million and Rs 0.31 million in year 2002/03 Rs 6.22 million and then again reached up to Rs 3.06 million in fiscal year 2005/06 then decreased up to Rs 3.00 million. Its profit is fluctuated only by petite amount

Table 4.10
Financial Performance of Nepal Lube Oil

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	6.22	4.24	0.31	3.06	3.00
No. of Share Outstanding (Million)	0.2039	0.2039	0.2039	0.2039	0.2039
Total Assets (Million)	111.80	143.33	115.09	126.71	409.46
Earning Per Share (EPS) Rs	30.50	20.79	1.52	15.01	14.71
Dividend Per Share (DPS) Rs	15	15	0	15	10
Market Value Per Share (Rs)	480	400	350	350	480
Book Value Per Share(Rs)	189.36	194.70	200.05	200.10	200.83
Return on Assets (ROA) %	5.56	2.96	0.27	2.41	0.73
Return on Equity (ROE) %	16.11	10.68	0.76	7.50	7.33
P/E Ratio	15.74	19.24	230.28	23.32	32.63
Dividend Payout %	49.18	72.15	0	99.93	67.98
M/B Ratio	2.54	2.05	1.75	1.75	2.39

Sources: Annual Report of Nepal Lube Oil 2002/03 to 2006/07

The EPS of NLO has been no so good. If we concentrate on the table 4.10 it is found that EPS was Rs 30.50 in year 2002/03 and it has diminishing asleep in the year to Rs 20.79 in 2003/04. In rest of the year it has achieved some momentum. EPS can't be interpreted in isolation. When net worth is divided by no. of shares outstanding the results there comes is book value per share. The book value per share is in increasing till last year. In the first year the book value per share is Rs 189.36 and highest in the year 2006/07 is Rs

200.83 during the study period. Due to issue of bonus share by which the number of the share outstanding is increasing and the MVPS is decrease.

M/B ratio in the year 2002/03 is highest which is 2.54, a good indication that the investor are valuing it more worthy. M/B ratio of NLO has been 2.54 times more than its book value in its high range where as 1.75 times the book value is the least price. This is better shown in the graph below, by the space between the MVPS and BVPS curve. Regarding the performance of the share in the market it is observed from the above table that market price of NLO has under gone through much fluctuation. At the first year 2002/03 and end of year 2005/06 it has reached its top price at Rs 480 where as it has been to its level at Rs 350 in the year 2004/05 and 2005/06. Market has tried to place accurate value of the share.

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4.1.11 Corporate Performance of Unilever Nepal

Table 4.11 present the financial performance position of ULN for the last five years commencing 2002/03 to 2006/07.

Table 4.11
Financial Performance of Unilever Nepal Limited

Financial Performance	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit (Million)	93.17	140.78	189.20	238.2	263.1
No. of Share Outstanding (Million)	0.9207	0.9207	0.9207	0.9207	0.9207
Total Assets (Million)	74.88	93.97	109.89	224.91	234.78
Earning Per Share (EPS) Rs	101.19	152.91	205.50	205.50	286
Dividend Per Share (DPS) Rs	100	100	90	250	275
Market Value Per Share (Rs)	1130	1400	2144	1631	3400
Book Value Per Share(Rs)	389.30	430.12	235.61	235.02	244.28
Return on Assets (ROA) %	124.41	149.81	172.16	105.91	112.06
Return on Equity (ROE) %	25.99	35.54	87.21	110.08	112
P/E Ratio	11.17	9.16	10.43	6.68	11.89
Dividend Payout %	98.82	65.40	194.65	96.53	96.15
M/B Ratio	2.90	3.25	9.09	6.94	13.93

Sources: Annual Report of Unilever Nepal 2002/03 to 2006/07

Net profit of is one of the major parameter to which investors are deeply focused profit arise out of the hard labor and good managerial skills. It is a mirror which shows overall performance of an organization. It has an impact on share price and market liquidity. Generally the shares of high profit earning organization are more on demand plus enjoy high liquidity. So, the net profits of an organization influence the prices of securities and thus stock market.Net profit as extracted from the trading report shows that ULN hasn't suffered loss during the study period instead it has earned a reasonable amount growing every year.

As net profit hasn't looked back, EPS should have also followed the same trend. EPS which took off with Rs 101.19 in the year 2002/03 has recognized to its highest of Rs 286 in 2006/07 and then it remains same in last year of the study period. Better than in numeric figures, the figure shows the trend where EPS curve is heading up. Some effect can also be slighted in the dividend which following the increase trend sliding up from Rs 100 per share in 2002/03 to Rs 275 per share in 2006/07 but in 2004/05 it is decline to Rs 90.

Increasing trend are observed during the study period in the market price of the shares. Commencing from Rs 1130 in the year 2002/03 it has faced drastic change with lots of upheavals. The price has plugged up to Rs 3400 in year 2006/07. Book value per share increase up Rs 430.12 in the year 2003/04 and this trend has been seen with decline in the year 2004/05 and 2005/06 to Rs 235.61 and Rs 235.02. The decline trend cannot be used, as a tool to conclude, the other side of the coin that is announcement of bonus share is also important. Due to the increase in the number of share, BVPS has dropped down. On evaluating the M/B ratio of ULN from the year 2002/03 it has been selling 2.90 times more than its book value. The highest M/B ratio is 9.09 in fiscal year 2004/05. The investor paid seeing its future prospect and the ROE it was providing was 87.21%. On the other hand ROA and ROE is increasing trend.

4.2 Correlation Coefficient Analysis

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between MVPS and EPS, BVPS, DPS, ROE have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of Correlation Co-efficient

- It lies always between +1 to -1.
- When r= +1, there is perfect positive correlation.
- When r= -1, there is perfect negative correlation.
- When r= 0, there is no correlation.
- When r lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- When r is less than 0.5, there is a low degree of correlation.

Probable Error

- If r < 6 P.E, then the value of 'r' is not significant.
- If r > 6 P.E, then the value of 'r' is definitely significant.
- If the other situations happen, nothing can be concluded with certainty.

4.2.1 Correlation Coefficient Analysis Between MVPS and EPS

This table is present to show the relationship between MVPS and EPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.12
Correlation Coefficient Analysis Between MVPS and EPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.8770	0.7539
2	Standard Chartered Bank Ltd.	0.7638	0.7539
3	Everest Bank Ltd.	0.9431	0.2000
4	Himalayan Bank Ltd.	0.7078	0.9032
5	Nepal Share Market	0.8942	0.3626
6	Kathamndu Finance Company Ltd.	0.4382	1.4623
7	People Finance Company Ltd.	0.3378	1.6033
8	Everest Insurance	0.6799	0.9731
9	Himalayan Insurance	-0.7609	0.7621
10	Nepal Lube Oil	0.6534	1.0371
11	Unilever Nepal Ltd	0.9334	0.2330

Source: Appendix 1

The statistical table 4.12 clear demonstrates that the degree of relationship between MVPS and EPS seems to be significant except the case of HI. Where correlation coefficient recorded as HI is -0.7609 respectively. It revels that the relationship between MVPS and EPS of HI demonstrate if EPS of HI increase by - -0.7609 unit respectively than the companies losses MVPS by margin of 1unit. Such a situation is not a healthy financial environment for the commercial banks, finance companies and other companies in the developing countries like Nepal.

From the above table 4.12 we can clearly see that the correlation of MVPS with EPS 0.8770, 0.7638, 0.9431, 0.7078, 0.8942, 0.4382, 0.3378, 0.6799, 0.6534 and 0.9334 respectively in case of NABIL, SCBNL, EBL, HBL, NSM, KFL, PFL, EI, NLO and ULN which shows that the increase in the value of EPS by 0.8770, 0.7638, 0.9431, 0.7078, 0.8942, 0.4382, 0.3378, 0.6799, 0.6534 and 0.9334 unit respectively causes to increase 1 unit value of MVPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL, EBL, HBL, NSM and ULN. There is moderate degree of correlation in EI and NLO and low degree of correlation in KFL and PFL. Such an increasing value of

MVPS with EPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

But the value of 'r' is less than six times P.E. in case of HBL, KFL, PFL, EI, HI, and NLO. This states that there is not significant. NABIL, SCBNL, EBL, NSM and ULN and the value of 'r' is greater than 6P.E. which shows that NABIL, SCBNL, EBL, NSM and ULN are correlation coefficient of is significant.

In other words, if independent variables (EPS) increase then it causes to increase dependent variable (MVPS) by 1unit and vice-versa in case of positive correlation. Again if independent variable (EPS) decreases than it causes to decrease dependent variable (MVPS) by 1unit and vice-versa in case of negative correlation.

4.2.2 Correlation Coefficient Analysis Between MVPS and BVPS

This table is present to show the relationship between MVPS and BVPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.13
Correlation Coefficient Analysis Between MVPS and BVPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.9023	0.3364
2	Standard Chartered Bank Ltd.	0.9929	0.0254
3	Everest Bank Ltd.	0.9535	0.1643
4	Himalayan Bank Ltd.	-0.711	0.8947
5	Nepal Share Market	0.9935	0.0234
6	Kathamndu Finance Company Ltd.	0.6231	1.1072
7	People Finance Company Ltd.	0.8057	0.6351
8	Everest Insurance	-0.3555	1.5811
9	Himalayan Insurance	0.7791	0.7114
10	Nepal Lube Oil	-0.4755	1.4007
11	Unilever Nepal Ltd	-0.6366	1.0765

Source: Appendix 2

The statistical table 4.13 clear demonstrates that the degree of relationship between MVPS and BVPS seems to be significant except the case of HBL, EI, NLO and ULN. Where correlation coefficient recorded are HBL, EI, NLO and ULN are -0.711, -0.3555, -0.4755 and -0.6366 respectively. It revels that the relationship between MVPS and BVPS of HBL, EI, NLO and ULN demonstrate if BVPS of HBL, EI, NLO and ULN increase by -0.711, -0.3555, -0.4755 and -0.6366 unit respectively than the companies losses MVPS by margin of 1 unit. Such a situation is not a healthy financial environment for the commercial banks, finance companies and other companies in the developing countries like Nepal.

