FACTORS AFFECTING THE SHARE PRICE OF NEPALESE COMMERCIAL BANKS

A dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree

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Certification of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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August, 2021

REPORT OF RESEARCH COMMITTEE

Mr. Gaurab Katuwal has defended research proposal entitled "**Factors Affecting the Share Price of Nepalese Commercial Banks**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asst. Prof. Dr. Uday Kishor Tiwari and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled "**Factors Affecting the Share Price of Nepalese Commercial Banks**" presented by **Gaurab Katuwal**, a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We here by certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

AGM	Annual General Meeting
AM	Arithmetic Mean
ANOVA	Analysis of Variance
BOD	Board of Director
BVPS	Book Value per Share
CV	Coefficient of Variation
DF	Degree of Freedom
DVM	Dividend Valuation Model
EBL	Everest Bank Limited
EPS	Earning per Share
EVM	Earning Valuation Model
FY	Fiscal Year
IPO	Initial Public Offering
Ln	Natural Logarithm
MPS	Market Price per Share
NAV	Net Assets Value
NEPSE	Nepal Stock Exchange
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
OTC	Over- the-Counter
P/E	Price Earnings

ROA   Return on Assets

S.D   Standard Deviation

SE   Standard Error

SEBON   Security Board of Nepal

SPSS   Statistical Package for Social Science Research

Abstract

The purpose of this study is to analyze the factors affecting the market price of Nepalese commercial banks. In the present study, Bivariate Correlation and a linear multiple regression models are selected to measure the effects of explanatory variables on the dependent variables. The data are collected from the annual reports of selected commercial banks, report of Nepal Rastra Bank and other official and unofficial publications. Data are analyzed by using appropriate financial and statistical tools and the descriptive research design is used. The Bivariate correlation and multiple regression analysis is use to examine the relationship between independent and dependent variable The study is based on data collected from six commercial banks listed in Nepal Stock Exchange (NEPSE) for the period of FY 2012/13- FY 2019/20 by convenience sampling method. Calculated data has been tabulated and analyzed by using MS-Excel and SPSS. The paper investigates the relationship between earnings per share, book value per share, price earnings ratio, return on assets and size of the bank on market price of Nepalese commercial banks by using Descriptive Statistics Correlation and Regression and ANOVA test. The study concludes that book value per share, earning per share and price earnings ratio have positive significant relationship and return on assets has positive insignificant impact on market price. Size has negative relationship and is statistically insignificant with stock price of Nepalese Commercial Banks.

*Key words***:** Market price per share, Book value per share, Price earnings ratio, Earning per share, Return on assets, Size of the bank.

CHAPTER 1

INTRODUCTION

1.1 Background of the study

A share price is the price of a single share of a number of saleable stocks of a company derivation or other financial assets. The global financial crisis which affected the world economy by the end of 2007 caused extreme volatility and turbulence in the stock market. According to Rudd (2009) global equity markets have lost approximately US$ 32 trillion in value since their peak. Before the global financial crisis, the investment trend was focused towards the stock market where investors kept a constant eye on rising and falling shares as it was a source of yielding significant return to investors. Investment in shares has also been a source of finance for fulfilling firm requirements such as expansion and diversification. It is a generally accepted phenomenon that investors are risk averse and the volatility of their investments causes great concern to them as it is a measure of the intensity of risk they bear. However, from an investor's point of view it is advisable to have knowledge and awareness about the determinants of share price in order to make an optimum investment decision. Scholars have attributed several internal factors and external factors as factors affecting stock price. The company specific or internal factors are company performance, a change in the board structure, asset position, dividends and earnings. The external factors include government regulations, business cycle, investor's attitude, market conditions, natural calamities and contingencies like strikes, lock outs etc. Investors have also been advised to be aware of the "Value Investing Strategy" a technique originally propounded by Graham and Dodd (1934). This is another successful investment strategy resorted to especially after the current 2007 global financial crisis and according to this strategy the investor has to examine firms with low-price earnings stocks, low price-to-cash-flow ratio or low price to book ratio stocks as it is assumed that these stocks may outperform growth stocks.

Nepalese stock market is very small as compared to other neighbor country. The stock market plays an important role in economic development by promoting capital formation and raising economic growth. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital effectively. Trading of securities in this market facilitates savers and users of capital by fund pooling, risk sharing and transferring wealth.

Economics activities can be created by flow of reserves to the most productive investment. Investors take the decision to invest in particular shares of companies, keeping in view their share prices. Theories suggest that there is an association between changes in share prices and changes in financial fundamental variables. (Ifran & Nishant, 2002)

Nepalese capital market was given proper structure in June 1993 with the establishment, SEBON as the market regulator. Since its establishment, SEBON has been concentrating its efforts on improving the legal and statutory frameworks which are the bases for the healthy development of capital market. SEBON is the supreme body to regulate the Nepalese securities market. As a part of its continuous efforts to build a sound system, the securities Exchange 15 Act, and 1983 was amended for the second time on Jan 30, 1997. This amendment paved the way for establishing SEBON as an apex regulatory body as it widened the horizon of SEBON by bringing Market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report annually as well as semiannually regarding their performance. The main objective of SEBON is to promote and protect the interest of investors by regulating the securities market, to monitor and control the entire capital market, sale and distribution of securities and purchase, sale or exchange of securities. SEBON was established with the objective to render contribution to the development of capital markets by making securities transactions fair, healthy, efficient and responsible. Whereas, its main functions are to provide licenses to stock exchange and securities business person and to monitor the activities carried by NEPSE to know if they are in accordance with the laws or not.

Investopedia (2019) defines a stock as a type of security that signifies proportionate ownership in the issuing corporation. The entities the stockholder to that proportion of the corporation assets and earnings. There are two types of stocks: common stock and preferred stock. Common stock usually entitles the owner to vote at shareholders meetings and receive dividends. Preferred stock does not have voting rights, but has a higher claim on assets and earnings than just shares. (Thomas, 2016)

The stock market is the primary place for institutions to deploy stocks and increase funds. If there are listed public institutions then they can deploy their shares in the market to collect more funds to expand the business. As for companies that did not participate in the stock market, they have to start the Initial Public Offering Process (IPO). The market is the common factor between buyers and sellers of these stocks so that each institution listed in

the stock market offers its shares. It could be said that the stock exchange has a primary function by supporting the economic growth of the country in the fields of industry and commerce. Market is the main cause for the development of industry and commerce as it plays an important role in developing the industrial sector of the country. (Sen & Ray, 2013)

Stock market plays a vital and massive role in the economy of any country. It also contributes to the economic development of the country by promoting capital formation and raising economic growth. Fluctuation in stock prices occurs due to the supply and demand forces. But there is no foolproof or perfect system that indicates the exact movement of stock prices. The factors behind the increase or decrease in the demand and supply of stock prices can be categorized into three main types: technical factors, fundamental factors and market sentiments. In other words we can also say that the factors that influence the share prices are based on internal & external factors. Internal factors such as dividend per share, earnings per share, book value, leverage and size etc. External factors or macro-economic variables such as gross domestic product, interest rate, government regulation and foreign exchange rate etc. To forecast future stock prices, fundamental analysts use stock valuation ratios to derive a stock's current fair value and forecast future value. Various researchers have found important internal factors that determine the share prices for different markets, viz., dividend, retained earnings, size, earning per share, dividend yield, leverage, payout ratio, and book value per share.

In an efficient market, stock prices would be analyzed by technical analysis or fundamental analysis. Technical analysis evaluates the stock price movement and predicts the future stock price based on historical data of stock price. Fundamental analysis evaluates the intrinsic value of the company and compares it to the stock price. Srinivasan (2012) stated that internal factors determine the share prices for different markets: dividend, return on assets, return on equity, retained earnings, size, age of banks, earning per share, dividend yield, leverage, payout ratio, and book value per share. Understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions.

Fama (1970) examined the nature of stock market to be efficient (Pricing) if current securities' prices reflect all available information. In an efficient market, stock prices would be analyzed by technical analysis or fundamental analysis. Technical analysis evaluates the

stock price movement and predicts the future stock price based on historical data of stock price. Fundamental analysis evaluates the intrinsic value of the company and compares it to the stock price.

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

The present study deals with an attempt to analyze the determinants of share price of commercial banks on the basis of financial statements information in Nepalese context. The objective of this study is to examine the impact of the internal factor on the stock prices of Nepalese commercial banks. The purpose of the study is to investigate the relationship between the firm specific and macroeconomic variables as determinants and market price per share (MPS) in Nepalese banking sector. Specifically, it examines the impact of earning per share (EPS), price earnings ratio (P/E ratio), book value per share (BVPS), return on assets (ROA) and size of the firm on market price per share.

1.2 Problem statement

The price volatility of Nepalese Share price is unpredictable. Stock price is determined by the interaction of demand and supply. Both qualitative and quantitative factors determine the stock price. The capital market is an important part of corporate development of a country. Even though the capital market is in the early stage of development in Nepal. Nepalese investors have heavily made investment on newly established companies, especially in financial sector. This trend will remain to continue until the investors are satisfied by the decision made by the management of the companies. Dividend is most inspiring aspect for the investment in the shares of various companies for an investors, even if dividend affect the firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth.

Investors in underdeveloped countries like Nepal mostly look at the profitability of the firm while purchasing equity share from the secondary market. Since dividend paid to the shareholders is one of the best indicators of profitability, it is generally believed that

dividend plays a crucial role in determining market price of the corporate share (Khadka, 2016).

Sharif, Purohit and Pillai, (2015) have conducted a research In Bahrain to analyze the factors affecting share prices in Bahrain stock exchange and they found that there is significant positive relationship between ROE, ROA, BVPS, P/E ratio of the firm suggesting that these factors act as active determinants in shaping the market price of shares. However a significant negative relationship was found between dividend yield and MPS. There are different findings in different countries which raise the question, "What different factors do affect the share price of Nepalese commercial banks"?

This study is answering the following questions:

i.   What is the current status MPS of commercial banks in Nepal?
ii. What is the current status EPS, P/E ratio, BVPS and ROA of commercial banks in Nepal?
iii. Do the company's size, EPS, P/E ratio, BVPS and ROA have an impact on stock price?

1.3 Objectives of the study

The main purpose of the study is to examine the factors affecting the share price of commercial banks in Nepal. To achieve the main purpose, the following purposes are set:

i.   To analyze the current status MPS of commercial banks.
ii. To analyze the current status EPS, P/E ratio, BVPS and ROA of commercial banks.
iii. To examine the impact of size, EPS, P/E Ratio, BVPS and ROA on stock price.

1.4 Rational of the study

A few studies have been made on the securities listed in NEPSE. Most of the studies made up to present on the capital market are related to financial performance evaluation, capital structure analysis, deposit mobilization, dividend policy, risk and return etc. However, none of the research has yet been made on the core perspective of the determinants of the share price. Therefore, the present study will be of substantial importance for investors, planners, researchers, students and policy makers to meet their personal and organizational objectives. This study attempts to construct the relation of MPS of the Nepalese commercial banks to the major financial indicators like EPS, PE Ratio, BVPS, ROA and SIZE etc. The

relation is hoped to show the status of Nepalese commercial banks with respect to the determiners of share price. These findings may be helpful to potential investors to make better investment decisions. Likewise, this thesis provides information about the position of share price in the share industry. Moreover, the industrial average regarding different financial indicators are helpful to compare with the individual banks. This information is expected to be helpful to the managers of the respective banks to analyze their activities and to know about factors which affect the share price of banks. This research will also be helpful to different policy makers such as SEBON, NEPSE, and NRB etc. to formulate better policy in the area of share market and share prices.

1.5 Limitations of the study

This study is a milestone in the field of knowing factors affecting the share price of Nepalese commercial banks. Findings of the study are very useful for both academicians and future researchers. However this study has following limitations:

i. Other variables affecting the share price of Nepalese commercial banks are totally ignored.

ii. The overview of the study has taken into consideration some selected commercial banks so that the study might not cover the whole commercial banks.

iii. The study is based on correlation and multiple regression methods of analysis and using secondary data of selected commercial banks so other research design and primary data is not taken into consideration.

iv. This study only focuses on specific internal variables that affect the MPS of the banks such as earning per share, book value per share, price earnings ratio, return on assets and size of the bank so, other variables are not focus for the study.

v. This study covers the recent data and information of 8 years beginning from 2012/13 to 2019/20.

1.6 Chapter plan

In this research, the study is carried out in different stages and procedures, as needed. As well as study organized in following chapters in order to make the study easy to understand.

Chapter I Introduction

Chapter I introduces the major internal factors that affect the Market Price of Share of Nepalese commercial banks, statement of problems, objectives, rationale, and limitations of the study.

Chapter II Literature Review

This chapter is the brief review of literature related to this study. It includes a discussion on the conceptual framework and review of the major studies. It gives an overview of the related literature done in the past related to this study.

Chapter III Research Methodology

This chapter describes the different research methodologies employed in this study, sources of data are mentioned. Financial and statistical tools which are used to obtain the results are described in this chapter.

Chapter IV Results and Discussion

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial and statistical tools. In this chapter we explained the major findings, and discussion of the study.

Chapter V Conclusions

This chapter includes the summary, conclusions and the implication of the study. The findings are included in this chapter along with the suggestions and their recommendations.

The References and Appendices have been given at the end of the study.

CHAPTER 2

LITERATURE REVIEW

This chapter implies the review of literature related to the study. The objectives of this chapter are to review some basic literature on factors affecting the share price of Nepalese commercial banks concerning theories including review of the empirical evidence of previous studies.

Review of literature is the process of learning and understanding the concept on the related topic. In the global contexts there are thousands of research papers, articles, books and journals relating to the securities market. Similarly, some of the major determinants of the stock price in various stock exchanges have been identified. Even though the capital market is not well developed in Nepal, there are various researches made on it. It is being very infancy, the factor which affects the stock price of Nepalese commercial bank large may vary from that of NEPSE. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc. are reviewed, which affects the stock price in Nepalese commercial banks. This chapter has been divided into three sectors. The first section of this chapter contains conceptual review. The second section relates with the review of journals and articles and the third section related literature carried out previously in the Nepalese context. This chapter has 3 sections.

2.1 Conceptual review

2.2 Empirical review

2.3 Research gap

2.1 Conceptual review

2.1.1 Security

Securities are negotiable financial instruments issued by a company or government that give ownership rights, debt rights, or rights to buy, sell, or trade an option. Securities are traded on the exchange markets. Although the term refers to all types of financial instruments, there are differences in its legal definitions, which mostly consider equities and fixed income as securities. Nevertheless, securities can be stocks, bonds, mutual funds, interest-bearing Treasury bills, notes, derivatives, warrants, and debentures. Furthermore, interests in oil-drilling programs are also considered securities. The legal entity that issues

securities is the issuer of the security stocks and warrants etc. The piece of paper serving as evidence of property rights is called security (Sharpe et al, 2005).

Securities are investments that can be traded on a secondary market. They include stocks and bonds and allow us to own the underlying asset without taking possession. For this reason, securities are readily traded. That means they're very liquid. They are easy to price, and so are excellent indicators of the underlying value of the assets. Traders must be licensed to buy and sell securities to assure they are trained to follow the laws set by the SEBON. There are three types of securities, equity securities, debt securities and derivatives securities.

2.1.2 Security Market

Securities markets are the markets in which securities, or financial assets, are traded. There are two different types of securities markets. The first is known as the primary market, which is used for trading newly issued securities. The second type is known as the secondary market, which is used for trading securities that have already been issued. Primary markets and secondary markets are generally used for trading equity securities. Securities market is a mechanism created to facilitate the exchange of financial securities or assets by bringing together buyers and sellers of securities (Sharpe, etal, 2005).

Securities markets are markets in financial assets or instruments and these are represented as I.O.Us (I owe you) in financial form. These are issued by business organizations, corporate units and the Governments. There are different types of business organizations in Nepal, namely, partnership firms, cooperative societies, private and public limited companies and joint and public sector organizations etc. Public limited companies raise funds from the public through the issue of shares. The methods of raising funds used by the corporate sector are to issue securities, either ownership instruments or debt instruments.

2.1.3 Stock market

The stock market refers to the collection of markets and exchanges where the issuing and trading of equities (Stock of publicly held companies), bonds and other sorts of securities takes place, either through formal exchanges or over-the-counter-markets. Also known as the equity market, the stock market is one of the most vital components of a free-market economy, as it provides companies with access to capital in exchange for giving investors a slice of ownership. It is a place where the companies get listed to issue shares and raise

the funds. In case of an already listed public company, they issue more shares to the market for collecting more funds for business expansion.

The stock market can be split into two main sections: the primary market and the secondary market.

2.1.3.1 Primary market

Primary market is the financial market in which the new issues of the securities such as bonds or a stock are sold for the first time. It is the market where securities are created. It is the market where the initial public offering takes place. Investment bank is the financial institution which helps to sell the securities in the primary market. Underwriting is the process to sell the securities in the primary market. The Primary market is concerned with the floatation of shares and distribution of shares to the general public. It consists of companies issuing securities to the buyer of new securities and various intermediaries that help in the disposal of new securities. Issue managers, underwriters; stockbrokers, stock exchange etc. are the important constituents of the new issue market. The Primary market is the initial market, because it is concerned with the creation of new financial claims. The main objective of the primary market is to raise the necessary capital to make a huge investment through the Initial Public Offering (IPO).

There are three ways in which a company may raise capital in the primary market.

Public offering

The companies are allowed to sell the securities to the general public. Everybody has the right to purchase the shares of companies. There are two means by which companies offer securities to the public: a traditional underwriting and a shelf registration.

Right offering

Companies may sell their common stock directly to their existing shareholders through the issuance of rights, which entitle the stockholders to purchase new shares of the firm's stock at a subscription price below the market price. Rights offerings also are called privileged subscriptions. This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis.

Private placement

A private placement is the sale of securities to a relatively small number of selected investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. A private placement is different from a public issue, in which securities are made available for sale on the open market to any type of investor.

2.1.3.2 Secondary market

It is a type of market where second hand securities are traded and secondary markets are markets in which already traded or secondary securities are traded among the investors. In the secondary market securities are sold by and transferred from one investor or speculator to another. It is therefore important that the secondary market be highly liquid.

Secondary Market is one kind of capital market where securities are traded which has already been issued in the past. The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bond, option and futures are bought and sold. Simply, secondary markets are markets in which existing outstanding securities are traded between the investors i.e. buyers and sellers. It creates the price and allow for liquidity. Thus, Secondary Market mainly deals with previously issued shares traded through stock exchange, over the counter market or direct selling. For the efficient growth of primary market, secondary market is an essential requirement. Since, the secondary market provides liquidity to the securities; the investors are encouraged to buy the securities in the primary market. In Nepal, Nepal Stock Exchange (NEPSE) is the organized secondary market where thousands of securities are traded. New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ) are the major exchange organizations around the world.

Secondary markets can be organized in two ways:

Organized stock exchange

Organized Stock Exchange is the physical location where securities are traded under some established rules and regulations through the license members of the exchange. It is one of the important secondary markets where the investors buy and sell the securities between themselves. Organized stock exchanges facilitate the trading of securities, which are listed on it.

Stock Exchange is one important constituent of the capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is a convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations. It is also called stock market or share market. The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.

For example: NEPSE, NYSE, TOKYO STOCK EXCHANGE, AMERICAN STOCK EXCHANGE(AMEX), BOMBAY STOCK EXCHANGE are some examples of organization stock exchanges.

Over-the-counter market (OTC Market)

Another method of organizing a secondary market is to have an Over-the-counter market, in which dealers at different locations who have an inventory of securities stand ready to buy and sell securities "Over the counter" to anyone who comes to them and is willing to accept their prices. Because Over-the-counter dealers are in computer contact and know the prices set by one another, the OTC market is very competitive and not very different from a market with an organized exchange.

Many common stocks are traded Over-the-counter, although a majority of the largest corporations have their shares traded at organized stock exchanges. The U.S Government bond market, with a larger trading volume than the New York Stock Exchange, by contrast, is set up as an over-the-counter market. Forty or so dealers establish a "market" in these securities by standing ready to buy and sell U.S Government bonds. Other over-the-counter markets include those that trade other types of financial instruments such as negotiable certificates of deposits, federal funds, bankers' acceptances, and foreign exchange.

It is a part of the secondary market. Generally, securities of those companies, which are not listed in the security exchange, are traded in the over the counter market. A decentralized market, without a central physical location, participants trade with the means of various communication modes such as the telephone, email and proprietary electronic trading systems. An over-the-counter (OTC) market and an exchange market are the two basic ways of organizing financial markets. In an OTC market, authorized dealers act as market makers by quoting prices at which they will buy and sell a security or currency. A

trade can be executed between two participants or intermediaries in an OTC market without others being aware of the price at which the transaction was effected. In general, OTC markets are therefore less transparent than exchanges and are also subject to fewer regulations. NASDAQ in the United State (US) and over the counter Exchange India (OTCEI) in India are some of the well-known examples of OTC markets.

2.1.4 Common stock

Common Stock represents the ownership position in the company. The holders of common stocks are called common stockholders or shareholders and they are the legal owners of the company. Common stocks are also known as equity shares or ordinary shares. Ordinary shares have no maturity date and they are the source of permanent capital. Common stocks are variable income security, meaning that the dividend payment to the shareholder is not fixed like interest to the bondholders and dividend to the preference shareholders.

The common stocks are the permanent and vital source of capital since they do not have a maturity date. As a return to the contribution of shareholders investment, they are entitled to dividends. It means, in the case of organizational profit, the shareholders are provided a certain sum of money as dividend. The amount or rate of dividend is fixed by the Board of Directors. Hence, the common stock is a kind of variable income security. Being the owner of the company, the shareholders bear the risk of ownership. They are entitled to dividends after the claims of outsiders' are satisfied.

Features of common stock

Common Stocks have a number of features. These features are described in brief below:

Par value:
The price arbitrarily printed in each common stock certificate is par value. Par value is always determined less than the present market value of the stock. However some common stocks are issued without par value. While buying the stock par value is regarded as the initial investment of the owner is the firm.

Claim on income and assets:
Common Stockholders have a residual claim. They have a claim on earnings after payment of expenses, interest, taxes and preference dividends. Similarly, they have a residual claim on assets at the time of liquidation. The final payment occurs to the common stockholders after payments are made to the creditors, preference shareholders etc.

Voting rights:

Common stockholders have the right to vote for directors in the election as well as to make changes in the memorandum of association. For instance, if they want to change its authorized capital or the objectives of business, they need ordinary shareholders' approval.

Limited liability:

The common stockholders are the true owners of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of shares encourages unwilling investors to invest their funds in the company which helps the company to raise funds. (Pandey, 1995)

Pre-emptive rights

Existing shareholders have a right to purchase additional shares issued by the company at a proportion of current ownership and at subscription price, thus the pre-emptive right entitles a stockholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called rights which can be exercised at a subscription price which is generally much below the current market price of shares

Right to control:

Common stockholders are the real owners of a company; therefore, they have a control over the company through the election of the board of directors.

2.1.5 Stock price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If 'A' buys 10 shares of NIC Asia bank from B, she/he pays Rs.1000 for these 10 shares, and then the price of share is Rs.100 (i.e. 1000/10). Thus stock price is the amount paid by a buyer to buy one stock or the amount received by the seller a sock. The stock price is determined in the stock market, by market forces, i.e. demand (buyer forces) and supply (seller's force). The demand and supply are based on the environmental forces and individuals' future expectations/assumptions. The stock (market) price is different from its par value and book value.

2.1.6 Share price determinants

Different studies have been conducted in the field of share price determinants by various researchers in the past. Some of them have been reviewed in this study in order to avoid possible duplication and bridge the gap.

Stock price is determined by various internal and external factors. There are so many factors which determine the price of share which are as follows:

Earnings per share (EPS)

The earnings per share (EPS) is the share of a stock on the earnings of the company. It refers to the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholder. It is also identified to measure the profitableness of the shareholders' investment. The earnings per share simply show the profitability of the banks on a per share basis. The higher earnings indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa.

Earnings per share are calculated to know the earning capacity of the bank and to compare with its market price. It can be calculated by dividing the earnings available to common shareholders by the total number of common stock outstanding of banks. It can be presented symbolically as:

$$EPS = \frac{Total\ Earnings\ available\ to\ common\ shareholders}{No.of\ Shares\ Outstanding}$$

Dividend per share (DPS)

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing.