From the above table 4.13 we can clearly see that the correlation of MVPS with BVPS 0.9023, 0.9929, 0.9535, 0.9935, 0.6231, 0.8057 and 0.7791 respectively in case of NABIL, SCBNL, EBL, NSM, KFL, PFL and HI respectively which shows that the increase in the value of BVPS by 0.9023, 0.9929, 0.9535, 0.9935, 0.6231, 0.8057 and 0.7791 units respectively causes to increase 1 unit value of MVPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL, EBL, NSM, PFL and HI. There is moderate degree of correlation in KFL. Such an increasing value of MVPS with BVPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

But the value of 'r' is less than six times P.E. in case of HBL, KFL, EI, NLO and ULN. This states that there is no significant. NABIL, SCBNL, EBL, NSM, PFL and HI the value of ‘r’ is greater than 6P.E. which shows that the correlation coefficient is significant.

In other words, if independent variables (BVPS) increase then it causes to increase dependent variable (MVPS) by 1 unit and vice-versa in case of positive correlation. Again if independent variable (BVPS) decreases than it causes to decrease dependent variable (MVPS) by 1 unit and vice-versa in case of negative correlation.

4.2.3 Correlation Coefficient Analysis Between MVPS and DPS

This table is present to show the relationship between MVPS and DPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.14
Correlation Coefficient Analysis Between MVPS and DPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.9950	0.0179
2	Standard Chartered Bank Ltd.	0.7782	0.7138
3	Everest Bank Ltd.	-0.3844	1.5425
4	Himalayan Bank Ltd.	0.9108	0.3086
5	Nepal Share Market	0.8807	0.4061
6	Kathamndu Finance Company Ltd.	0.5375	1.2870
7	People Finance Company Ltd.	-0.2776	1.6704
8	Everest Insurance	0	0
9	Himalayan Insurance	0.2655	1.6823
10	Nepal Lube Oil	0.3462	1.5929
11	Unilever Nepal Ltd	0.6311	1.0890

Source: Appendix 3

The statistical table 4.14 clear demonstrates that the degree of relationship between MVPS and DPS seems to be significant except the case of EBL and PFL. Where correlation coefficient recorded is EBL and PFL are -0.3844 and -0.2776 respectively. It revels that the relationship between MVPS and DPS of EBL and PFL demonstrate if DPS of EBL and PFL increase by -0.15 and -0.27 units respectively than the companies' losses MVPS by margin of 1 unit. Such a situation is not a healthy financial environment for the commercial banks, finance companies and other companies in the developing countries like Nepal.

From the above table 4.14 we can clearly see that the correlation of MVPS with DPS 0.9950, 0.7782, 0.9108, 0.8807, 0.5375, 0, 0.2655, 0.3462 and 0.6311 respectively in

case of NABIL, SCBNL, HBL, NSM, KFL, EI, HI, NLO and ULN respectively which shows that the increase in the value of DPS by 0.9950, 0.7782, 0.9108, 0.8807, 0.5375, 0, 0.2655, 0.3462 and 0.6311 units respectively causes to increase 1 unit value of MVPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL, HBL and NSM. There is moderate degree of correlation in KFL and ULN and low degree of correlation in EI, HI and NLO. Such an increasing value of MVPS with DPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

But the value of 'r' is less than six times P.E. in case of EBL, KFL, PFL, HI, NLO and UNL. This states that there is no significant. In case of NABIL, SCBNL, HBL and NSM the value of ‘r’ is greater than 6P.E. which shows that the correlation coefficient is significant.

In other words, if independent variables (DPS) increase then it causes to increase dependent variable (MVPS) by 1 unit and vice-versa in case of positive correlation. Again if independent variable (DPS) decreases than it causes to decrease dependent variable (MVPS) by 1 unit and vice-versa in case of negative correlation.

4.3 Regression Analysis

Multiple regression analysis is the basis for this chapter because the analysis part is fully covered by multiple regression analysis. Under this analysis, influences of independent variables upon dependent variable is measured and evaluated. In other words, multiple regression analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of EPS, BVPS, DPS, and ROE on MPS of the sampled companies. Further more, how the selected variables influence equity price, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value

of dependent variable on the basic of independent variables. This chapter presents the estimated MPS with respect to the selected financial indicators.

Company-wise regression model is presented so that the behavior of individual stock can be visualized. Because of some serious limitations, the results in some where are irrelevant. However, this can be treated as symptoms of the existing situations. Nonetheless, regression model is the basic theme of this study.

4.3.1 Regression Equation of Market Price on EPS by Using the Method of t-Test (MPS = a + bEPS)

Table 4.15
Regression Equation of Market Price on EPS by Using the Method of t-Test (MPS = a + bEPS)

S. NO.	Name of Company	Regression Coefficient					
		Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
1	NABIL	-5277.36	67.238	0.7692	3.162	3.182	Significant
2	SCBNL	-11231.259	91.842	0.5835	2.050	3.182	Significant
3	EBL	-1053.367	40.867	0.8895	1.915	3.182	Insignificant
4	HBL	-551.720	31.723	0.5010	1.735	3.182	Insignificant
5	NSM	95.589	7.770	0.7997	3.460	3.182	Insignificant
6	KFL	160.863	1.582	0.1921	0.844	3.182	Insignificant
7	PFL	93.251	0.850	0.1141	0.622	3.182	Insignificant
8	EI	189.928	5.320	0.4623	1.606	3.182	Insignificant
9	HI	277.369	-0.701	0.5789	-2.031	3.182	Insignificant
10	NLO	345.120	4.052	0.4270	1.495	3.182	Insignificant
11	ULN	-3714.603	12.158	0.8712	4.506	3.182	Insignificant

Source: Appendix 4

Table 4.15 deficits the major output of simple regression between market price and EPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBNL, EBL, HBL, NSM, KFL, PFL, EI, NLO and ULN are positive of 67.238, 91.842, 40.867, 31.723, 7.770, 1.582, 0.850, 5.320, 4.052 and 12.158

respectively. They indicate that there exists positive relationship between market price and EPS.

But increase of HI, the value of 'b' is negative i.e. -0.701, which means that there exists negative relationship between market price and EPS which demonstrate that if EPS (independent variable) decrease by -0.701 units then it leads to increase MVPS by 1 unit and vice-versa. In case of slope if one variable increase than other variable decreases.

The prediction of MVPS is strong only for NABIL, SCBNL, EBL, HBL, NSM, EI, HI, NLO and ULN and very weak for KFL and PFL because the respective coefficient of determination (r^2) are 0.7692, 0.5835, 0.8895, 0.5010, 0.7997, 0.4623, 0.5789, 0.4270 and 0.8712 which indicates that the change in MVPS is due to change of EPS are 0.7692, 0.5835, 0.8895, 0.5010, 0.7997, 0.4623, 0.5789, 0.4270 and 0.8712units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of NABIL, SCBNL, EBL, HBL, KFL, PFL, EI, HI and NLO which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MVPS and EPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NSM and ULN where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of NSM and ULN. It shows that MVPS and EPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.3.2 Regression Equation of Market Price on BVPS by Using the Method of t-Test (MPS = a + bBVPS)

Table 4.16
Regression Equation of Market Price on BVPS by Using the Method of t-Test (MPS = a + bBVPS)

S. NO.	Name of Company	Regression Coefficient					
		Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
1	NABIL	-6784.021	26.075	0.8141	3.625	3.182	Significant
2	SCBNL	-13166.085	36.840	0.9859	14.505	3.182	Significant
3	EBL	-1718.292	13.685	0.9092	5.481	3.182	Significant
4	HBL	2058.650	-2.782	0.5057	-1.752	3.182	Significant
5	NSM	9.661	0.965	0.9871	15.134	3.182	Insignificant
6	KFL	-44.364	1.539	0.3882	1.380	3.182	Insignificant
7	PFL	66.458	0.360	0.6491	2.356	3.182	Insignificant
8	EI	544.248	-0.610	0.1264	-0.659	3.182	Insignificant
9	HI	-5.417	1.211	0.6069	2.152	3.182	Insignificant
10	NLO	1653.482	-6.302	0.2261	-0.936	3.182	Insignificant
11	ULN	3783.732	-6.005	0.4052	-1.430	3.182	Insignificant

Source: Appendix 5

Table 4.16 deficits the major output of simple regression between market price and BVPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBNL, EBL, NSM, KFL, PFL and HI are positive of 26.075, 36.840, 13.685, 0.965, 1.539, 0.360 and 1.211 respectively. They indicate that there exists positive relationship between market price and BVPS. If market price increases by 26.075, 36.840, 13.685, 0.965, 1.539, 0.360 and 1.211 unit then heads to increase BVPS by 1unit and vice-versa.

But increase of HBL, EI, NLO and ULN the value of 'b' is negative i.e. -2.782, -610, -6.302 and -6.005, which means that there exists negative relationship between market price and BVPS which demonstrate that if BVPS (independent variable) decrease by -

2.782, -610, -6.302 and -6.005unit then it leads to increase MVPS by 1 unit and vice-versa. In case of slope if one variable increase than other variable decreases.

The prediction of MVPS is strong only for NABIL, SCBNL, EBL, HBL, NSM, PFL, HI and UNL and very weak for KFL, EI and NLO because the respective coefficient of determination (r^2) are 0.8141, 0.9859, 0.9092, 0.5057, 0.9871, 0.6491, 0.6069 and 0.4052 which indicates that the change in MVPS is due to change of BVPS are 0.8141, 0.9859, 0.9092, 0.5057, 0.9871, 0.6491, 0.6069 and 0.4052 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of HBL, KFL, PFL, EI, HI, NLO and ULN which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MVPS and EPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NABIL, SCBNL, EBL and NSM where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of NABIL, SCBNL, EBL and NSM. It shows that MVPS and BVPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.3.3 Regression Equation of Market Price on DPS by Using the Method of t-Test (MPS = a + bDPS)

Table 4.17
Regression Equation of Market Price on DPS by Using the Method of t-Test (MPS = a + bDPS)

S. NO.	Name of Company	Regression Coefficient					
		Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
1	NABIL	-1986.190	49.905	0.9901	17.332	3.182	Insignificant
2	SCBNL	-6928.241	84.824	0.6056	2.146	3.182	Insignificant
3	EBL	1539.120	-27.414	0.1477	0.721	3.182	Significant
4	HBL	632.755	17.303	0.8295	3.821	3.182	Insignificant
5	NSM	105	8.10	0.7756	3.220	3.182	Insignificant
6	KFL	157.711	3.140	0.2889	1.104	3.182	Insignificant
7	PFL	108.181	-0.718	0.0771	-0.50	3.182	Insignificant
8	EI	0	0	0	0	3.182	Insignificant
9	HI	206.733	1.988	0.0705	0.477	3.182	Insignificant
10	NLO	373.824	3.471	0.1199	0.639	3.182	Insignificant
11	ULN	931.186	6.195	0.3983	1.409	3.182	Insignificant

Source: Appendix 6

Table 4.17 deficits the major output of simple regression between market price and DPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBL, HBL, NSM, KFL, EI, HI, NLO and ULN are positive of 49.905, 84.824, 17.303, 8.10, 3.140, 0, 1.988, 3.471 and 6.195 respectively. They indicate that there exists positive relationship between market price and DPS. If market price increases by 49.905, 84.824, 17.303, 8.10, 3.140, 0, 1.988, 3.471 and 6.195 units then heads to increase DPS by 1 unit and vice-versa.