Nothing is more important than dividends to stockholders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive a return on their investment; nothing pleases them more than knowing the firm's earnings and more profits mean more dividends coming in. It can be presented symbolically as:

$$DPS = \frac{Total\ Dividend\ paid\ to\ common\ shareholders}{No.of\ Shares\ Outstanding}$$

Dividend yield (DY)

Dividend yield is the amount that a company pays to its shareholders annually for their investment. It is expressed as a percentage and indicates the attractiveness of investing in a company's stocks. DY is considered as ROI for income who are not interested in capital gains or long-term earnings. It is calculated as current dividend per share dividend by current market value per share.

Dividend yield shows the return of investors in relation to current market price of share. Since DPS is only the amount per share distributed to stockholders. It cannot show the actual return of those shareholders, who have purchased the share from the market at a higher price than the book value. Therefore, analysis of DY is important. It is the result obtained by dividing DPS by MVPS. It can be presented symbolically as:

$$DY = \frac{Dividend\ Per\ Share}{Market\ Price\ Per\ Share}$$

Price earnings ratio (P/E Ratio)

The Price Earnings ratio of a stock is the market price divided by its EPS. This tells you how other investors view the stock. It relates with the comparison of market value with its earnings per share. The price earnings ratio indicates the extent to which the earnings of each share are covered by its price. It tells whether the share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

A company will have a high PE if investors hope their earnings from the stock will increase; this is why they buy the share. This increase in demand will result in the share's market price rising. It can be presented symbolically as:

$$Price\ Earnings\ Ratio = \frac{Market\ Price\ Per\ Share}{Earnings\ Per\ Share}$$

Book value per share (BVPS)

With the passage of time, a corporation will generate income much of which is paid out to creditors (as interest) and to stockholders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings and other entries (such as "Common Stocks" and "Capital Contributed in excess of par value") under stockholders' equity is the book value of the equity:

Cumulative Retained Earnings + Capital Contributed in Excess of Par + Common Stock = Book Value of Equity

The book value per share is obtained by dividing the book value of the equity by the numbers of shares outstanding (Sharpe, etal, 2000).

Size of the bank

The size of the firm can be measured in many ways, for example, through turn over, Paid-up capital, capital employed, total assets, net sales, market capitalization, etc. In the present study bank size is measured by total assets scaled in natural logarithm. According to Almumani (2014) size is negatively related to market price of equities.

However, large banks generally offer better banking services opportunities to customers and borrowers than smaller ones. The banks by virtue of their higher size generally occupy a stronger and dominant position in the stock market. The shares of large banks are actively traded in the stock exchange; they provide more liquidity and marketability to the investors. Thus, the temptation to buy shares of large banks leads to an increase in the market price of shares.

2.1.7. Stock valuation

Securities analysts study companies' earnings and their management, 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 the value of an equity share. If the security's price is less than its estimated value, then it appears to be a good buy or at least worthy for further investigation.

2.1.7.1. Stock valuation model

There are three basic valuation models. All these three models often offer different answers.

1. Net assets model (NAV)

Net asset value (NAV) is the value of an entity's assets minus the value of its liabilities. This may also be the same as the book value or the equity value of a business. Net asset value may represent the value of the total equity, or it may be divided by the number of shares outstanding held by investors, thereby representing the net asset value per share.

There is no universal method or basis of valuing assets and liabilities for the purposes of calculating the net asset value used throughout the world, and the criteria used for the

valuation will depend upon the circumstances, the purposes of the valuation and any regulatory and/or accounting principles that may apply.

2. Dividend valuation model (DVM)

The dividend discount model (DDM) is a method of valuing a company's stock price based on the theory that its stock is worth the sum of all of its future dividend payments, discounted back to their present value. In other words, it is used to value stocks based on the net present value of the future dividends. The formula for calculating price of stock by using dividend discount model may be represented as follows:

$$P_o = D_1 (1+K_e)^1 + D_2(1+K_e)^2 + \ldots\ldots\ldots\ldots\ldots.. + D_n (1+K_e)^n$$

$$P_o = \sum D_1 (1+K_e)^t$$

3. Earning valuation model (EVM)

In this model the value of share will change with changes in EPS and P/E ratio. An alternative approach to this model is the earning capitalization model. Although DVM has some drawbacks, this is one of the best available methods of valuing shares.

2.2 Empirical review

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

Gbalam and Uzochukwu (2020) evaluated price reactions to dividend announcement of firms listed on the Nigerian Stock Exchange. Variables for the study were dividend per share, dividend pay-out ratio, Price per share. Ordinary Least Square Regression was carried out to determine the relationship and the results of the findings shows that there is a positive but insignificant relationship between dividend payout and share price announcement of firms in Nigeria.

Silwal & Napit (2019) analyzed and identified the determinants of the stock price in Nepalese Commercial bank. The study is based on pooled cross- sectional data of ten banks whose stocks are listed in Nepal stock exchange. The study employed correlation and causal comparative research design and results revealed that book value per share, price earnings ratio, and return on equity have positive relation with stock price. Dividend yield had a positive but minimal influence on the price of the stock whereas size had a negative relationship and is statistically insignificant with stock price. It revealed that book value per share is the most influential factor that determines stock price in Nepal.

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

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

Pradhan and Baral (2018) analyzed the impact of dividend policy on share price of commercial banks in Nepal. The paper investigates the relationship between dividend announcement, EPS, P/E ratio, DPR, on stock price by using Descriptive Statistics, Correlation and Regression, ANOVA and Wilcoxon Signed Rank Test. The articles conclude that except DPR, the other factors like EPS, P/E ratio have positive relationship with stock price among them P/E is the strongest factor that affects the share price in case of top gainer commercial banks whereas EPS, P/E ratio and DPR have positive influence on stock price among them DPR is the strongest factor that affects the share price in case of top loser bank.

Dutta, Saha, and Das (2018) identified the major determinants for P/E ratios of manufacturing companies listed in Dhaka stock exchange. The study employed descriptive statistics, correlation matrix and regression analysis to fulfill the objectives. Results revealed that dividend yield, leverage, size and net assets value per share are significant determinants of P/E ratio where dividend yield and size have negative influence but leverage and net assets value per share have positive influence on P/E ratio. This paper is an evidence for fundamental analysts or decision makers to evaluate determinants that explain variations in Price-to Earnings ratios of manufacturing firms of Bangladesh.

Ghimire and Mishra (2018) determined the relationship between stock price and explanatory variables like: DPS, EPS, P /E Ratio, BV, market to BV for the period for the period 2012 to 2017. Using simple, multiple regression analysis and descriptive statistics this study investigated the factor affecting the stock price, with the sample of 11 financial and nonfinancial firms of Nepal. The results revealed that the variables Market to BV, P/E ratio were the significant determinants of stock price which directly affect the stock price. Likewise, DPS, BV also had significant positive influence on stock price whereas EPS had minimal influence on the stock price.

Pradhan and Dahal (2016) examined the factors affecting the share price of Nepalese commercial banks. Earnings per share, Dividend per share, P/E ratio, BVPS, Return on assets and size were chosen as firm specific independent variables whilst Market price per share is selected as dependent variable. The multiple regression models were estimated to test impact of firm specific on share price of Nepalese commercial banks. Using data of 14 banks listed in NEPSE for the period of 2002/03-2013/2014. The result showed that size is

found to be the most important determining variable that affects the share price. It means larger the firm size, higher would be the stock price.

Arkan (2016) had conducted the research to investigate the importance of financial ratios derived from financial statements to predict stock price trends in emerging markets. 12 financial ratios were tested depending on data of 15 companies distributed in 3 sectors for the years 2005-2014 in the Kuwaiti financial market. An equation to estimate the stock price in each sector was built according to the multiple regression model after eliminating non-effective variables with the STEPWISE method. The result showed that some ratios could give strong positive and significant relationships to stock price behavior and trends, the most effective ratios on the stock price for the industrial sector are ROA, ROE and net profit ratio.

Adhikari (2015) analyzed determinants of corporate dividend payout in Nepal and examined whether enterprises' characteristics affect dividend payouts of the enterprises listed on Nepal Stock Exchange Ltd. A priori hypothesis between relationship of the dividends paid by the enterprises and enterprises' characteristics- net profits, size, lagged dividends, liquidity, risk, investment opportunity set, and number of shareholders were set based on theoretical framework and other empirical studies, and tested on 22 listed enterprises covering a 5-year period, 2009 to 2013 by employing regression model. The results of empirical tests for total sample reveal that net profits, total assets, and liquidity are the major determinants of corporate dividend payout in Nepal. The result is partly consistent with the proposition set in this study that the dividend policy of an enterprise tends to depend on net profits, total assets, lagged dividends, liquidity, risk, investment opportunity set, and number of shareholders, and also with the determinants of corporate dividend payout of developed stock markets and emerging stock markets including Indian stock market.

Arshad, Arshaad, Yousaf, and Jamil (2015) identified the determinants of share prices for the listed commercial banks in Karachi stock exchange over the period 2007- 20013. To determine whether the selected independent variables have influence on share price or not, the researcher had used Linear multiple regression analysis. The results indicated that earning per share has more influence on share prices and it has positive and significant relationship with share prices, book to market value ratio and interest rate have also significant but negative relation with share prices whilst other variables that i.e. gross

domestic product, price earnings ratio, dividend per share, leverage have no relationship with share prices.

Hutabart and Flora (2015) explored the factors affecting stock prices of Indonesia. It found that all institutions are seeking to get the most profit in the shortest possible time. The companies can do different things, including funding to achieve their goals. There are different methods that can be used by the company to earn as much money as possible for the survival of the company. One of the most important ways is to attract investors to invest their capital as a source of corporate finance. The investment of the capital markets is the way to find out those who have a surplus of money and in need of funds. In Indonesia, the banking industry is important. As Indonesia survived the financial crisis of 2008 the world, Indonesia has grown interest from other countries. The banking industry can support the growth of one nation. Investors are trying to find a suitable opportunity to invest in this sector, especially state-owned banks, which are based on the banking industry in Indonesia. However, banks have operating structures that differ from normal industrial companies. For this reason, investors have different elements to think about when evaluating banks and thinking about investing in a bank. The result of this study was a recommendation for investors to invest in Bank Mandiri and Bank BNI and Bank BRI because they found it through financial ratios alone is useful and greatly affects the share price. For Bank BNI, there are no significant financial ratios and inflation in the prices of shares.

Almumani (2014) identified the quantitative factors that influence share prices for the listed banks in Amman Stock Exchange over the period 2005-2011 using empirical analysis of a set of independent variables such as: DPS, EPS, BVPS and P/E ratios and market price as dependent variables. In this study, the ratios analysis, correlation and linear multiple regression models were selected to measure the individual as well as combined effects of explanatory variables on the dependent variables. The empirical findings showed that there is positive correlation between the independent variable DPS, EPS, BVPS P/E ratios with dependent variable MP. Moreover, there is a significant relationship between banks BVPS and MP. Another empirical finding from the regression analysis showed a positive relationship between P/E and MP. Finally, other variables DPS have a significant impact on market price.

Bhattarai (2014) had undertaken the study to clarify the determinants of share price of commercial banks listed on the Nepal Stock Exchange over the period of 2006 to 2014.

Data were sourced from the annual reports of the nine commercial banks and analyzed using a regression model. The findings of the study revealed that the EPS and P/E ratio have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that D/Y, EPS and P/E ratio are the most influencing factors in determining the share price in Nepalese Commercial Bank.

Mausam (2014) examined the excess stock market for all banks included in the thirty-Dhaka Stock Exchange for the period from 2007 to 2011. Attempts are being made to determine the existing relationship between the distribution of profits and stock market returns policy of the private commercial banks in Bangladesh kind, and to what extent return on equity can be explained through the distribution of their profits for the same period of time the policy. Various theories concerning the distribution of profits are being used in different parts of the world with different results and conclusions of the policy. Sample size is large i.e. all the listed commercial banks of Dhaka Stock Exchange so the results are reliable and valid. Panel data approach is used to explain the relationship between stock prices and dividends after the control variables such as Return on Equity, Earnings per Share, Retention Ratio have positive relationship with Stock Prices and significantly clarify the variations in the market prices of shares, while the Profit after Tax and dividend yield has negative, insignificant relationship with stock prices. The final results show that the dividend policy has an important positive impact on stock prices.