But increase of EBL and PFL the value of 'b' is negative i.e. -27.414 and -0.718, which means that there exists negative relationship between market price and DPS which demonstrate that if DPS (independent variable) decrease by -27.414 and -0.718 units then

it leads to increase MVPS by 1 unit and vice-versa. In case of slope if one variable increase than other variable decreases.

The prediction of MVPS is strong only for NABIL, SCBNL, HBL, NSM and ULN and very weak for EBL, KFL, PFL, EI, HI and NLO because the respective coefficient of determination (r^2) are 0.9901, 0.6056, 0.8295, 0.7756 and 0.3983 which indicates that the change in MVPS is due to change of DPS are 0.9901, 0.6056, 0.8295, 0.7756 and 0.3983 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL, EBL, KFL, PFL, EI, HI, NLO and ULN which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MVPS and DPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NABIL, HBL and NSM where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of NABIL, HBL and NSM. It shows that MVPS and DPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.4 Price Situations of the Stocks of Listed Companies

Under this topic, we examine the pricing status of common stock i.e. whether common stocks are overpriced or under priced or equilibrium priced. The pricing status of stocks of particular firm is evaluated by comparing the required rate of return with actual realized rate of return. This chapter presents calculations of actual rate of return that a particular security has provided during the study period and its corresponding required rate of return. Comparison between the actual realized rate of return and required rate of return gives the way by which classification of stocks- whether overpriced or under

priced, is possible. The greater the beta of a security, greater will be the risk and the greater the expected return required. Likewise, the lower the beta, lower will be the risk, the more valuable it becomes and the lower the expected return required.

The beta coefficients, risk premiums and required rate of return on the stocks of listed companies have been summarized in Table 4.18. Required calculations have been shown in Annex 7 & 8(i-xi)

Table 4.18
Price Situations of Common Stock of Listed companies

Name of the Company	β	$\overline{Rf}$ (%)	$\overline{R}_m$ (%)	**Risk Premium** $\overline{R}_m - \overline{R}f$	**Required Rate of Return**	**Average Rate of Return**	**Status of the Stock**
NABIL	1.30				35.02	60.04	Under Priced
SCBNL	0.66				19.74	38.19	Under Priced
EBL	0.63				19.02	48.70	Under Priced
HBL	0.90				25.47	17.01	Over Priced
NSM	2.21				56.75	30.50	Over Priced
KFCL	0.84				24.04	0.45	Over Priced
PFCL	0.50	3.98%	27.86%	23.88%	15.92	7.81	Over Priced
EI	-0.49				-7.72	0.55	Under Priced
HI	0.76				22.13	10.04	Over Priced
NLO	0.69				20.46	1.17	Over Priced
ULN	1.25				33.83	33.99	Under Priced

Source: Appendix 7 and 8(i-xi)

From Table 4.18, it has been observed that the overall average market return is 27.86%. The Treasury bill rate is 3.98%. The risk premium for the stocks of all the companies in the market is the difference between risk free rate and market rate of return i.e. 23.88%.

In banking sector actual realized rate of return of NABIL is 60.04% where as required rate of return during the study period is 35.02%, which is far below than actual realized rate of return. Therefore, stock of NABIL during the study period is undervalued or under priced. Beta coefficient of NABIL stock is 1.30, which is more than 1, which suggests

that stock of NABIL is aggressive. Similarly, actual realized rate of return of SCBNL is 38.19% where as required return during the study period is 19.74% and the beta coefficient of the same period is 0.66. Comparing actual return with required return, it is clearly viewed that required return is far behind to actual return hence stock of SCBNL is under-priced. In the same way, beta coefficient is less than the market beta coefficient of 1 (Assumption). Thus the stock of SCBNL can be classified as defensive stock. Actual realized rate of return of EBL during the study period is 48.70%, which is significantly higher than its corresponding required rate of return of 19.02% during the same period. This shows that stock of EBL is also under priced and defensive. Defensive in the sense that, beta coefficient is 0.63 which is less than 1 (market bet coefficient). Likewise, actual realized return of HBL during the five years study period is 17.01% where as its corresponding required rate of return is 25.47% during the same period. Actual return is remarkably less than required return, which adds to declare that stock of HBL is over priced. Beta coefficient of HBL stock is 0.90, which is less than 1. Thus stock of HBL is defensive.

In finance sector, Actual realized rate of return of NSM is 30.50%. The corresponding required return during the same period is 56.75%. Here the actual return is less than required return. Therefore, stock of NSM can be classified as over priced stock. Beta coefficient of NSM stock is 2.21, which is more than market beta coefficient of 1. This suggests that stock of NSM is over priced and aggressive one. Actual realized rate of return of KFL is 0.45% during the study period, where as required return during the same period is 24.04% which is remarkably above than actual realized return. In the same way, beta coefficient of KFL stock is 0.84, which is less than 1, which suggests that stock of KEL is defensive. Thus it can be concluded that stock of KFL is over priced. Likewise, stock of PFL is also over priced and aggressive because, actual return of 7.81% is drastically less than the required return of 15.92%, Similarly, Beta coefficient of PFL stock is 0.50, which is more than market beta coefficient of 1. If stock are under priced it pushes demand up to that level where stock's actual return must equal to required return.

In insurance sector, actual realized return of EI is 0.55% where as required rate of return during the study period is -7.72%. Here required rate of return is less than the actual return. Hence stock of EI is under priced. Beta coefficient is less than 1 i.e. -0.49 which shows that stock of EI is defensive. Actual realized return of HI is 10.04% where as required rate of return during the study period is 22.13%. Here actual return is less than required rate of return. Hence stock of HI is over priced. Beta coefficient is less than 1 i.e. 0.76 which shows that stock of HI is defensive. In this way, stocks of insurance sector are over and under priced and have followed defensive way as their beta coefficient indicated.

Actual realized return of NLO is 1.17% during the study period where as required return during the same period is 20.46%, which is more behind actual return. Hence stock of NLO is over priced. Beta coefficient is less than 1 i.e. 0.69 which shows that stock of NLO is defensive. In the same way, actual realized return of ULN is 33.99% where as required rate of return during the study period is 33.83%. Here required rate of return is lesser than that of actual return. Hence stock of ULN is under priced. Beta coefficient is more than 1 i.e. 1.25 which shows that stock of ULN is aggressive.

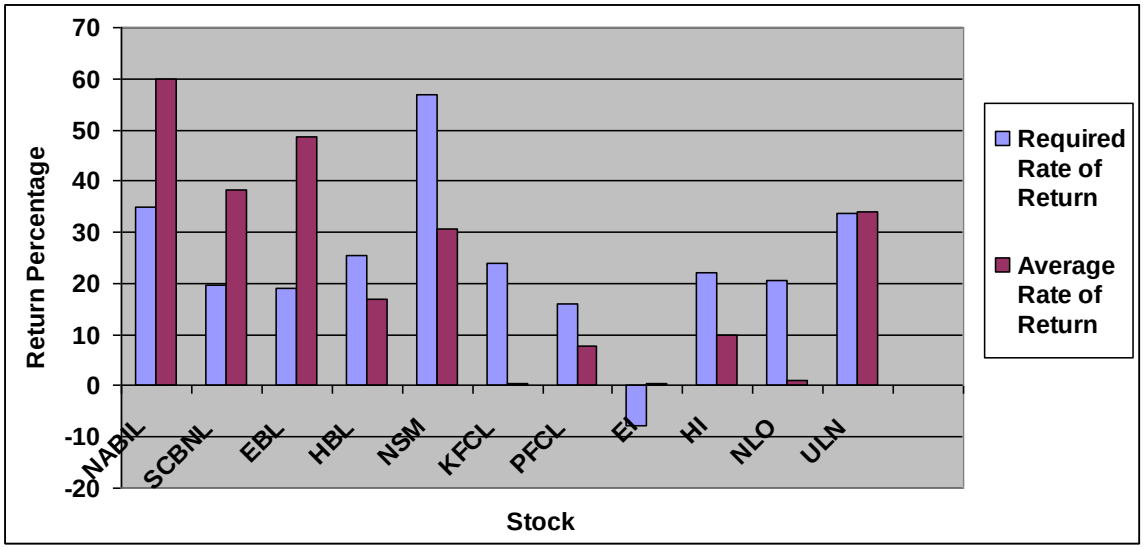
Thus, in conclusion, it was found that the 4 banks taken as sample, 3 were under priced and 1 bank is over priced. Like wise, 3 finance companies taken as sample, 3 of them are over priced during the study period. Similarly, statuses of stocks of one insurance company are over priced and one is under priced and one manufacturing company is over priced and one is under priced. In this way, stocks of five sampled companies are under priced and six over priced during the study period. Some of the sampled companies' shares were not found reasonably priced during the study period. Stocks of one banks NABIL, One finance company NSM and EBL, one manufacturing companies ULN are aggressive and other are defensive.

The main reason behind the under valuation of the stocks of the sampled companies is that the price of the stock had approached the highest point without having any concrete

financial causes yielding remarkable price appreciation during the study period. However, NEPSE index did not follow the same pattern and also the rate of return on Treasury bill issued by NRB rapidly decrease forcing it to limit within a lower level. In this way, Capital gain and market risk premium is minimum. Therefore, actual returns of some sampled companies are significantly higher than required return. If our stock market really appraises financial information bidding practice and signaling effects surely discouraged which eventually reflects real actual return. In addition to it, too short study period is another reason of such irrelevant result. Nevertheless, this study has focused the existing status of stocks of Nepalese companies.