Mahlotra and Tandon (2013) attempted to determine the factors that influence stock prices in the context of the National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007- 2012 and linear regression model was used. The results indicated that firms' book value, earning per share, and price-earnings ratio are having a significant positive association with the firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock.

Naveed and Ramzan (2013) have explained different factors that affects share prices of different banks. A sample of 15 banks has been selected from Karachi stock exchange for the period of 2008-2011. The analysis utilized fixed effect regression model, the test includes regressing the dependent variable SP (share price) and independent variables size, DY (dividend yield), ROA (return on asset), and AG (asset growth). Results show that size has a positive significant relationship with the share price while the other variables

(Dividend yield, Asset growth, Return on assets) have insignificant relationship with stock price.

Srinivasan (2012) analyzed the study of fundamental determinants of share price in India. The study employed panel data consisting of annual time series data over the period of 2006-2011 and cross-section data pertaining to 6 major sectors of the Indian economy, namely, heavy and Manufacturing, Pharmaceutical, Energy, IT and ITES infrastructure and Banking. The Fixed Effects model and Random Effects model were employed to investigate the objective. The empirical results reveal that earning per share, price-earnings ratios and size had a positive and significant impact on the share price of commercial banks.

Nirmala, Sanju, and Ramchandra (2011) identified the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare and public sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. The study found that dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability was found to influence share prices only in the case of the auto sector.

Sharma (2011) examined the empirical relationship between equity share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale, and net worth for the period 1993-94 to 2008-09. The results revealed that earning per share, dividend per share, and book value per share had a significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study supports liberal dividend policy and suggests companies to pay regular dividends.

Uddin (2009) analyzed the relationship of microeconomic factors with the stock price by using multiple regression analysis. The researcher found a significant linear relationship among market return and some microeconomic factors such as net asset value per share, dividend percentage, earning per share of bank leasing, and insurance companies. He also found that the non-linear relationship among the variables is insignificant at 95 percent of significance.

Ifran and Nishant (2002) identified factors exerting impact on the share prices in Karachi Stock Exchange for the period between 1981 and 2000. The study employed cross-sectional weighted least square regression and analyzed the impact of six variables viz. dividend

yield, payout ratio, size, asset growth, leverage and earning volatility on share prices. Of these the payout ratio, size, leverage and dividend yield emerged as the significant factors affecting the stock market prices in Karachi. This suggests that firm specific factors have a significant impact on market price of shares**.**

2.3 Research gap

During the review of previous studies, it was found that most of the researches (Bhattarai 2020, Silwal and Napit 2019, Baral and Pradhan 2018, Ghimire and Mishra 2018, Adhikari 2015) has been conducted on the determinants of stock price of commercial banks in Nepal listed in the NEPSE. During the review of the previous thesis, it was found that no research has been conducted by taking these sample banks and these data. Present study is based on the data taken from six commercial banks.

By reviewing an earlier thesis it was found that researchers only analyzed the market trend of MPS with other financial indicators but this study has examined those internal factors that play important and role in determining market price of commercial banks. This study also examines the impact and relationship of market price with other financial indicators like EPS, P/E Ratio, BVPS, ROA and size of the firms. Previous researches have analyzed only the qualitative factors affecting stock price but this research is based on quantitative factors affecting stock price. The researcher has conducted research on stock price movement and stock price behavior by taking secondary data. To find out the subjective facts and to fulfill the gaps the present study is conduct.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter refers to the overall research methods from the theoretical aspects to the collection and analysis of data. Its focus is made on the application of the technique and procedure to analyze the relevant variables to see the basic relationship between relevant topics. To achieve the basic objectives both financial and statistical tools have been adopted. This chapter contains the research design, population and sample, sources of data collection, data collection techniques, data processing and data analysis tools and techniques.

3.1 Research design

The study is based on descriptive research design. The descriptive research design has been adopted for fact-finding and searching for adequate information about the fundamental issues associated with variables affecting the market per share of Nepalese commercial banks. It describes the real and actual condition, situation and facts. This research study is attempting to analyze the internal factors of commercial banks and its effect on stock price. According to the objective of the study Thus, to fulfill the objectives of the study secondary data are used.

3.2 Population and sample

There are 27 commercial banks in Nepal so this is the population. Due to the lack of time and resource factor, it is not possible to study all of them. Hence, the 6 commercial banks have taken as samples which are operating in Nepal. The six commercial banks were selected by using a convenience sampling method from the list of commercial banks. Among the total commercial banks the following six commercial banks were selected for the study.

Table 3.1

Number of Commercial Banks selected for the study

S. No.	Name of Commercial Banks	Study Period
1.	NIC Asia Bank	2012/13 – 2019/20
2.	Sunrise Bank	2012/13 - 2019/20
3.	Megha Bank	2012/13 – 2019/20
4.	Civil Bank	2012/13 – 2019/20
5.	Everest Bank Ltd.	2012/13 – 2019/20
6	Laxmi Bank	2012/13 - 2019/20

3.3 Nature and sources of data

This research study is mainly based on the secondary data which are gathered from 6 commercial banks in Nepal for the period 2012/13 to 2019/20. The periods of these data are taken to meet the purpose of these study, found out the trend of market price of commercial bank and used to analyze the impact of internal factors of commercial banks on their share price. The necessary secondary data and information have been acquired from the annual reports of selected commercial banks, financial report published by NEPSE, Economic report published by Nepal Rastra Bank.

3.4 Data collection and data processing procedure

This section deals with statistical and econometric models used for the purpose of analysis of secondary data. Descriptive, co-relation and regression methods of analysis are used in the study. The descriptive statistics contains mean, standard deviation, CV which used to explain the characteristics of sample firms. The correlation analysis is used to measure the direction and magnitude of relationship between dependent and independent variables. The regression analysis is used to find out the influence of independent variable over dependent variable. It explains the different statistical tests of significance for validation of model of linear regression analysis. All models are tested for individual effects by running correlation and regression using statistical package for social science (SPSS 25). Details analysis of models and statistical test of significance have been dealt in the following sections.

3.5 Data analysis tools

The data collected from different sources will be recorded systematically as necessary only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables, graphs, and charts. To analyze the data in this research, some financial and statistical tools are used which are explained here.

3.5.1. Financial tools

For the proper financial analysis of data ratio analysis is the best tool. It is very simple analyzing tools under which ratios are taken to express the relation between two or more data. Through ratio analysis we can establish the relationship among the data and research into conclusion. Under ratio analysis the following ratios related to banks are analyzed.

1**. Market price of share (MPS)**

Simply the market price per share reflects per unit price of the share traded in the market which is determined by demand and supply of stock. This is the most visible price of financial data. The market price of common stock as a sole financial indicator is useless. Comparing this value to the EPS, higher the EPS higher the MPS and vice versa.

It is also compared with book value per share (BVPS), if MPS>BVPS it is the condition of over valuation but if MPS<BVPS it is the condition of undervaluation of stock. MPS is calculated by dividing total market capitalization by total number of shares outstanding. It can be presented symbolically as:

$$MPS = \frac{Total\ Market\ Capitalization}{No.of\ Share\ Outstanding}$$

2. Earnings per share (EPS)

Earnings per share refers to the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholder. It is also identified to measure the profitableness of the shareholders' investment. The earnings per share simply show the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. In other words, higher earnings per share denote the strength and lower earnings per share indicates the weakness of the banks.

Earnings per share are computed to know the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earnings available to common shareholders by the total number of common stock outstanding of banks. Thus,

$$EPS = \frac{Total\ Earnings\ available\ to\ common\ shareholders}{No.\ of\ Shares\ Outstanding}$$

3. Price earnings ratio (P/E Ratio)

The Price Earnings ratio of a stock is the market price divided by its EPS. It relates with the comparison of market value with its earnings per share. The price earnings ratio indicates the extent to which the earnings of each share are covered by its price. It tells whether the share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

A company is have a high PE if investors hope their earnings from the stock is increase; this is why they buy the share. This increase in demand is result in the share's market price rising. It can be presented symbolically as:

$$Price\ Earnings\ Ratio = \frac{Market\ Price\ Per\ Share}{Earnings\ Per\ Share}$$

4. Book value per share (BVPS)

Book value of equity per share (BVPS), which is the equity available to common shareholders divided by the number of outstanding shares, is the minimum value of a company's equity.

A company is have a high BVPS if investors hope their earnings from the stock is increase; this is why they buy the share. This increase in demand is result in the share's market price rising. It can be presented symbolically as:

$$BVPS = \frac{Total\ Common\ stockholder's\ Equity}{Number\ of\ Common\ Shares}$$

5. Return on assets (ROA)

Return on Assets (ROA) is a type of return on investment (ROI) that measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit it's generating to the capital it's invested

in assets. The higher the return, the more productive and efficient management is in utilizing economic resources. The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. A positive ROA ratio usually indicates an upward profit trend as well. It can be presented symbolically as:

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

6. Size

Size is an important financial measure used to represent the volume of the bank. The size of the firm can be measured in many ways, for example, through turnover, Paid-up capital, capital employed, total assets, net sales, market capitalization, etc. In the present study bank size is measured by total assets scaled in natural logarithm. According to Almumani (2014) size is negatively related to market price of equities However, large banks generally offer better banking services opportunities to customers and borrowers than the smaller ones. The banks by virtue of their higher size generally occupy a stronger and dominant position in the stock market. The shares of large banks are actively traded in the stock exchange; they provide more liquidity and marketability to the investors. Thus, the temptation to buy shares of large banks leads to an increase in the market price of share.

3.5.2 Statistical tools

Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. Statistics are also used to test the objectives that are set to know the information of the population. The research holds various statistical tools, which are defined as follows.

1. Mean ($\overline{X}$)

Among different measures of central location, the best known and the most widely used is the arithmetic mean, or simply the mean. It is the sum of the values divided by their number. It can be calculated for any set of numerical data, so it always exists. The mean can be expressed symbolically as,

$$\text{Mean} \quad \overline{X} = \frac{\sum X}{n}$$

$\overline{X}$ = Arithmetic mean

ΣX = Sum of all the values of the variable X

N= Number of observations

2. Standard deviation (σ)

The standard deviation (σ) measures the absolute description. It is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. If the standard deviation is greater, the magnitude of the deviations also is greater. A small standard deviation means a higher degree of true/ fact and vice-versa. This can be symbolically as:

$$S.D(\sigma) = \sqrt{\frac{1}{n}\sum\left(X - \overline{X}\right)^2}$$

Where,

σ = Standard deviations

n= number of observations

$\overline{X}$ = Arithmetic mean

3. Coefficient of variation (C.V.)

Coefficient of variation (C.V.) is a relative measure of dispersion, which can be obtained by expressing the standard deviation as a percentage of mean. The CV is applicable for the comparison of variability of two or more distributions. It is a relative measure and is independent of units. The greater the value of CV, the higher the variability and the smaller the value of CV, the lower will be the variability. This is given by:

Coefficient of Variation $(C.V.) = \dfrac{\sigma}{\bar{x}} \times 100$

Where,

CV= Coefficient of Variation

σ = Standard deviations

$\overline{X}$ = Arithmetic mean

4. Correlation coefficient (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. The correlation coefficient measures the degree of relationship between two sets of figures. Correlation coefficient is most widely used in practice. Correlation can either be positive or it can be negative. It is denoted by r. Its value lies between -1 to +1. When r = -1, it means, there is perfect negative relationship between the variables and when r = +1, it means, there is perfect positive relationship between the variables. However, in practice such values of r is +1, -1 and 0 are rare. In practical life, the possibility of obtaining either prefect positive or perfect negative correlation is very remote, Gupta, (2000).

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

5. Regression analysis

Regression analysis is the development of the statistical model that can be used to predict the values of the dependent variable based upon the values of at least one independent variable. Regression analysis helps us to know the relative movement in the variables. The Multiple regression method is used in this analysis which can be described as bellows:

Multiple regression analysis

This is defined as a statistical device which is used to predict the most probable value of a dependent variable on the basis of the known value of two or more independent variables so, this is a logical extension of the simple regression analysis. In this study, the following multiple regression equation is analyzed.