Fig. 4.1

Required Rate of Return and Average Rate of Return of Stock of Listed Companies



4.5 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below;

- Net profit of the entire bank taken under study was good in figure. Even though EBL, HBL have less amount of profit comparing to other banks like NABIL and SCBNL. The main points are neither of them is suffering loss. EPS of NABIL is increasing in trend but SCBNL and EBL are in fluctuated trend and EPS of HBL is in decreasing trend it is due to the increase in the number of share, all the banks which is taken for the study is increasing the no. of the share during the study period.
- Banks have different view as regarding dividend. Banks like NABIL, SCBNL, EBL and HBL are continuously paying dividend and maintaining an above average payout ratio. In the commercial bank sector ROE of all the banks are at the same range. All the banks are operating approximately at the same efficiency.
- BVPS, which represents the actual value of the share, is above the paid up value that is a positive aspect of an organization. BVPS of NABIL, SCBNL and EBL is increasing and HBL which is taken in the study is in fluctuation trend. The investor paying in average five times their book value has valued the share of the banks. The shares of these banks are being sold above their book value. This leads to the conclusion that the investors have lots of expectation. MVPS of all the banks are in fluctuation trend. Capital appreciation is the main reason of high HPR so that it is high due to market capitalization.
- Net profit of the entire finance taken under study was not so good in figure. Even though NSM have loss in year 2003/04. The main points are neither of them is suffering loss except NSM. EPS of NSM, KFL and PFL are in fluctuated trend it is due to the increase in the number of share, all the finance companies which is taken for the study is increasing the no. of the share during the study period.
- Finance companies have different view as regarding dividend. Finance companies like NSM, KFL and PFL don't show a fixed payout trend but NSM doesn't pay any dividend except last two year during the study period. In the finance sector ROE of KFCL and PFCL are at the same range but due to loss the NSM are

suffering from negative ROE at 2003/04. All the finances are operating approximately at the same efficiency.

- BVPS, which represents the actual value of the share, is above the paid up value that is a positive aspect of an organization. BVPS of KFL, PFL and NSM is fluctuating trend. The investor paying in average one and half times their book value has valued the share of the finance. The shares of this finance are being sold above their book value. This leads to the conclusion that the investors have lots of expectation. MVPS of all the finance are in fluctuation trend. Capital appreciation is the main reason of high HPR so that it is high due to market capitalization.
- Net profit of the entire insurance and manufacturing companies taken under study was not so good in figure except ULN. Even though EI have less amount of profit comparing to other insurance HI. The main points are neither of them is suffering loss. In manufacturing companies ULN is increasing their profit but NLO is fluctuating trend but not in loss during the study period. EPS of EI and HI are in fluctuated trend and EPS of NLO are in fluctuating trend but ULN EPS, is in increasing trend.
- Insurance and manufacturing companies have different view as regarding dividend. HI aren't continuously paying dividend and don't show a fixed payout trend and EI aren't paying dividend during the study period. In manufacturing sector ULN paid the dividend continuously and show a fixed payout trend but 2004/05 NLO has low profit it don't paying dividend and don't show a fixed payout trend. In the insurance sector ROE of all the insurance are at the same range. All the insurance are operating approximately at the same efficiency. But in manufacturing ROE of ULN except NLO is on the same range.
- BVPS, which represents the actual value of the share, is above the paid up value that is a positive aspect of an organization. BVPS of NLO is increasing and rest of HI, EI and ULN which is taken in the study is in fluctuation trend. The investor paying in average two times their book value has valued the share of the insurance and four and half times their book value has valued the share of the manufacturing

companies. The shares of these insurance and manufacturing companies are being sold above their book value. This leads to the conclusion that the investors have lots of expectation. MVPS of all the insurance and manufacturing companies are in fluctuation trend. Capital appreciation is the main reason of high HPR so that it is high due to market capitalization.

- Correlation coefficient of MVPS with EPS, there exist high degree of positive correlation in NABIL, SCBNL, EBL, HBL, NSM and ULN. There is moderate degree of correlation in EI and NLO and low degree of correlation in KFL and PFL. Such an increasing value of MVPS with EPS is healthy indicator of the financial activities of companies in the least development countries like Nepal. But the value of 'r' is less than six times P.E. in case of HBL, KFL, PFL, EI, HI, and NLO. This states that there is not significant. NABIL, SCBNL, EBL, NSM and ULN the value of 'r' is greater than 6P.E. which shows that the correlation coefficient is significant.
- Correlation coefficient of MVPS with BVPS, there exist high degree of positive correlation in NABIL, SCBNL, EBL, NSM, PFL and HI. There is moderate degree of correlation in KFL. Such an increasing value of MVPS with BVPS is healthy indicator of the financial activities of companies in the least development countries like Nepal. But the value of 'r' is less than six times P.E. in case of HBL, KFL, EI, NLO and ULN. This states that there is no significant. NABIL, SCBNL, EBL, NSM, PFL and HI the value of 'r' is greater than 6P.E. which shows that the correlation coefficient of PFCL and UI is significant.
- Correlation coefficient of MVPS with DPS, there exists high degree of positive correlation in NABIL, SCBNL, HBL and NSM. There is moderate degree of correlation in KFL and ULN and low degree of correlation in EI, HI and NLO. Such an increasing value of MVPS with DPS is healthy indicator of the financial activities of companies in the least development countries like Nepal. But the value of 'r' is less than six times P.E. in case of EBL, KFL, PFL, HI, NLO and UNL. This states that there is no significant. In case of NABIL, SCBNL, HBL and

NSM the value of 'r' is greater than 6P.E. which shows that the correlation coefficient significant. In other words, if independent variables (EPS, BVPS & DPS) increase then it causes to increase dependent variable (MVPS) by 100% and vice-versa in case of positive correlation. Again if independent variable (EPS, BVPS & DPS) decreases than it causes to decrease dependent variable (MVPS) by 100% and vice-versa in case of negative correlation.

- The regression coefficient (b) of NABIL, SCBNL, EBL, HBL, NSM, KFL, PFL, EI, NLO and ULN are positive. Which indicate that there exist positive relationship between market price and EPS. But increase of HI, the value of 'b' is negative, which means that there exists negative relationship between market price and EPS. In case of slope if one variable increase than other variable decreases. In case of t-test, the calculated value of t < tabulated value of t in case of NABIL, SCBNL, EBL, HBL, KFL, PFL, EI, HI and NLO which indicates that the relationship is not statistically significant of t at 0.05 level of significance. But in case of NSM and ULN, the relationship is significant of t at 0.05 level of significant.
- The regression coefficient (b) of NABIL, SCBNL, EBL, NSM, KFL, PFL and HI are positive. They indicate that there exists positive relationship between market price and BVPS. But increase of HBL, EI, NLO and ULN, the value of 'b' is negative, which means that there exists negative relationship between market price and BVPS. In case of t-test, the calculated value of t < tabulated value of t in case of HBL, KFL, PFL, EI, HI, NLO and ULN which indicates that the relationship is not statistically significant of t at 0.05 level of significance. An exceptional case is recorded in the case of NABIL, SCBNL, EBL and NSM, It shows that MVPS and BVPS are significantly correlated.
- The regression coefficient (b) of NABIL, SCBL, HBL, NSM, KFL, EI, HI, NLO and ULN are positive. They indicate that there exists positive relationship between market price and DPS. And the value of 'b' of EI is zero. But increase of EBL and PFL, the value of 'b' is negative, which means that there exists negative

relationship between market price. In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL, EBL, KFL, PFL, EI, HI, NLO and ULN which indicates that the relationship is not statistically significant of t at 0.05 level of significance. Alternative Hypothesis is accepted in this case of NABIL, HBL and NSM. It shows that MVPS and DPS are significantly correlated.

- Pricing status analysis of the stocks of sampled companies has shown that SCBNL, NABIL, EBL, EI and ULN were under priced during the study period because actual returns were remarkably higher than required returns. But HBL, NSM, KFL, PFL, HI and NLO were over priced during the study period because actual returns were lesser than required returns. Present situation of our country has heavily prohibited new investment opportunity, which ultimately supports to increase the degree of liquidity. This discount rate is considered as the risk free rate. In the same way, few companies among the listed companies in NEPSE are performing satisfactorily. Therefore, NEPSE index is incline rapidly, which eventually yield lower rate of market return. Thus, these all are the key reasons due to which required return is significantly lower during the study period.
- Though, beta coefficients are calculated to assign required return, these coefficients tell the nature or behavior of stocks whether individual stock is aggressive or defensives. The stock SCBNL, EBL, HBL, KFL, PFL, EI, HI and NLO are defensive because their beta coefficients are less than 1. Where as stock of NABIL, NSM and ULN are aggressive because their beta coefficients are more than 1. Defensive stocks indicate that they are less volatile in compression to market where as aggressive stocks are more volatile than that of market return.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATION

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

5.1 Summary

In present world most of the large business is established in the form of public limited companies. These companies requires large amount of capital fund for their smooth operation and survival. Most of the organization generates these types of funds from financial market comprising money market and capital market. Financial market brings borrowers and lenders to the same place, where both the parties fulfill their need. Borrowers require fund where as the lender has excess fund. Borrowers receive fund from the lender having excess funds. Borrowers receive funds from the lender promising to pay the certain return in future. The Capital market is a financial relationship created by numbers of institutions and arrangements that allows suppliers and demanders of long-term funds to make transactions. Capital market is a significant part of modern economy. The development of a nation to a large extent depends upon the capital market development.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976 were other significant development relating to capital markets. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was

the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Centre into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. After the restoration of democracy in 1990, Nepal Government initiated privatization and economic liberalization, the industrial development as well as the capital market development process took a pace. However, with the initiation of Moist armed revolution, the industrial and capital market development process got a break. The nation has been paralyzed in terms of economic development due to the lack of peace and security. Most of the government investment has been concentrated to maintain security only. Similarly, lack of political stability and Royal take over of February 1; has added fuel in this issue.

Nepalese capital market is still in primary stage. Most of the citizens are not aware of the basic knowledge regarding security market. As a result they have not been able to make investment and if even invested; are being exploited in the absence of proper knowledge. In spite of poor condition of the security market in Nepal, government of Nepal has not given priority in its current tenth five year plan. Government has not been able to create basic infrastructures, sound policies and laws and their effective implementation, for the capital market development. As a result, there is not transparency in the performance of the listed companies and the capital market due to which capital market is struggling to mature.

Corporate performance under this study refers the financial performance of a company. Financial performance is the outcome of the financial decisions taken by the management of the company. The impact of these decisions is reflected in the profitability of the

company. Everyone is interested to invest in those companies, which has better prospect in future. This makes the value of better performing company's stock to increase. On the other hand the stock price of poor performing companies declines. This phenomenon, in Nepalese context, is the primary focus of this study. The study will primarily look into the major financial performance indicators which are generally considered important for investors like EPS, DPS, BVPS, ROA, ROE, Dividend yield, M/B ratio etc. Efforts will be made to analyze the stock price in relation to these indicators. This study primarily aims to probe into the corporate financial performance indicators and their effects on share prices.

Second chapter is based on the literature survey on the area of the study on which conceptual review and review of related studies. Due to many limitation or restriction researchers have taken four commercial banks, three finance companies, two insurance and two other companies. The study is based on secondary data from the fiscal year 2002/03 to 2006/07. The data are collected from annual reports of concerned banks, finance companies, insurance companies and related companies, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

The corporate environment plays vital roles on improving the capital market of the nation. People invested in companies through primary market. They represent there fractional ownership of the company through their investment proportions. In general demand and supply set the prices of securities are influenced by various factors. One of the major factors is corporate performance. The company alone cannot do any super performance. Adequate knowledge and information regarding the capital market is lacking in Nepalese investors. This is precisely the reason why they are cheated by the concerned companies and the NEPSE shows rather irrational behavior. Most of the listed companies do not provide sufficient and timely information to NEPSE as well as their shareholders. And even the supplied information does not have similarity among NEPSE, Annual Report and their particular websites. Meaning that they try to attract potential investors by providing exaggerated information regarding their performances.

Net profit of the entire companies taken under study was good in figure. Even though. The main points are neither of them is suffering loss. All of the companies' net profit is in fluctuated trend. But in only one year NSM company suffer loss but than on other year it is in profit. The EPS, MVPS and BVPS of all the companies are in fluctuating trend. In case of dividend all the companies are continuously paying dividend and maintaining an above average payout ratio. In case of NSM, PFL and HI are those companies don't show a fixed payout trend in the study period. But in case of EI does not pay any dividend during the study period. But in overall corporate performance of all these companies are in not more satisfactory level it should improve more than this.

The regression coefficient (b) between MVPS and EPS of NABIL, SCBNL, EBL, HBL, NSM, KFL, PFL, EI, NLO and ULN are positive. But increase of HI, the value of 'b' is negative. NABIL, SCBNL, EBL, HBL, KFL, PFL, EI, HI and NLO which indicates that the relationship is not statistically significant of t at 0.05 level of significance. But in case of NSM and ULN, the relationship is statistically significant of t at 0.05 level of

significance. It shows that MVPS and EPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

The regression coefficient (b) between MVPS and BVPS of NABIL, SCBNL, EBL, NSM, KFL, PFL and HI are positive which indicate that there exists positive relationship between market price and BVPS. HBL, EI, NLO and ULN, the value of 'b' is negative. NABIL, SCBNL, EBL, NSM, KFL, PFL and HI, which means that there exists positive relationship between market price and BVPS which demonstrate that if BVPS (independent variable) increase then it leads to increase MVPS by 100% and vice-versa. In case of slope if one variable increase than other variable increases. HBL, KFL, PFL, EI, HI, NLO and ULN the relationship is not statistically significant of t at 0.05 level of significance. An exceptional case is recorded in the case of NABIL, SCBNL, EBL and NSM, It shows that MVPS and BVPS are significantly correlated, which can be recognized as a positive indicator of the development of the entire sector in the country.

The regression coefficient (b) between MVPS and DPS of NABIL, SCBL, HBL, NSM, KFL, EI, HI, NLO and ULN are positive. They indicate that there exists positive relationship between market price and DPS. If market price increases then heads to increase DPS by 100% and vice-versa. But increase of EBL and PFL, the value of 'b' is negative. Which means that there exists negative relationship between market price and DPS which demonstrate that if DPS (independent variable) decrease then it leads to increase MVPS by 100% and vice-versa. In case of slope if one variable increase than other variable decreases. SCBNL, EBL, KFL, PFL, EI, HI, NLO and ULN which indicates that the relationship is not statistically significant of t at 0.05 level of significance. The acceptance of Null Hypothesis shows that MVPS and DPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country. Alternative Hypothesis is accepted in this case of NABIL, HBL and NSM. It shows that MVPS and DPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

Pricing status analysis of the stocks of sampled companies has shown that SCBNL, NABIL, EBL, EI and ULN were under priced during the study period because actual returns were remarkably higher than required returns. But HBL, NSM, KFL, PFL, HI and NLO are over priced during the study period because actual returns were lesser than required returns. Treasury bill's discount rate is decreasing rapidly because of high liquidity available in the market. Present situation of our country has heavily prohibited new investment opportunity, which ultimately supports to increase the degree of liquidity. This discount rate is considered as the risk free rate. In the same way, few companies among the listed companies in NEPSE are performing satisfactorily. Therefore, NEPSE index is incline rapidly, which eventually yield lower rate of market return. Thus, these all are the key reasons due to which required return is significantly lower during the study period. Though, beta coefficients are calculated to assign required return, these coefficients tell the nature or behavior of stocks whether individual stock is aggressive or defensives. The stock of SCBNL, EBL, HBL, KFL, PFL, EI, HI and NLO are defensive because their beta coefficients are less than 1. Where as stock of NABIL, NSM and ULN is aggressive because their beta coefficients are more than 1. Defensive stocks indicate that they are less volatile in compression to market where as aggressive stocks are more volatile than that of market return.

If stocks are under priced, their demand in stock market heavily mounts up. Insufficient supply of stocks caused price to rise. At present, this situation is prevailing in Nepalese stock market due to which equity price of banking sector has approached to maximum point with out having any concrete financial reason. It can be concluded that signaling factors played volatile role in determining NEPSE index value. From the major four events analysis on table showed that signaling factors had certain relation for NEPSE index.

Along with the above reasons, political, economic and social environment have also close relationship with the pricing behavior of share and they influence the stock market with

respect to the importance of the event. Though this study could not over this fact numerically, it is true that such factors hugely shape equity price because, in Nepalese context also, frequent bandha causes NEPSE index to go below yielding instant capital loss. During the course of study, it has also seen that Nepalese investors are more conscious towards the dividend stream, bonus share, price appreciation and marketability of equity share. However, most of the investors are only using buy and hold strategy as only few of them are trading their shares in secondary market.

Thus, it can be concluded that four financial indicators –EPS, DPS and BVPS heavily determine the equity price. Other extraneous factors also caused equity price to fluctuate. Investors must look after all factors, which explicitly or implicitly affect equity price so that they can arrive at rational decision.

5.3 Recommendation

Based on the research work, the researcher has reached the following recommendations

Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities. NEPSE has to insure listed companies relevant information. Similarly, NEPSE can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors.

- Lack of education and sufficient information is the main weakness of the investors. They should seek their right towards accurate and timely information, as well as for protection.

- Investors should be alert to exploit the opportunities through short term speculation. So, they are suggested to raise their voice and complain about the misconduct of relevant company or NEPSE, SEBON as well as of Government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.

- Large number of public have participated in companies through means of equity shares with the objective of receiving increasing rate of returns and value of their investments. In favor of this it can be achieved and ensured merely through good governance.

- Good management uplifted the performance of company. Shareholders are the owner but neither can take part actively in the management nor can control the management of the company. Management is answerable to shareholder through directors. Hence for the best performance board should design appropriate policies and monitor the performance of the managers in implementing them.

- As per study I found that the pricing of the sampled companies are under and over priced due to the market player and many other facts. So investor should understand and calculate the Return on Investment of every organization its demand and supply of the share which affects market price of share.

- As per the study, it has been found out that EPS, DPS, BVPS and price appreciation are the foundation upon which equity price built. So investors are recommended for the detail study of the financial indicators before investing and trading stocks of any company.

- The existing manual method of security trading should be replaced with computerized method to ensure the accuracy and systematic. Investors should be provided with investment guidelines and relevant information through media. It should monitor the activities of brokers as well as listed companies

- Research is an ongoing process. Study of security is a vast field of study. Through this research, the researcher has tried to explore the factors affecting share price of commercial banks, financial companies, insurance and manufacturing companies but study is only on some companies so, which is I believe more specific, the further researcher can focus their study towards more specific factors. Similarly, they can even carry out research based on primary source. The other relevant factors for example can be impact of CEO charisma, Research, inflation, oil/energy prices etc that affect the share price.

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APPENDIX – 1

Coefficient Correlation between MVPS and EPS
NABIL Bank Ltd.

F/Y	MVPS	EPS	
2002/03	735	84.66	
2003/04	1000	92.61	
2004/05	1505	105.49	
2005/06	2240	129.21	
2006/07	5050	137.08	
r			**0.8770**
r^2			**0.7692**
P.E.			**0.0696**
6P.E.			**0.4178**

SCBNL

F/Y	MVPS	EPS	
2002/03	1640	149.3	
2003/04	1745	143.55	
2004/05	2345	143.14	
2005/06	3775	175.84	
2006/07	5900	167.35	
r			**0.7638**
r^2			**0.5835**
P.E.			**0.1256**
6P.E.			**0.7539**

Everest Bank Ltd.

F/Y	MVPS	EPS	
2002/03	445	29.9	
2003/04	680	45.58	
2004/05	870	54.22	
2005/06	1379	62.8	
2006/07	2430	78.4	
r			**0.9431**
r^2			**0.8895**
P.E.			**0.0333**
6P.E.			**0.2000**

Himalayan Bank Ltd

F/Y	MVPS	EPS	
2002/03	836	49.45	
2003/04	840	49.05	
2004/05	920	39.92	
2005/06	1100	59.24	
2006/07	1740	60.66	
r			**0.7078**
r^2			**0.5010**
P.E.			**0.1505**
6P.E.			**0.9032**

Nepal Share Market Ltd.