MPS = $a + b_1$ EPS + b_2BVPS + b_3 P/E Ratio+ b_4 Size + b_5 ROA…………… (1)

Where, MPS is a dependent variable and EPS, BVPS, P/E Ratio, ROA and Size are independent variables.

3.6 Conceptual framework

The conceptual framework is designed to understand the factors that may affect the market price per share. In view of theories and major empirical evidence, it is expected that the market price per share of commercial banks may be influenced by Earning per share, Dividend per share, price earnings ratio, Book value per share and Return on assets, size of the bank. The conceptual framework is developed to test the effects of these variables on the market price per share of listed commercial banks of Nepal.

Independent Variables   Dependent Variable

Earnings per Share

Price Earnings ratio

Book Value per Share

Return on Assets

Size of firms

Market Price per Share
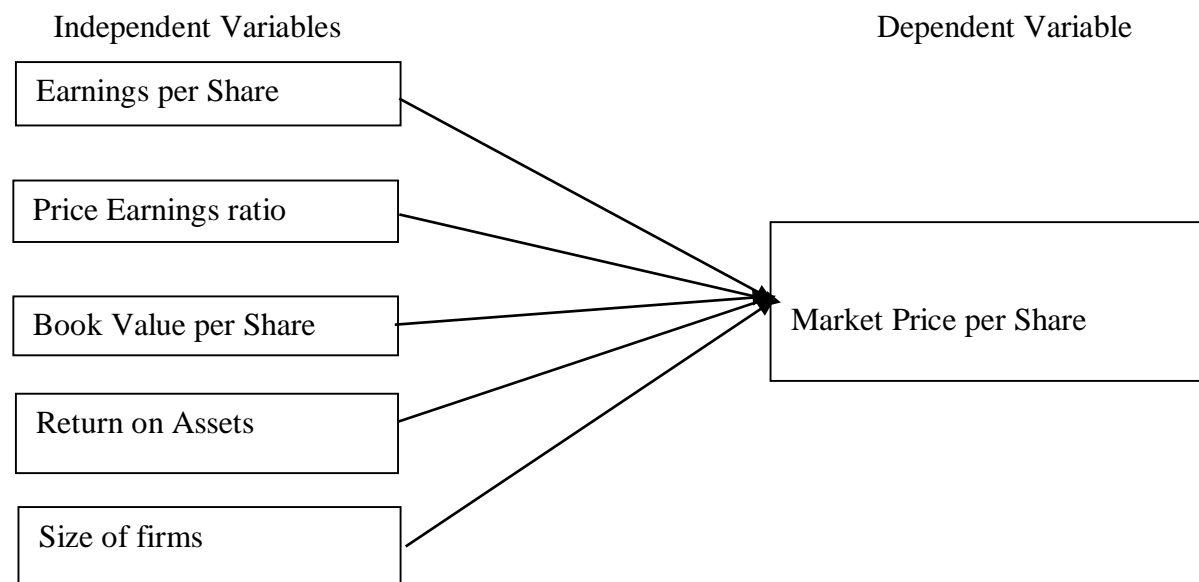
Figure: Schematic Diagram

Source: Silwal and Napit (2019)

The Variables

Market price (MPS)

Stock prices can change minute by minute due to changes in the buying and selling pressure. Due to these changes it becomes difficult to decide as to which market price should be regressed as a measure of independent variables. In the present study the closing price of stock at the end of the financial year of the bank has been taken to represent market price. The market price is used as a dependent variable in the present study.

Earnings per share (EPS)

Earnings per share serve as an indicator of a company's profitability. Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. According to Sharma (2011) the study revealed that earning per share has a significant impact on the market price of share. Bhatt and JK (2012) found that EPS and market value of equity share in the Indian context are positively related.

Price earnings ratio (P/E ratio)

Constand, Freitas, and Sullivan (1991) explained P/E ratio as a common measure used to indicate market assessment of a company's appraisal of share value. It measures the amount that investors are willing to pay for each rupee of the firm's income. The higher the P/E ratio, greater the investor confidence.

Book value per share (BVPS)

Aiyabei, Tobias, and Macharia (2019) pointed out the meaning as the accounting value of a share that is traded publicly. The amount per share of common stock that would be received if all the firm's assets are sold off for their accounting value and the proceeds residual after paying all liabilities. Sharma (2006) revealed that book value per share has a significant impact on the market price of the stock.

Return on assets (ROA)

ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of income to its total asset. Emekekwue (2008) found return on assets as a ratio which seeks to measure the amount of profit generated from the entire assets of the firm.

Size of the bank

Size is an important financial tool used to represent the volume of the bank in many ways, the size of the firm can be measured in several ways, for example, through turnover, Paid-up capital, capital employed, total assets, net sales, market capitalization, etc. In this present study bank size is measured by total assets scaled in natural logarithm. The study conducted by Ramzan (2011) revealed that the firm size has a positive significant relationship with the market price of share.

CHAPTER 4

RESULTS AND DISCUSSION

This chapter deals with data presentation, analysis and interpretation following the research methodology presented in the third chapter. This chapter is the main body of this study. The secondary data are collected in unprocessed form. Such collected data are presented in systematic formats and analyzed using different appropriate tools and techniques in this chapter. The secondary data collected from different sources are presented in an understandable presentation and analyzed separately using quantitative measures whenever are appropriate.

4.1 Analysis of financial variables

Under this topic different financial indicators have been presented and analyzed. This analysis includes:

I.   Market Price of Share (MPS)
II.   Earnings per Share (EPS)
III. Price Earnings Ratio (P/E Ratio)
IV.   Book Value per Share (BVPS)
V.   Return on Assets (ROA)
VI.   Size of the Firm (Size)

4.1.1 Market price per share (MPS)

Simply the market price per share reflects per unit price of the share traded in the market which is determined by demand and supply of stock. This is the most visible price of financial data. The capital market determines the MPS. Market price per share represents the closing market price of the particular share in the fiscal year in NEPSE. The market price per share of selected commercial banks is presented in the following table:

Table 4.1

Analysis of Market Price per Share (MPS in NPR)

Years	BANKS					
	NIC Asia	Sunrise	Megha	Civil	Everest	Laxmi
2012/13	554	232	416	149	1591	309
2013/14	970	510	449	330	2631	588
2014/15	617	395	359	270	2120	400
2015/16	791	748	565	255	3385	876
2016/17	445	396	458	246	1353	390
2017/18	316	230	163	153	663	258
2018/19	448	248	213	158	666	226
2019/20	553	234	201	139	675	209
Mean	586.75	374.12	353	212.5	1635.5	407
S. D.	208.52	183.48	145.40	71.69	1012.53	225.77
C. V.	0.3553	0.4904	0.4119	0.3374	0.6190	0.5547

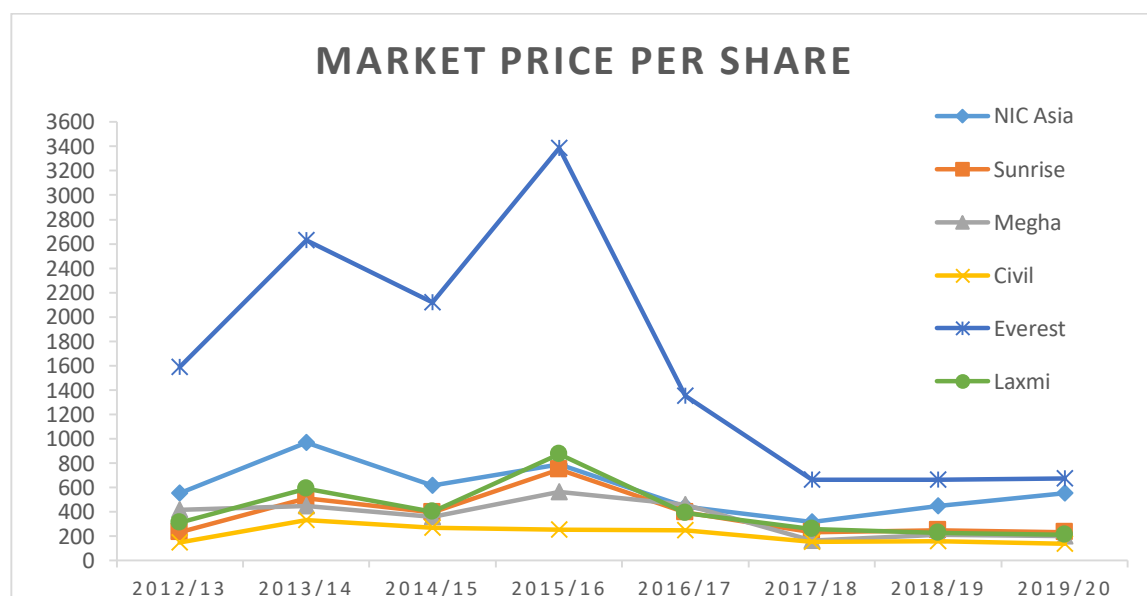Sources: Annual Report of Selected Commercial Banks

Figure 4.1

Market Prices per Share

Table 4.1 and Figure 4.1 shows the descriptive statistics- mean, standard deviation, CV and value of each year Market Price per Share (MPS) and the trends of MPS of selected commercial banks in eight year periods. In each study period Everest has the highest MPS

as compared to other commercial banks. Similarly NIC Asia has the second highest MPS in each year but in 2015/16 Laxmi bank is in second position. Civil has the lowest MPS in each year. It is seen that Everest bank has the highest Average price and highest total risk which is presented by highest Standard deviation. Everest has the highest C.V which indicates the highest variation in MPS. Each bank has the highest MPS in 2015/16, after that all banks are in a decreasing trend. Market price of all commercial banks fluctuates every year of study period.

4.1.2 Earning per share (EPS)

An Earnings per share (EPS) is the share of a stock on the earnings of the company. It refers to the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholder. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. The earnings per share of selected commercial banks can be tabulated and presented in graphs as follows.

Table 4.2

Analysis of Earning per Share (EPS in NPR)

	BANKS					
Years	**NIC Asia**	**Sunrise**	**Megha**	**Civil**	**Everest**	**Laxmi**
2012/13	47.41	15.46	7.61	7.57	91.88	24.78
2013/14	35.98	11.03	13.11	8.24	86.04	26.07
2014/15	25.59	19.27	13.27	7.46	78.04	19.42
2015/16	28.31	23.93	17	6.03	65.97	27.15
2016/17	23.06	16.76	17.31	29.68	32.48	21.77
2017/18	16.62	18.13	12.81	9.69	32.78	14.37
2018/19	34.22	20.94	15.69	8.84	38.05	17.82
2019/20	31.89	15.16	15.15	6.94	29.71	14.39
Mean	30.38	17.58	13.99	10.55	56.87	20.72
S. D.	8.7217	3.6860	2.9092	7.3045	24.6846	4.7176
C. V.	0.28704	0.2096	0.20789	0.69196	0.43406	0.22766

Sources: Annual Report of Selected Commercial Banks

Figure 4.2

Earnings per share
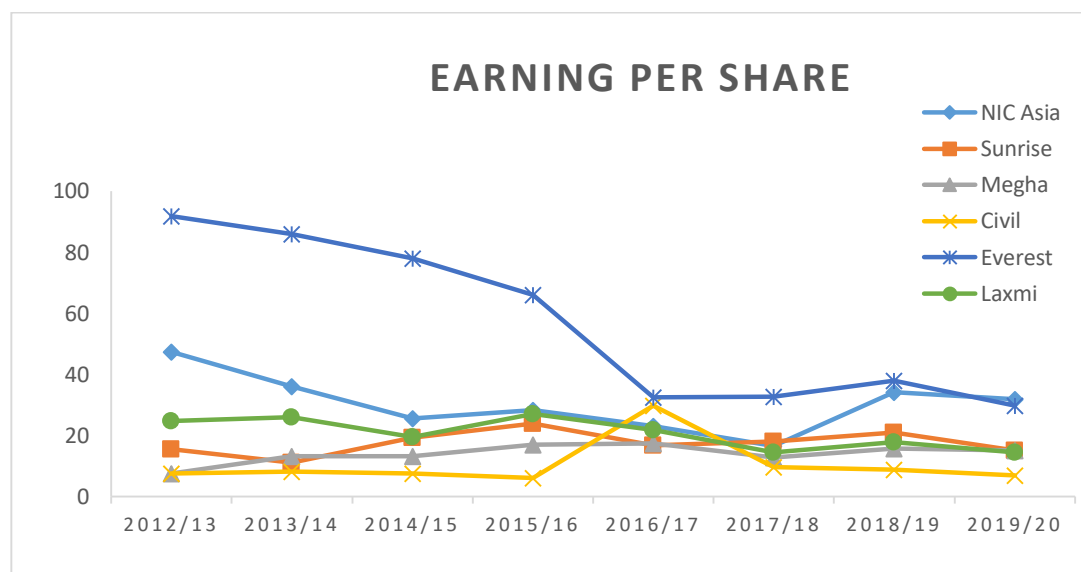
Table 4.2 and Figure 4.2 shows the earning per share of selected commercial banks. The EPS of NIC Asia, Everest bank is in decreasing trend over the study period. EPS of Civil bank is in a fluctuating trend which reached its highest in 2016/17 over its studying period. The EPS of Megha bank and laxmi bank is in increasing trend up to 2016/17 then started to decrease. The EPS of Sunrise bank is on a fluctuating trend. It reached its highest in 2015/16 and decreased in 2019/20. According to table and figure Everest bank has higher average EPS with highest standard deviation. Which indicates the better achievement of the profitability of the bank by mobilizing their funds and vice-versa. In conclusion the EPS of commercial banks is in decreasing trend over the study period.