F/Y	MVPS	EPS	
2002/03	125	4.18	
2003/04	103	-2.32	
2004/05	120	2.42	
2005/06	120	10.94	
2006/07	300	22.11	
r			**0.8942**
r^2			**0.7997**
P.E.			**0.0604**
6P.E.			**0.3626**

Kathmandu Finance Co. Ltd.

F/Y	MVPS	EPS	
2002/03	235	21.35	
2003/04	205	31.25	
2004/05	171	2.76	
2005/06	138	17.97	
2006/07	203	20.04	
r			**0.4382**
r^2			**0.1921**
P.E.			**0.2437**
6P.E.			**1.4623**

People's Finance Ltd.

F/Y	MVPS	EPS	
2002/03	90	3.85	
2003/04	102	10.93	
2004/05	100	16.54	
2005/06	100	17.63	
2006/07	127	13.14	
r			**0.3378**
r^2			**0.1141**
P.E.			**0.2672**
6P.E.			**1.6033**

Everest Insurance Co. Ltd.

F/Y	MVPS	EPS	
2002/03	610	65.20	
2003/04	610	57.22	
2004/05	350	61.73	
2005/06	325	33.73	
2006/07	325	20.90	
r			**0.6799**
r^2			**0.4623**
P.E.			**0.1622**
6P.E.			**0.9731**

Himalayan Insurance Co. Ltd.

F/Y	MVPS	EPS	
2002/03	190	128.03	
2003/04	175	132.87	
2004/05	205	122.33	
2005/06	205	36.70	
2006/07	300	25.10	
r			**-0.7609**
r^2			**0.5789**
P.E.			**0.1270**
6P.E.			**0.7621**

Nepal Lube Oil

F/Y	MVPS	EPS	
2002/03	480	30.50	
2003/04	400	20.79	
2004/05	350	1.52	
2005/06	350	15.01	
2006/07	480	14.71	
r			**0.6534**
r^2			**0.4270**
P.E.			**0.1728**
6P.E.			**1.0371**

Unilever Nepal Ltd.

F/Y	MVPS	EPS	
2002/03	1130	101.19	
2003/04	1400	152.91	
2004/05	2144	205.5	
2005/06	1631	205.5	
2006/07	3400	286	
r			**0.9334**
r^2			**0.8712**
P.E.			**0.0388**
6P.E.			**0.2330**

APPENDIX – 2

Coefficient Correlation between MVPS and BVPS

NABIL Bank Ltd.

F/Y	MVPS	BVPS	
2002/03	735	267.3	
2003/04	1000	301.37	
2004/05	1505	337	
2005/06	2240	381	
2006/07	5050	418	
r			**0.9023**
r^2			**0.8141**
P.E.			**0.0561**
6P.E.			**0.3364**

SCBNL

F/Y	MVPS	BVPS	
2002/03	1640	403.15	
2003/04	1745	399.25	
2004/05	2345	422.37	
2005/06	3775	468.22	
2006/07	5900	512.12	
r			**0.9929**
r^2			**0.9859**
P.E.			**0.0042**
6P.E.			**0.0254**

Everest Bank Ltd.

F/Y	MVPS	BVPS	
2002/03	445	150.1	
2003/04	680	171.53	
2004/05	870	219.88	
2005/06	1379	217.67	
2006/07	2430	292.75	
r			**0.9535**
r^2			**0.9092**
P.E.			**0.0274**
6P.E.			**0.1643**

Himalayan Bank Ltd

F/Y	MVPS	BVPS	
2002/03	836	444.26	
2003/04	840	427.40	
2004/05	920	380.57	
2005/06	1100	228.72	
2006/07	1740	264.74	
r			**-0.7111**
r^2			**0.5057**
P.E.			**0.1491**
6P.E.			**0.8947**

Nepal Share Market Ltd.

F/Y	MVPS	BVPS	
2002/03	125	103.04	
2003/04	103	103	
2004/05	120	120	
2005/06	120	120	
2006/07	300	300	
r			**0.9935**
r^2			**0.9871**
P.E.			**0.0039**
6P.E.			**0.0234**

Kathmandu Finance Co. Ltd.

F/Y	MVPS	BVPS	
2002/03	235	154.4	
2003/04	205	155	
2004/05	171	138.93	
2005/06	138	138.93	
2006/07	203	175.31	
r			**0.6231**
r^2			**0.3882**
P.E.			**0.1845**
6P.E.			**1.1072**

People Finance Ltd.

F/Y	MVPS	BVPS	
2002/03	90	72.01	
2003/04	102	90	
2004/05	100	84.23	
2005/06	100	128.80	
2006/07	127	143.87	
r			**0.8057**
r^2			**0.6491**
P.E.			**0.1058**
6P.E.			**0.6351**

Everest Insurance Co. Ltd.

F/Y	MVPS	BVPS	
2002/03	610	123.33	
2003/04	610	138.83	
2004/05	350	157.08	
2005/06	325	86.59	
2006/07	325	315.65	
r			**-0.3555**
r^2			**0.1264**
P.E.			**0.2635**
6P.E.			**1.5811**

Himalayan Insurance Co. Ltd.

F/Y	MVPS	BVPS	
2002/03	190	185.05	
2003/04	175	134.90	
2004/05	205	171.61	
2005/06	205	200	
2006/07	300	218.53	
r			**0.7791**
r^2			**0.6069**
P.E.			**0.1186**
6P.E.			**0.7114**

Nepal Lube Oil

F/Y	MVPS	BVPS	
2002/03	480	189.36	
2003/04	400	194.70	
2004/05	350	200.05	
2005/06	350	200.10	
2006/07	480	200.83	
r			**-0.4755**
r^2			**0.2261**
P.E.			**0.2334**
6P.E.			**1.4007**

Unilever Nepal Ltd.

F/Y	MVPS	BVPS	
2002/03	1130	389.3	
2003/04	1400	430.12	
2004/05	2144	235.61	
2005/06	1631	235.02	
2006/07	3400	244.28	
r			**-0.6366**
r^2			**0.4052**
P.E.			**0.1794**
6P.E.			**1.0765**

APPENDIX – 3

Coefficient Correlation between MVPS and DPS

NABIL Bank Ltd.

F/Y	MVPS	DPS	
2002/03	735	50	
2003/04	1000	65	
2004/05	1505	70	
2005/06	2240	85	
2006/07	5050	140	
r			**0.9225**
r^2			**0.8510**
P.E.			**0.0450**
6P.E.			**0.2697**

SCBNL

F/Y	MVPS	DPS	
2002/03	1640	100	
2003/04	1745	110	
2004/05	2345	110	
2005/06	3775	140	
2006/07	5900	130	
r			**0.7782**
r^2			**0.6056**
P.E.			**0.1190**
6P.E.			**0.7138**

Everest Bank Ltd.

F/Y	MVPS	DPS	
2002/03	445	20	
2003/04	680	20	
2004/05	870	20	
2005/06	1379	25	
2006/07	2430	40	
r			**0.9693**
r^2			**0.9396**
P.E.			**0.0182**
6P.E.			**0.1093**

Himalayan Bank Ltd

F/Y	MVPS	DPS	
2002/03	836	1.32	

2003/04	840	20	
2004/05	920	20	
2005/06	1100	35	
2006/07	1740	55	
r			**0.9108**
r^2			**0.8295**
P.E.			**0.0514**
6P.E.			**0.3086**

Nepal Share Market Ltd.

F/Y	MVPS	DPS	
2002/03	125	0	
2003/04	103	0	
2004/05	120	0	
2005/06	120	10	
2006/07	300	20	
r			**0.8807**
r^2			**0.7756**
P.E.			**0.0677**
6P.E.			**0.4061**

Kathmandu Finance Co. Ltd.

F/Y	MVPS	DPS	
2002/03	235	16	
2003/04	205	10.53	
2004/05	171	0	
2005/06	138	10.53	
2006/07	203	15	
r			**0.5375**
r^2			**0.2889**
P.E.			**0.2145**
6P.E.			**1.2870**

People Finance Ltd.

F/Y	MVPS	DPS	
2002/03	90	0	
2003/04	102	10	
2004/05	100	10	
2005/06	100	10	
2006/07	127	0.53	
r			**-0.2776**
r^2			**0.0771**
P.E.			**0.2784**
6P.E.			**1.6704**

Everest Insurance Co. Ltd.

F/Y	MVPS	DPS	
2002/03	610	0	
2003/04	610	0	
2004/05	350	0	
2005/06	325	0	
2006/07	325	0	
r			**0**
r^2			**0**
P.E.			**0**
6P.E.			**0**

Himalayan Insurance Co. Ltd.

F/Y	MVPS	DPS	
2002/03	190	0	
2003/04	175	0	
2004/05	205	0	
2005/06	205	15	
2006/07	300	5.79	
r			**0.2655**
r^2			**0.0705**
P.E.			**0.2804**
6P.E.			**1.6823**

Nepal Lube Oil

F/Y	MVPS	DPS	
2002/03	480	15	

2003/04	400	15	
2004/05	350	0	
2005/06	350	15	
2006/07	480	10	
r			**0.3462**
r^2			**0.1199**
P.E.			**0.2655**
6P.E.			**1.5929**

Unilever Nepal Ltd.

F/Y	**MVPS**	**DPS**	
2002/03	1130	100	
2003/04	1400	100	
2004/05	2144	90	
2005/06	1631	250	
2006/07	3400	275	
r			**0.6311**
r^2			**0.3983**
P.E.			**0.1815**
6P.E.			**1.0890**

APPENDIX - 4

i. Regression Equation of Market Price on EPS of NABIL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877[a]	.769	.692	966.83520

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9344859.103	1	9344859.103	9.997	.051[a]
	Residual	2804310.897	3	934770.299		
	Total	12149170.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5277.360	2374.871		-2.222	.113
	EPS	67.238	21.266	.877	3.162	.051

a Dependent Variable: MVPS

ii. Regression Equation of Market Price on EPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764[a]	.583	.445	1334.76076

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7486711.160	1	7486711.160	4.202	.133[a]
	Residual	5344758.840	3	1781586.280		
	Total	12831470.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11231.259	7007.250		-1.603	.207
	EPS	91.842	44.802	.764	2.050	.133

a Dependent Variable: MVPS

iii. Regression Equation of Market Price on EPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.943[a]	.890	.853	302.60737

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2211869.138	1	2211869.138	24.155	.016[a]
	Residual	274713.662	3	91571.221		
	Total	2486582.800	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1053.367	470.403		-2.239	.111
	EPS	40.867	8.315	.943	4.915	.016

a Dependent Variable: MVPS

iv. Regression Equation of Market Price on EPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.708[a]	.501	.335	310.20130

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	289802.252	1	289802.252	3.012	.181[a]
	Residual	288674.548	3	96224.849		
	Total	578476.800	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-551.720	954.523		-.578	.604
	EPS	31.723	18.279	.708	1.735	.181

a Dependent Variable: MVPS

v. Regression Equation of Market Price on EPS of NSM

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.894[a]	.800	.733	42.51755

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21645.973	1	21645.973	11.974	.041[a]
	Residual	5423.227	3	1807.742		
	Total	27069.200	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	95.589	25.349		3.771	.033
	EPS	7.770	2.245	.894	3.460	.041

a Dependent Variable: MVPS

vi. Regression Equation of Market Price on EPS of KFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.438[a]	.192	-.077	38.42792

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1053.085	1	1053.085	.713	.460[a]
	Residual	4430.115	3	1476.705		
	Total	5483.200	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	160.863	38.971		4.128	.026
	EPS	1.582	1.873	.438	.844	.460

a Dependent Variable: MVPS

vii. Regression Equation of Market Price on EPS of PFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.338(a)	.114	-.181	14.98868

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.819	1	86.819	.386	.578[a]
	Residual	673.981	3	224.660		
	Total	760.800	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	93.251	18.246		5.111	.014
	EPS	.850	1.367	.338	.622	.578

a Dependent Variable: MVPS

viii. Regression Equation of Market Price on EPS of EI

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.680[a]	.462	.283	128.59734

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42658.172	1	42658.172	2.580	.207[a]
	Residual	49611.828	3	16537.276		
	Total	92270.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	189.928	168.323		1.128	.341
	EPS	5.320	3.313	.680	1.606	.207

a Dependent Variable: MVPS

ix. Regression Equation of Market Price on EPS of HI

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761[a]	.579	.439	36.80391

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5586.416	1	5586.416	4.124	.135[a]
	Residual	4063.584	3	1354.528		
	Total	9650.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	277.369	34.843		7.960	.004
	EPS	-.701	.345	-.761	-2.031	.135

a Dependent Variable: MVPS

xi. Regression Equation of Market Price on EPS of NLO

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.653[a]	.427	.236	57.11667

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7293.057	1	7293.057	2.236	.232[a]
	Residual	9786.943	3	3262.314		
	Total	17080.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	345.120	51.510		6.700	.007
	EPS	4.052	2.710	.653	1.495	.232

a Dependent Variable: MVPS

xi. Regression Equation of Market Price on EPS of ULN

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.933[a]	.871	.828	371.54258

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2802260.332	1	2802260.332	20.300	.020[a]
	Residual	414131.668	3	138043.889		
	Total	3216392.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-371.603	539.506		-.689	.540
	EPS	12.158	2.698	.933	4.506	.020

a Dependent Variable: MVPS

APPENDIX – 5

i. Regression Equation of Market Price on BVPS of NABIL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902[a]	.814	.752	867.57762

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9891097.196	1	9891097.196	13.141	.036[a]
	Residual	2258072.804	3	752690.935		
	Total	12149170.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6784.021	2482.889		-2.732	.072
	BVPS	26.075	7.193	.902	3.625	.036

a Dependent Variable: MVPS

ii. Regression Equation of Market Price on BVPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993[a]	.986	.981	245.21634

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12651076.835	1	12651076.835	210.392	.001[a]
	Residual	180393.165	3	60131.055		
	Total	12831470.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-13166.085	1125.467		-11.698	.001
	BVPS	36.840	2.540	.993	14.505	.001

a Dependent Variable: MVPS

iii. Regression Equation of Market Price on BVPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954[a]	.909	.879	274.33025

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2260811.535	1	2260811.535	30.041	.012[a]
	Residual	225771.265	3	75257.088		
	Total	2486582.800	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1718.292	539.424		-3.185	.050
	BVPS	13.685	2.497	.954	5.481	.012

a Dependent Variable: MVPS

iv. Regression Equation of Market Price on BVPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711[a]	.506	.341	308.73551

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	292523.952	1	292523.952	3.069	.178[a]
	Residual	285952.848	3	95317.616		
	Total	578476.800	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2058.650	571.462		3.602	.037
	BVPS	-2.782	1.588	-.711	-1.752	.178

a Dependent Variable: MVPS

v. Regression Equation of Market Price on BVPS of NSM

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.994[a]	.987	.983	10.80111

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26719.208	1	26719.208	229.027	.001[a]
	Residual	349.992	3	116.664		
	Total	27069.200	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.661	10.668		.906	.432
	BVPS	.965	.064	.994	15.134	.001

a Dependent Variable: MVPS

vi. Regression Equation of Market Price on BVPS of KFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.623[a]	.388	.184	33.43849

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2128.802	1	2128.802	1.904	.261[a]
	Residual	3354.398	3	1118.133		
	Total	5483.200	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44.364	170.798		-.260	.812
	BVPS	1.539	1.116	.623	1.380	.261

a Dependent Variable: MVPS

vii. Regression Equation of Market Price on BVPS of PFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806[a]	.649	.532	9.43315

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	493.847	1	493.847	5.550	.100[a]
	Residual	266.953	3	88.984		
	Total	760.800	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	66.458	16.403		4.052	.027
	BVPS	.360	.153	.806	2.356	.100

a Dependent Variable: MVPS

viii. Regression Equation of Market Price on BVPS of EI

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.356[a]	.126	-.165	163.91823

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11662.442	1	11662.442	.434	.557[a]
	Residual	80607.558	3	26869.186		
	Total	92270.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	544.248	168.900		3.222	.048
	BVPS	-.610	.926	-.356	-.659	.557

a Dependent Variable: MVPS

ix. Regression Equation of Market Price on BVPS of HI

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779[a]	.607	.476	35.55723

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5857.050	1	5857.050	4.633	.120[a]
	Residual	3792.950	3	1264.317		
	Total	9650.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.417	103.635		-.052	.962
	BVPS	1.211	.563	.779	2.152	.120

a Dependent Variable: MVPS

x. Regression Equation of Market Price on BVPS of NLO

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.475[a]	.226	-.032	66.37885

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3861.546	1	3861.546	.876	.418[a]
	Residual	13218.454	3	4406.151		
	Total	17080.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1653.482	1326.473		1.247	.301
	BVPS	-6.302	6.731	-.475	-.936	.418

a Dependent Variable: MVPS

xi. Regression Equation of Market Price on BVPS of ULN

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BVPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637[a]	.405	.207	798.55389

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1303327.067	1	1303327.067	2.044	.248[a]
	Residual	1913064.933	3	637688.311		
	Total	3216392.000	4			

a Predictors: (Constant), BVPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3783.732	1337.519		2.829	.066
	BVPS	-6.005	4.200	-.637	-1.430	.248

a Dependent Variable: MVPS

APPENDIX – 6

i. Regression Equation of Market Price on DPS of NABIL

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	DPS(a)	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.995[a]	.990	.987	200.10513

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12029043.810	1	12029043.810	300.410	.000[a]
	Residual	120126.190	3	40042.063		
	Total	12149170.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1986.190	252.492		-7.866	.004
	DPS	49.905	2.879	.995	17.332	.000

a Dependent Variable: MVPS

ii. Regression Equation of Market Price on DPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS [a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.778[a]	.606	.474	1298.81184

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7770733.426	1	7770733.426	4.606	.121[a]
	Residual	5060736.574	3	1686912.191		
	Total	12831470.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6928.241	4699.580		-1.474	.237
	DPS	84.824	39.522	.778	2.146	.121

a Dependent Variable: MVPS

iii. Regression Equation of Market Price on DPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method

1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715[a]	.511	.349	636.39266

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1271595.952	1	1271595.952	3.140	.175[a]
	Residual	1214986.848	3	404995.616		
	Total	2486582.800	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	333.835	546.633		.611	.585
	DPS	39.379	22.224	.715	1.772	.175

a Dependent Variable: MVPS

iv. Regression Equation of Market Price on DPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.911[a]	.830	.773	181.31318

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	479853.387	1	479853.387	14.597	.032[a]
	Residual	98623.413	3	32874.471		
	Total	578476.800	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	632.755	143.957		4.395	.022
	DPS	17.303	4.529	.911	3.821	.032

a Dependent Variable: MVPS

v. Regression Equation of Market Price on DPS of NSM

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.881[a]	.776	.701	44.99630

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20995.200	1	20995.200	10.370	.049[a]
	Residual	6074.000	3	2024.667		
	Total	27069.200	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	105.000	25.154		4.174	.025
	DPS	8.100	2.515	.881	3.220	.049

a Dependent Variable: MVPS

vi. Regression Equation of Market Price on DPS of KFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.537[a]	.289	.052	36.05132

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1584.108	1	1584.108	1.219	.350[a]
	Residual	3899.092	3	1299.697		
	Total	5483.200	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	157.711	33.714		4.678	.018
	DPS	3.140	2.844	.537	1.104	.350

a Dependent Variable: MVPS

vii. Regression Equation of Market Price on DPS of PFL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.278[a]	.077	-.231	15.29894

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58.627	1	58.627	.250	.651[a]
	Residual	702.173	3	234.058		
	Total	760.800	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	108.181	11.111		9.737	.002
	DPS	-.718	1.434	-.278	-.500	.651

a Dependent Variable: MVPS

viii. Regression Equation of Market Price on DPS of EI

Due to DPS all year zero so that there is no value

ix. Regression Equation of Market Price on DPS of HI

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.266[a]	.070	-.239	54.67996

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	680.306	1	680.306	.228	.666[a]
	Residual	8969.694	3	2989.898		
	Total	9650.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	206.733	29.973		6.897	.006
	DPS	1.988	4.168	.266	.477	.666

a Dependent Variable: MVPS

x. Regression Equation of Market Price on DPS of NLO

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.346[a]	.120	-.173	70.78689

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2047.647	1	2047.647	.409	.568[a]
	Residual	15032.353	3	5010.784		
	Total	17080.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	373.824	67.592		5.531	.012
	DPS	3.471	5.429	.346	.639	.568

a Dependent Variable: MVPS

xi. Regression Equation of Market Price on DPS of ULN

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method

1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MVPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.631[a]	.398	.198	803.17296

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1281131.577	1	1281131.577	1.986	.254[a]
	Residual	1935260.423	3	645086.808		
	Total	3216392.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MVPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	931.186	801.547		1.162	.329
	DPS	6.195	4.396	.631	1.409	.254

a Dependent Variable: MVPS

APPENDIX- 7

Calculations of Market Return (Rm)

Year	NEPSE Index	Annual Return (R_m)	$R_m - \bar{R}_m$	$\left(R_m - \bar{R}_m\right)^2$
2001/02	227.54			
2002/03	204.86	-9.97%	-37.83%	1431.11
2003/04	222.04	8.39%	-19.47%	379.08
2004/05	286.67	29.11%	1.25%	1.56
2005/06	386.83	34.94%	7.08%	50.13
2006/07	683.95	76.81%	48.95%	2396.10
		$\sum R_m =$ **139.28%**		$\sum\left(R_m - \bar{R}_m\right)^2 =$ **4257.98%**

Rm = $\frac{NI_{t+1} - NI_t}{NI_t}$ Where, NI_{t+1} = NEPSE Index at Year t+1 and NI_t = NEPSE Index at Year t.