4.1.3 Price earnings ratio (P/E Ratio)

The Price Earnings ratio of a stock is the market price divided by its EPS. This tells you how other investors view the stock. It relates with the comparison of market value with its earnings per share. The price earnings ratio indicates the extent to which the earnings of each share are covered by its price. It tells whether the share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. The P/E ratio per share of selected commercial banks is presented in the following table:

Table 4.3

Analysis of Price Earnings Ratio (P/E ratio in Times)

| Years	BANKS					
	NIC Asia	Sunrise	Megha	Civil	Everest	Laxmi
2012/13	11.69	15	54.66	19.69	17.32	12.47
2013/14	26.96	46.22	34.24	40.02	30.58	22.55
2014/15	24.11	20.5	27.05	36.19	21.17	20.6
2015/16	28.19	31.26	33.23	42.32	51.31	32.26
2016/17	13.3	23.63	26.47	8.29	41.66	17.19
2017/18	19.01	12.69	12.73	15.79	20.23	17.96
2018/19	13.09	11.84	13.58	17.88	17.5	12.68
2019/20	17.34	15.44	13.27	20.04	22.72	14.53
Mean	19.21	22.07	26.90	25.03	27.81	18.78
S. D.	6.5157	11.7056	14.2866	12.6396	12.5102	6.51947
C. V.	0.33916	0.53032	0.53102	0.50503	0.44982	0.34715

(Sources: Annual Report of Selected Commercial Banks)

Figure 4.3

Price Earnings ratio
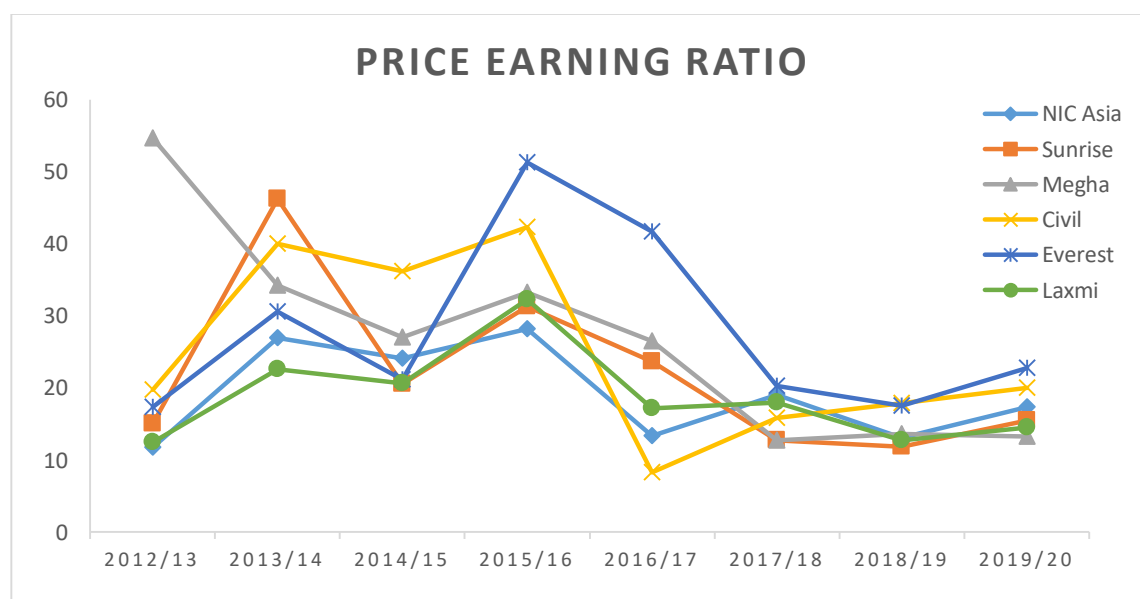
Table 4.3 and Figure 4.3 shows descriptive statistics- mean, standard deviation, CV and price earnings ratio associated with selected commercial banks for eight year periods. According to table 4.3and figure 4.3 in 2012/13, Megha bank and NIC Asia have the lowest price earnings ratio compared to other commercial banks. In 2015/16, 2016/17 & 2017/18 EBL had a higher P/E ratio than other commercial banks. In the year 2019/20 Everest bank has the highest price earnings ratio and Megha bank has the slowest P/E ratio.

4.1.4 Book value per share (BVPS)

Book value of equity per share (BVPS), which is the equity available to common shareholders divided by the number of outstanding shares, is the minimum value of a company's equity. A company will have a high BVPS if investors hope their earnings from the stock will increase; this is why they buy the share. This increase in demand will result in the share's market price rising. The book value per share of selected commercial banks can be tabulated and presented in graph as follows:

Table 4.4

Analysis of Book Value per Share (BVPS in NPR)

| Years | BANKS | | | | | |
	NIC Asia	Sunrise	Megha	Civil	Everest	Laxmi
2012/13	190	121.24	105.16	101.91	291.53	160.6
2013/14	211	120.48	117.65	105.14	296.3	162.96
2014/15	207	112.63	117.78	106.66	335.6	177.36
2015/16	161	115.91	128.65	108.04	370.84	185.88
2016/17	151	117.15	127.56	138.45	290.02	140.76
2017/18	145	141.73	122.84	135.69	200.01	135.71
2018/19	169.07	150.51	130.06	126.84	218.58	141.81
2019/20	177.43	149.35	137.09	127.07	219.56	142.42
Mean	176.4375	128.63	123.35	118.73	277.81	155.94
S. D.	24.6157	15.8127	9.8145	14.8295	60.5068	18.7019
C. V.	0.139515	0.122936	0.079567	0.124907	0.217803	0.119933

Sources: Annual Report of Selected Commercial Banks

Figure 4.4

Book Value per Share

BOOK VALUE PER SHARE
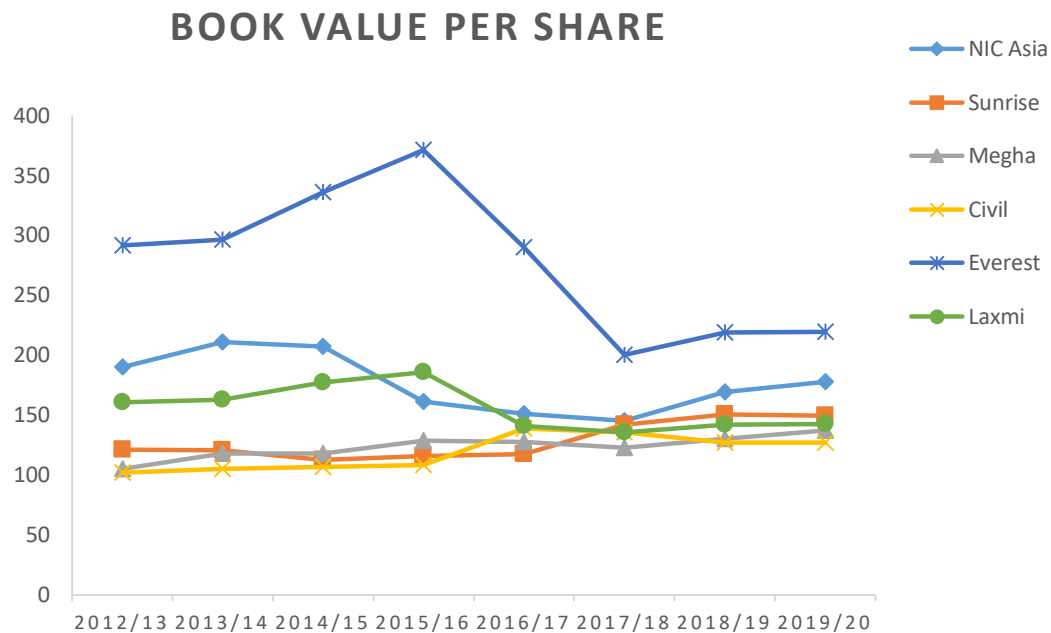
Table 4.4 and Figure 4.4 shows descriptive statistics- mean, Standard deviation, CV and Book Value per Share (BVPS) associated with selected commercial banks for eight year periods. According to table and figure, EBL has the highest book value per share over the study period & BVPS of NIC Asia is in second position. The book value per share of Sunrise bank has increased after the year 2017/18. The book value per share of Megha bank is in increasing trend over the study period. The BVPS of the civil bank increased up to 20216/17 then started to decrease thereafter. The BVPS of Laxmi Bank reached its highest in 2015/16. It is seen that EBL has the highest average BVPS and C.V which indicates the highest variation in BVPS.

4.1.5 Return on assets (ROA)

Return on Assets (ROA) is a type of return on investment (ROA) that measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit it's generating to the capital it's invested in assets. The higher the return, the more productive and efficient management is in utilizing economic resources. The return on assets ratio, often called the return on total

assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period. The return on assets of selected commercial banks can be tabulated and presented in graph as follows:

Table 4.5

Analysis of Return on Assets (ROA in %)

	BANKS					
Years	NIC Asia	Sunrise	Megha	Civil	Everest	Laxmi
2012/13	1.33	1.19	1.16	0.67	2.39	1.5
2013/14	1.58	0.83	1.56	0.94	2.25	1.47
2014/15	1.21	1.26	1.38	0.76	1.85	1.04
2015/16	1.51	1.62	1.79	0.01	1.85	1.35
2016/17	1.64	1.65	1.74	0.04	1.83	1.52
2017/18	0.97	1.78	2.34	0.01	1.97	1.55
2018/19	1.56	1.8	1.68	1.13	1.94	1.66
2019/20	1.32	1.17	1.64	0.72	1.42	1.2
Mean	1.39	1.4125	1.66125	0.535	1.9375	1.41125
S. D.	0.2265	0.3496	0.3433	0.4499	0.2923	0.2037
C. V.	0.16297	0.2475	0.20664	0.8410	0.15087	0.14435

Sources: Annual Report of Selected Commercial Banks

Figure 4.5

Return on Assets
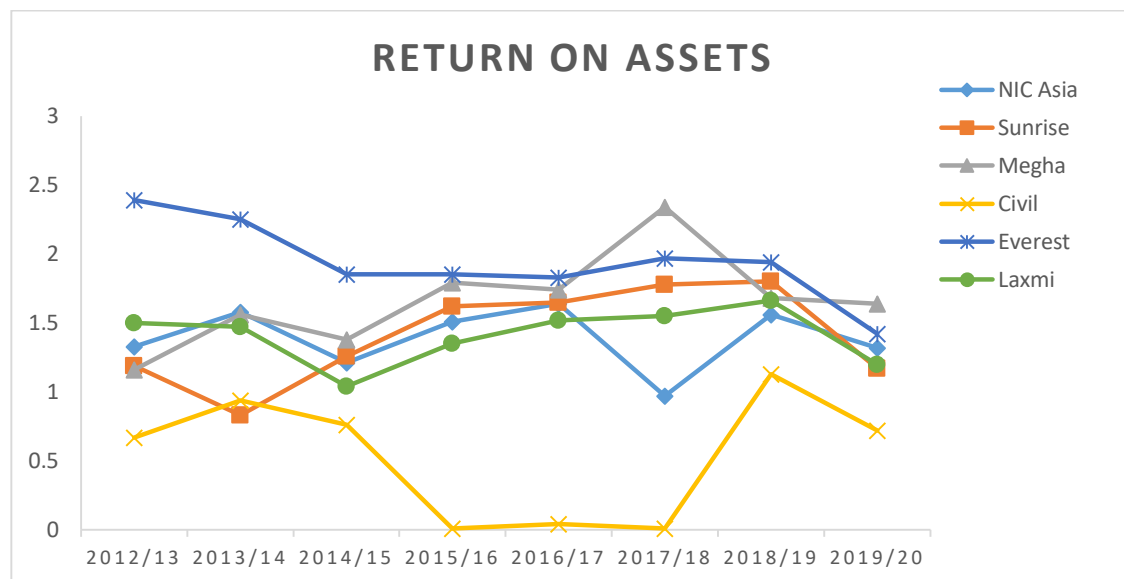
Table 4.5 and Figure 4.5 shows mean, Standard deviation, CV and Return on Assets (ROA) associated with selected commercial banks for an eight year period. According to figures, Everest bank has higher average Return on Assets in study period which indicates the Everest bank has efficiently utilizing its total assets among the other banks. The figure shows that civil bank has the lowest ROA comparison to other banks. The ROA of Megha bank reached its highest in 2017/18. ROA of all banks decreased in 2019/20.

4.1.6 Size of the firm (Size)

Size is an important financial measure used to represent the volume of the bank. The size of the firm can be measured in many ways, for example, through turnover, Paid-up capital, capital employed, total assets, net sales, market capitalization, etc. In the present study bank size is measured by total assets scaled in natural logarithm. The size of selected commercial banks can be tabulated and presented in graphs as follows:

Table 4.6

Analysis of Size of the firm (Size in Ln)

	Banks					
Years	NIC Asia	Sunrise	Megha	Civil	Everest	Laxmi
2012/13	24.56	23.99	23.58	23.62	24.91	24.12
2013/14	24.66	24.11	23.74	23.96	24.98	24.27
2014/15	24.83	24.34	23.93	24.14	25.32	24.52
2015/16	25.11	24.8	24.4	24.29	25.46	24.73
2016/17	25.32	24.99	24.59	24.47	25.48	24.99
2017/18	25.86	25.14	25.09	24.67	25.7	25.12
2018/19	26.12	25.27	25.32	24.86	25.86	25.4
2019/20	26.25	25.48	25.77	25.06	25.94	25.48
Mean	25.34	24.76	24.55	24.38	25.46	24.83
C. D.	0.6645	0.5566	0.7908	0.4788	0.3781	0.5044
C. V.	0.02622	0.02247	0.032211	0.01963	0.01485	0.02031

Sources: Annual Report of Selected Commercial Banks

Figure 4.6

Size of the firm
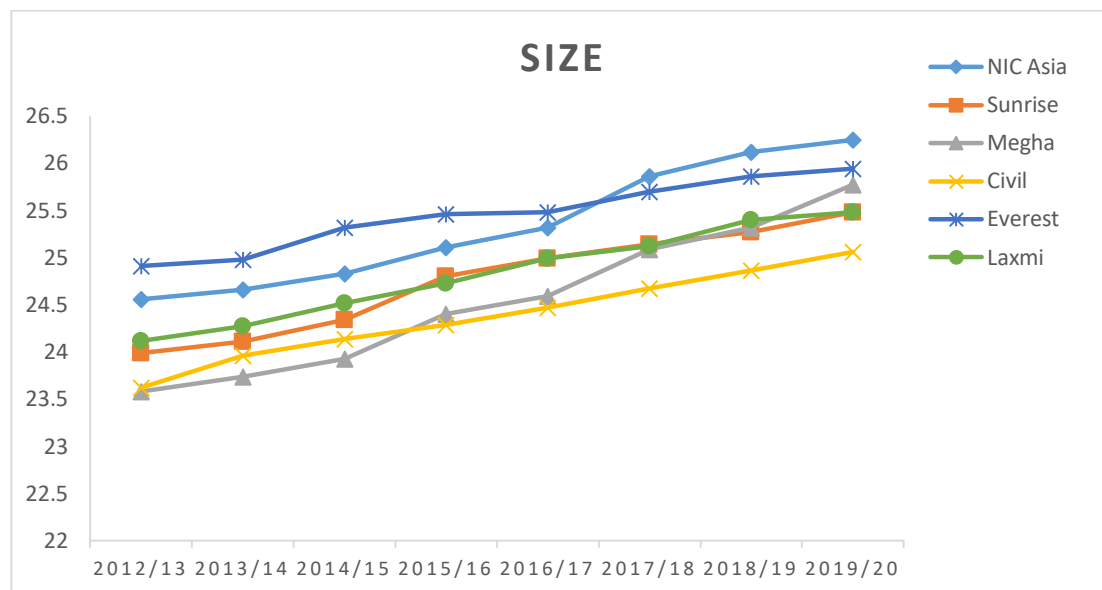
Table 4.6 and Figure 4.6 shows descriptive statistics- mean, standard deviation, CV and size of firm associated with selected commercial banks for an eight year period. According to table and figure 4.6 in fiscal year 2012/13, Everest bank has the highest total asset scale in natural logarithm while Megha bank has lowest. From the year 2017/18 NIC Asia has the highest total asset scale in natural logarithm among the all banks.

4.2 Presentation of statistical variables

Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. This analysis includes Correlation coefficient and the Regression coefficient between the following financial variables have been calculated and interpreted.

4.2.1 Bivariate correlations

The bivariate correlation analysis is used to assess the relationship between two variables. The bivariate correlation analysis results have been presented in Table 4.7

Table 4.7

Bivariate correlation analysis

	MPS	EPS	P/E ratio	BVPS	ROA	SIZE
MPS	1					
EPS	0.840**	1				
P/E ratio	0.409**	-0.004	1			
BVPS	0.889**	0.781**	0.135**	1		
ROA	0.445**	0.529**	-0.091*	0.474**	1	
Size	0.188	0.300*	-0.385**	0.417**	0.377*	1

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

*. Correlation is significant at the 0.05 level (2 –tailed).

According to table 4.7, the highest correlation has been observed to be 0.889 between MPS and BVPS. The market price of share is positively related to all independent variables i.e. earnings per share, price earnings ratio, book value per share, return on assets and size of the banks. The result shows that higher the earning per share, price earnings ratio, book value per share, return of assets and size of the firm, higher would be the market price per share.

4.2.2 Regression analysis

The regression analysis is carried out to determine whether the dependent variable is Influence by the given independent variables or not. In this analysis MPS is dependent Variables and EPS, P/E ratio, BVPS ROA and size are independent variables. The equation of regression model is as follow:

$$MPS = a + b_1 \text{ EPS} + b_2 \text{ P/E ratio} + b_3 \text{ BVPS} + b_4 \text{ ROA} + b_5 \text{ size}$$

Table 4.8

Variation in MPS Explained by EPS, P/E ratio, BVPS, ROA & Size

(Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.958[a]	.919	.909	192.99577

a. Predictors: (Constant) SIZE, EPS, PE ratio, ROA, BVPS

As shown in table 4.8 of the model summary, which explains the total variation in MPS explained by EPS, P/E ratio, BVPS, ROA & SIZE. The value of coefficient of multiple determinations R Square is 0.919. This implies that the variation in MPS can be explained by 91.9% independent variables (EPS, P/E ratio, BVPS, ROA & SIZE) at 95% confidence interval. The chance of error of the estimate is 192.99577. In other word, finding the coefficient of multiple determination R Square shows that 91.9% changes in MPS of Nepalese commercial banks could be accounted to changes in EPS, P/E ratio, BVPS, SIZE & ROA and remaining 8.1% are contributed by other factors. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a highly significantly positive relationship between the study variables as shown by 0.958[a]. This result is complimented by the adjusted R- square of about 91.9 %, which is essentially the proportion of total variance that is explained by the model. The table 4.9 below shows the Analysis of Variance (ANOVA).

Table 4.9

Goodness of Fit of Regression (ANOVA[a])

Model		Sum of Square	D.F	Mean Square	F	Sig.
	Regression	17666677.89	5	3533335.578	94.861	.000[b]
1	Residual	1564389.423	42	37247.367		
	Total	19231067.31	47			

From the ANOVA statistics in table 4.9 above, the processed data which is the population parameters, had a significance level of 0. 00[b]% which shows that the data is ideal for making a conclusion on the population's parameters as the value of significance (p- value) is less than standard (5%). The Fisher's ratio (i.e., the F- statistics) which is the proof of the validity of the estimated model as reflected in the table. 4.8, indicates that, the F values is about 94.861 and a P- value or F (sig) that is equal to 0.00[b] this invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. That is, they strongly determine the behavior of the market values of share prices.

The regression results for the independent effect of EPS, P/E ratio, BVPS, ROA and Size on MPS is shown in table 4.10 below.

Table 4.10

Regression Result for Independent Effect of EPS, P/E ratio, BVPS, ROA and Size on MPS (Coefficients)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-833.391	1403.126		-0.594	.556
EPS	13.902	3.545	.423	3.922	.000
P/E Ratio	20.167	3.200	.350	6.302	.000
BVPS	4.662	1.183	.453	3.942	.000
ROA	50.932	65.310	.042	.780	.440
SIZE	-8.942	58.138	-.009	-.154	.879

a. Dependent Variable: MPS

From the table 4.10 regression model, Earning per share (EPS), Price Earnings ratio (P/E ratio), Book Value per Share (BVPS), Return on Assets (ROA) and Size of Nepalese commercial banks to a constant zero, Market per Share of Nepalese commercial banks would be -833.391, its established that a unit increase in level of EPS would cause to an

increase in MPS by a factor of 13.902, a unit increase in P/E ratio lead to increase in MPS by a factor of 20.167, a unit increase in BVPS would cause increase in MPS by a factor of 4.662, a unit increase in ROA leads to increase in MPS by a factor of 50.923and a unit increase in SIZE leads to decrease in in MPS by a factor of 8.942 of Nepalese commercial banks. From the above finding there is a positive relationship between MPS and EPS,P/E ratio, BVP and ROA but negative relationship between MPS and Size of the bank. The study further revealed that the P- value was less than 5% EPS, P/E ratio and BVPS, which shows that there are three independent variables, is statistically significant for this study at 95% confidence level. Thus this means that EPS, P/E ratio & BVPS has a significant influence on MPS.

From table 4.10 we find the following result.

i. There is a significant positive relationship between MPS and EPS (i.e. p- value $0.000<0.05$).

ii. Another empirical finding from the regression analysis shows that there is a significant positive relationship between MPS and P/E ratio (i.e. p- value $0.000<0.05$).

iii. There is a significant positive relationship between BVPS and MPS, because p-value is 0.000.

iv. There is an insignificant positive relationship between ROA and MPS of Nepalese commercial banks (i.e. p- value $0.440>0.05$).

v. There is an insignificant negative relationship between SIZE and MPS of Nepalese commercial banks (i.e. p-value $0.879>0.05$).