Average market return ($\bar{R}_m$) = $\frac{\sum R_m}{N} = \frac{139.28}{5}$ = 27.86 %

Variance of Market Return Var $\left(R_m\right)$ = $\frac{\sum\left(R_m - \bar{R}_m\right)^2}{N - 1} = \frac{4257.98}{5 - 1}$ = 1064.50%

$\sigma_m = \sqrt{Var\left(R_m\right)} = \sqrt{1064.50}$ = 32.63%

APPENDIX – 8

i. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of NABIL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	700					
2002/03	735	50	12.14	-37.83	-47.9	1812.06
2003/04	1000	65	44.90	-19.47	-15.14	294.78
2004/05	1505	70	57.50	1.25	-2.54	-3.18
2005/06	2240	85	54.48	7.08	-5.56	-39.36
2006/07	5050	140	131.17	48.95	71.13	3481.81
		$\sum R_J$ = **300.19**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **5546.11**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{300.19}{5} = 60.04\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{5546.11}{5 - 1} = 1386.53$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{1386.53}{1064.50} = 1.30$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 1.30 = 35.02\%$

ii. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of SCBNL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	1575					
2002/03	1640	100	10.48	-37.83	-27.71	1048.27
2003/04	1745	110	13.11	-19.47	-25.08	488.31
2004/05	2345	110	40.69	1.25	2.50	3.13
2005/06	3775	140	66.95	7.08	28.76	203.62
2006/07	5900	130	59.74	48.95	21.55	1054.87
		$\sum R_J$ = **190.97**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **2798.20**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{190.97}{5} = 38.19\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{2798.2}{5 - 1} = 699.55$

Beta Coefficient ( ) = $\frac{Cov(R_m,R_j)}{Var(R_m)} = \frac{699.55}{1064.50} = 0.66$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + (27.86 - 3.98) \times 0.66 = 19.74\%$

iii. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of EBL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	405					
2002/03	445	20	14.81	-37.83	-33.89	1282.06
2003/04	680	20	57.30	-19.47	8.60	-167.44
2004/05	870	20	30.88	1.25	-17.82	-22.28
2005/06	1379	25	61.38	7.08	12.68	89.77
2006/07	2430	40	79.11	48.95	30.41	1488.57
		$\sum R_J$ = **243.48**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **2670.69**	

Average Actual Rate of return ($\overline{R}_j$) = $\frac{\sum R_j}{N} = \frac{243.48}{5} = 48.70\%$

Co-variance, Cov (R_m,R_j) = $\frac{\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{2670.69}{5 - 1} = 667.67$

Beta Coefficient ( ) = $\frac{Cov(R_m,R_j)}{Var(R_m)} = \frac{667.67}{1064.50} = 0.63$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + (27.86 - 3.98) \times 0.63 = 19.02\%$

iv. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of HBL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	1000					
2002/03	836	1.32	-16.27	-37.83	-33.28	1258.98
2003/04	840	20	2.87	-19.47	-14.14	275.31
2004/05	920	20	11.90	1.25	-5.11	-6.39
2005/06	1100	35	23.37	7.08	6.36	45.03
2006/07	1740	55	63.18	48.95	46.17	2260.02
		$\sum R_J$ = **85.05**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **3832.95**	

Average Actual Rate of return ($\overline{R}_j$) = $\frac{\sum R_j}{N} = \frac{85.05}{5} = 17.01\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{3832.95}{5 - 1} = 958.24$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{958.24}{1064.50} = 0.90$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 0.90 = 25.47\%$

v. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of NSM

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	159					
2002/03	125	0	-21.38	-37.83	-51.88	1962.62
2003/04	103	0	-17.60	-19.47	-48.10	936.51
2004/05	120	0	16.50	1.25	-14.00	-17.50
2005/06	120	10	8.33	7.08	-22.17	-156.96
2006/07	300	20	166.67	48.95	136.17	6665.52
		$\sum R_J =$ **152.52**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j) =$ **9390.19**	

Average Actual Rate of return ($\overline{R}_j$) $= \frac{\sum R_j}{N} = \frac{152.52}{5} = 30.50\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{9390.19}{5 - 1} = 2347.55$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{2347.55}{1064.50} = 2.21$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 2.21 = 56.75\%$

vi. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of KFL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	305					
2002/03	235	16	-17.70	-37.83	-18.15	686.61
2003/04	205	10.53	-8.29	-19.47	-8.74	170.17
2004/05	171	0	-16.59	1.25	-17.04	-21.30
2005/06	138	10.53	-13.14	7.08	-13.59	-96.22
2006/07	203	15	57.97	48.95	57.52	2815.60
		$\sum R_J =$ **2.25**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j) =$ **3557.87**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{2.25}{5} = 0.45\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{3557.87}{5 - 1} = 889.47$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{889.47}{1064.50} = 0.84$

Required Rate of Return, E(R) =Rf + $(\overline{R}_m$-Rf) x β = 3.98 + $\left(27.86 - 3.98\right) \times 0.84 = 24.04\%$

vii. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of PFL

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	130					
2002/03	90	0	-30.77	-37.83	-38.58	1459.48
2003/04	102	10	24.44	-19.47	16.63	-323.79
2004/05	100	10	7.84	1.25	0.03	0.04
2005/06	100	10	10	7.08	2.19	15.51
2006/07	127	0.53	27.53	48.95	19.72	965.29
		$\sum R_J =$ **39.04**			$\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)$ **= 2116.53**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{39.04}{5} = 7.81\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{2116.53}{5 - 1} = 529.13$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{529.13}{1064.50} = 0.50$

Required Rate of Return, E(R) =Rf + $(\overline{R}_m$-Rf) x β = 3.98 + $\left(27.86 - 3.98\right) \times 0.50 = 15.92\%$

vii. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of EI

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	400					
2002/03	610	0	52.50	-37.83	51.95	-1965.27
2003/04	610	0	0	-19.47	-0.55	10.71
2004/05	350	0	-42.62	1.25	-43.17	-53.96
2005/06	325	0	-7.14	7.08	-7.69	-54.45
2006/07	325	0	0	48.95	-0.55	-26.92
		$\sum R_J$ = **2.74**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **-2089.89**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{2.74}{5} = 0.55\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{-2089.89}{5 - 1} = -522.47$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{-522.47}{1064.50} = -0.49$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times (-0.49) = -7.72\%$

ix. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of HI

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	225					
2002/03	190	0	-15.56	-37.83	-25.60	968.45
2003/04	175	0	-7.89	-19.47	-17.93	349.10
2004/05	205	0	17.14	1.25	7.10	8.88
2005/06	205	15	7.32	7.08	-2.72	-19.26
2006/07	300	5.79	49.17	48.95	39.13	1915.41
		$\sum R_J$ = **50.18**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j)$ = **3222.58**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{50.18}{5} = 10.04\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{3222.58}{5 - 1} = 805.65$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{805.65}{1064.50} = 0.76$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 0.76 = 22.13\%$

x. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of NLO

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	584					
2002/03	480	15	-15.24	-37.83	-16.41	620.79
2003/04	400	15	-13.54	-19.47	-14.71	286.40
2004/05	350	0	-12.50	1.25	-13.67	-17.09
2005/06	350	15	4.29	7.08	3.12	22.09
2006/07	480	10	42.86	48.95	41.69	2040.73
		$\sum R_J =$ **5.87**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j) =$ **2952.92**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{5.87}{5} = 1.17\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{2952.92}{5 - 1} = 738.23$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{738.23}{1064.50} = 0.69$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 0.69 = 20.46\%$

xi. Calculation of Actual Rate of Return ($\overline{R_m}$) & Required Rate of Return E (R) of ULN

Year	Closing Price	Dividend	Annual (R_j)%	$R_m - \overline{R}_m$	$R_j - \overline{R}_j$	$(R_m - \overline{R}_m)(R_j - \overline{R}_j)$
2001/02	1350					
2002/03	1130	40	-13.33	-37.83	-47.32	1790.12
2003/04	1400	100	32.74	-19.47	-1.25	24.34
2004/05	2144	90	59.57	1.25	25.58	31.98
2005/06	1631	40	-22.06	7.08	-56.05	-396.83
2006/07	3400	75	113.06	48.95	79.07	3870.48
		$\sum R_J =$ **169.98**			$\sum(R_m - \overline{R}_m)(R_j - \overline{R}_j) =$ **5320.07**	

Average Actual Rate of return $(\overline{R}_j) = \frac{\sum R_j}{N} = \frac{169.98}{5} = 33.99\%$

Co-variance, Cov $\left(R_m, R_j\right) = \frac{\sum (R_m - \overline{R}_m)(R_j - \overline{R}_j)}{N-1} = \frac{5320.07}{5 - 1} = 1330.02$

Beta Coefficient ( ) $= \frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{1330.02}{1064.50} = 1.25$

Required Rate of Return, E(R) =Rf + ($\overline{R}_m$-Rf) x β = $3.98 + \left(27.86 - 3.98\right) \times 1.25 = 33.83\%$