4.3. Findings

i. According to market price per share analysis, EBL has highest average price per share i.e. NPR.1635.5 and Civil bank has lowest average price per share i.e. NPR. 212.5.

ii. According to EPS analysis, the average EPS of all commercial banks under the study are positive. The Everest bank has a heights average EPS i.e. NPR.56.87 and Civil has lowest average EPS i.e.NPR.10.56.

iii. According to the P/E ratio, Everest bank has the highest average price earnings ratio i.e.27.81 times. It means that when there is 1unit increase in earnings, the share prices will increase by NPR. 27.81. Megha bank has the lowest average price earnings ratio i.e.13.27.

iv. According to book value per share analysis, BVPS of all commercial banks lies in between NPR. 118.73 To NPR. 277.805. Everest bank has the highest fluctuation in BVPS while Megha bank has lowest fluctuation in BVPS during the period of study.

v. According to return on assets, Everest bank has the highest average ROA (i.e. 1.94%). Civil bank has the lowest average ROA (i.e. 0.535%).

vi. According to size of the bank, Everest bank has the highest average size of the bank (i.e. Ln 25.456) which is based on total assets scaled in natural logarithm. Civil bank has the lowest average size (i.e. Ln 24.3837).

vii. From the bivariate correlation analysis, the market price per share (MPS) of sampled banks is positively correlated with all independent variables (EPS, P/E ratio, BVPS, ROA & Size). It indicates that increase in EPS, P/E ratio, BVPS, ROA & size of the commercial banks lead to increase in MPS of these banks and vice - versa.

viii. There is positive correlation between MPS and EPS of commercial banks (i.e. 0.840) which means that higher the EPS higher would be the MPS.

ix. There is a positive correlation between MPS and P/E ratio of commercial banks (i.e.0.409) which means that higher the P/E ratio higher would be the MPS.

x. There is a positive correlation between MPS and BVPS of commercial banks (i.e.0.889) which means that BVPS is a most influential factor that determine stock price in Nepal.

xi. There is positive correlation between MPS and ROA of commercial banks (i.e. 0.445) which means that higher the ROA higher would be the MPS.

xii.   There is positive correlation between MPS and SIZE of commercial banks (i.e. 0.188) which means that higher the size of the bank higher would be the MPS.

xiii.   The coefficient of multiple determination of the equation is 0.919. This means the variables EPS, P/E ratio, BVPS, ROA and SIZE are responsible for determining stock price by 91.9 % and the rest 8.1 % are unexplained on determining the stock price

xiv.   The multiple regressions shows that the regression coefficients are positive for earning per share, price earnings ratio, book value per share and return on assets. Similarly, regression coefficients is negative for size of the bank.

xv.   The tests of P-value explain that the relationship of MPS with EPS, P/E ratio, BVPS, ROA and SIZE of the bank at 5% level is significant. Since the P-value of EPS, P/E ratios and BVPS are less than 0.05 which mean that EPS, P/E ratio and BVPS significantly affect the Market prices. The P- value of ROA and SIZE of the banks is more than 0.05 which means that ROA and SIZE of the bank have insignificant impact on share prices of Banks.

4.5 Discussion

This study used descriptive and multiple regression analysis to examine the factors affecting the Market share price of Nepalese commercial banks. Appropriate research methodology has been used. Secondary data were collected for the annual report of selected commercial banks. To obtain the result of the study different financial and statistical tools are used.

From the regression model the results revealed that book value per share, earning per share and price earnings ratio have significant positive relationship with market price of Nepalese commercial banks. Which means increase in book value per share, earning per share and price earnings ratio increases market price per share and vice-versa. Return on assets and size of the bank has a statistically insignificant relationship with stock price. The result concludes that book value per share is a most influential factor that determines the stock price in Nepal.

The result of BVPS having a positive significant relationship with MPS is consistent with Bhattarai (2020), Silwal and Napit (2019), Tandon, Malhotra and Technology (2013). Which reveals that BVPS is a most influential factor that determine the stock price. This may be because BVPS indicates the sound financial performance of the company. High book value usually indicates that the company had a good record of past performance.

The result of EPS having positive significant relationship with the MPS is consistent with Bhattarai (2020), Silwal & Napit (2019), Pradhan & Dahal (2016), Almumani (2014), Arshad, Arshaad, Yousaf, & Jamil (2015) which reveals that EPS is a determining factor that affect the MPS. This may be because EPS is an indicator of the company's profitability and increase in EPS means increase in the profits of the company as well as the returns for the investors. As a result, the investors demand for such stocks that have EPS on the rise.

Similarly, the result of PE having a positive significant relationship with MPS is consistent with the findings of Bhattarai (2020), and Pradhan & Dahal (2016) which reveals that P/E ratio is a determining factor that affect the MPS. This may be because an increase in PE ratio signals a promising future in the eyes of the investors. In general, a high PE ratio suggests that investors are expecting higher earnings growth in the future compared to companies with a lower PE ratio (Bhattarai, 2014). The investors are putting their funds in the shares to gain returns at present and in future. So, the rise in PE suggests that investors expect more returns. As a result, they demand more of such stocks and eventually create an increase in the stock price.

Meanwhile, the result of ROA having an insignificant relationship with MPS is consistent with Naveed and Ramzan (2013) but inconsistent with the findings of Pradhan & Dahal (2016) and Almumani (2014). The contradiction in results may be because the previous researches were done using a different time period and market.

The result of size obtained from the research is consistent with Silwal and Napit (2019).The study conclude that size of the bank has insignificant negative relationship with stock price. The result is inconstant with Baral and Pradhan (2016) because Baral and Pradhan revealed that size is the most important determining variable that affects the market price but this research size has insignificant relation with MPS. This may be the time gap period of study and knowledge of the people about the financial market and awareness towards other variables that affect the market price.

CHAPTER 5

SUMMARY AND CONCLUSION

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

5.1 Summary

This chapter provides a brief summary of the entire body and highlights the major findings of the study .The objective of the study was to investigate the internal factors affecting stock price of Nepalese commercial banks. In doing so, the study could contribute immensely to the scarce literature in the area of corporate finance in the Nepalese context. Chapter one gave a detailed background of market price and objectives of the study. Further, the chapter discussed. The chapter also focused on the significance of the study, limitations and the organization of the study.

The basic objective of this study is to examine the relationship between internal factors (EPS, P/E ratio, BVPS, ROA and SIZE) and its impact on stock price in the context of Nepalese commercial banks. The specific objectives of this study are (1) to analyze the current status MPS of Nepalese commercial banks, (2) to examine the current status of EPS, P/E ratio, BVPS, ROA and SIZE, (3) to examine the impact of EPS, P/E ratio, BVPS, ROA and SIZE on stock price of Nepalese commercial banks. The main objective of the research is assessing the relationship between internal factors and market price of commercial banks.

Chapter two presented the review of theoretical literature on securities market and share prices. Different stock valuation models are also discussed in this chapter. Different theories of stock price are also discussed in this part. So many international articles and theses related to factors affecting the share prices of commercial banks are also reviewed in this section. The chapter also focused on the critical review of major issues followed by the summary and gaps to be filled by the study. The study attempts to explore the various factors affecting the Market share price of Nepalese commercial banks.

Chapter three was structured around research design, target population, sample design, data collection procedures and instruments, and data analysis and presentation. The sample comprised of 6 sampled commercial banks (i.e. NIC Asia, Sunrise, Megha, Civil, Everest and Laxmi bank) from a total population of 27 commercial banks by using a convenient sampling method that met the eligibility criteria. To achieve the objectives of the study, descriptive and causal comparative research design has been employed.

Chapter four presented and discussed the results of empirical testing of factors affecting the share prices of commercial banks. Data are analyzed by using appropriate financial, descriptive and analytical tools. In the analysis part, interpretation and comments are also made wherever necessary. Major findings of the study were also pointed out in this chapter.

5.2 Conclusion

The study of factors affecting the share prices of commercial banks has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially in the banking sector to identify the factors that influence share prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effect of earnings per share, price earnings ratio, book value per share, return on assets and size on the share price of commercial banks listed on Nepal stock exchange limited.

The findings of the study over the period of 2012/13 to 2019/20 revealed that earning per share, price earnings ratio and book value per share have the significant positive association with share price while return on assets and size of the banks have no explanatory power toward stock price movement. It means if earnings per share, price earnings ratio and book value per share increases, the price of share will also increase and vice-versa. But return on assets and size of the bank does not affect the share price. It means if return on assets and size of the bank increases there is no guarantee that the prices of share will also increase and vice-versa. The study concludes that earnings per share, price earnings ratio and book value per share are the major determinants of share price of Nepalese commercial banks.

The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seem to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices.

5.3 Implication

This study also has several implications pointing to interesting avenues for future research. Some implications and suggestions for future research are discussed here.

5.3.1 General implication

i.   Based on the findings of the study, investors and portfolio analysts can use the information regarding the factors they should consider for their investment decisions and while predicting the stock market prices. The result of this study suggests investors should pay their attention to BVPS, EPS and P/E ratio before making any decisions regarding the investment in stock of the commercial banks.

ii. This study examined the internal factors that affect the share price of commercial banks listed on the NEPSE. The variables chosen were firm specific variables and may not be the only variables that affect share prices. It is recommended that further research could be conducted to establish whether macro-economic variables affect stock price for firms listed in the NEPSE.

iii. There is a need to conduct an event study on the factors affecting the share price for listed commercial banks at the NEPSE and by extension, on emerging markets. In addition, research could be conducted on factors affecting market returns in Nepal. Despite a lot of literature in this area, internal factors like (EPS, BVPS, P/E ratio, ROA and Size) are vital elements of commercial banks. This thesis revealed much on the factors affecting the stock price in Nepalese commercial banks and hence has contributed immensely in the area of banking sector in Nepal.

iv. This study acts as a guide to potential investors in Nepal to focus on the factors discussed above before making investment decisions. Nepal is an economy with lots of opportunities and it is imperative to conduct studies which will benefit the investors to make rational investors.

v.   Since the general public are unaware about the share market, an organized effort is necessary to make the public aware of it. A separate department in NEPSE or an independent organization is recommended which analyses, inform and create the awareness within the emerging potential investors about share and share market

through different approaches like seminar, advertisement, conference or print, air media.

5.3.2 Implication for future studies

This study has portrayed some crucial results and one avenue for future research is to extend the study to other emerging markets.

i. This result is basically from "A" class financial institution of Nepal. Thus, the future study may incorporate other financial sectors such as development banks, insurance finance companies and micro- finance companies.

ii. The study is entirely based on secondary data and does not include the preference of different investors and other stakeholders. Therefore, future studies can be based on using primary data or both primary and secondary data.

iii. The sample size and time period taken for the study is limited so future study can be carried out by taking a large sample size for a longer time period. The model used in this study is limited on multiple linear regressions. Thus other models can be taken to set a model and examine the impact of corporate governance on the capital structure of Nepalese commercial banks.

iv. Finally, future studies can use some advanced statistical tools. For example, future studies can use non-linear statistical tools and bidirectional causality tools.

v. The study is limited to Nepalese commercial banks. Therefore, the findings of this study could only be generalized to firms similar to those that were included in this research.

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Appendix I

Correlations

		MPS	EPS	PEratio	BVPS	ROA	SIZE
MPS	Pearson Correlation	1	.840**	.409**	.889**	.445**	.188
	Sig. (2-tailed)		.000	.004	.000	.002	.202
	N	48	48	48	48	48	48
EPS	Pearson Correlation	.840**	1	-.004	.881**	.529**	.300*
	Sig. (2-tailed)	.000		.976	.000	.000	.038
	N	48	48	48	48	48	48
PE ratio	Pearson Correlation	.409**	-.004	1	.135	-.091	-.385**
	Sig. (2-tailed)	.004	.976		.360	.538	.007
	N	48	48	48	48	48	48
BVPS	Pearson Correlation	.889**	.781**	.135	1	.474**	.417**
	Sig. (2-tailed)	.000	.000	.360		.001	.003
	N	48	48	48	48	48	48
ROA	Pearson Correlation	.445**	.529**	-.091	.474**	1	.377**
	Sig. (2-tailed)	.002	.000	.538	.001		.008
	N	48	48	48	48	48	48
SIZE	Pearson Correlation	.188	.300*	-.385**	.417**	.377**	1
	Sig. (2-tailed)	.202	.038	.007	.003	.008	
	N	48	48	48	48	48	48

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

*. Correlation is significant at the 0.05 level (2-tailed).

Appendix II

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958[a]	.919	.909	192.99577

a. Predictors: (Constant), SIZE, EPS, PE ratio, ROA, BVPS

Appendix III

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17666677.890	5	3533335.578	94.861	.000[b]
	Residual	1564389.423	42	37247.367		
	Total	19231067.313	47			

a. Dependent Variable: MPS

b. Predictors: (Constant), SIZE, EPS, PE ratio, ROA, BVPS

Appendix IV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-833.391	1403.126		-.594	.556
	EPS	13.902	3.545	.423	3.922	.000
	PEratio	20.167	3.200	.350	6.302	.000
	BVPS	4.662	1.183	.453	3.942	.000
	ROA	50.932	65.310	.042	.780	.440
	SIZE	-8.942	58.138	-.009	-.154	.879

a. Dependent Variable: MPS