

RISK & RETURN ANALYSIS OF COMMON STOCK INVESTMENT

(A Case of Selected Joint Venture Commercial Banks of Nepal)

By

Ravi Rana

Lumbini Banijya Campus

T.U Registration No. 7-1-52-116-97

Symbol No : 1071/2063

A Thesis Submitted to

Office of Dean

Faculty of Management

Tribhuvan University

**In partial fulfillment of the requirements for Master's
Degree in Business Studies (MBS)**

Butwal, Nepal

February, 2009

Tribhuvan University
Lumbini Banijya Campus
Butwal-13
Nepal

Date:

VIVA-VOCE SHEET

We have conducted the Viva-voce examination of the thesis

Entitled

Risk & Return Analysis of Common Stock Investment
(A Case of Selected Joint Venture Commercial Banks of Nepal)

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Master's Degree in Business Studies (MBS).

VIVA-VOCE COMMITTEE

Chairperson, Research Committee: Dr. Ishwor Gautam.....

Member (Thesis Supervisor): Mr. Surya Bahadur Rana

Member (External Expert):

Date :

Tribhuvan University
Lumbini Banijya Campus
Butwal-13
Nepal

Date:

RECOMMENDATION

This is to certify that the thesis

Submitted by
Ravi Rana

Entitled

Risk & Return Analysis of Common Stock Investment
(A Case of Selected Joint Venture Commercial Banks of Nepal)

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

Supervisor

.....

Surya Bahadur Rana

Lecturer

Lumbini Banijya Campus

Butwal

Date:.....

Head of Research Department

/Campus Chief

.....

Dr. Ishwor Gautam

Lumbini Banijya Campus

Butwal

Date:.....

DECLARATION

I, hereby, declare that the work reported in this thesis entitled "*Risk and Return Analysis of Common Stock Investment (A Case of Selected Joint Venture Commercial Banks of Nepal)*" submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of the Degree of Master's in Business Studies (M.B.S) under the guidance and supervision of Mr. Surya Bhadur Rana, Lecturer of Lumbini Banijya Campus.

Ravi Rana

ACKNOWLEDGEMENT

I express my gratitude to Dr. Ishwor Gautam, (Head of Department, Research Committee) and Campus Chief of Lumbini Banijya Campus for his kind inspiration in completing this work. I would like to express my indebtedness to my respected Supervisor and Lecturer of Lumbini Banijya Campus Mr. Surya Bhadur Rana, for his valuable suggestion, active guideline devotion of time to complete this dissertation timely. I would also like to thank Mr. Tara Prasad Upadhyaya (Gyawali), the lecturer of Lumbini Banijya Campus for his valuable suggestion and support.

I also owe my indebtedness to all reputed authors whose writing have guided me with their invaluable writing and materials for enrichment to my study and knowledge in all possible ways. I would like to express my thanks and sincere appreciation to the staff of Lumbini Banijya Campus, staff of related corporate bodies including NEPSE, SEBO/N and NRB for providing necessary data.

I would like to extend my heartily thanks to my parents, respected mother Ishwori Rana, my wife Mrs. Anu Rana and all the members of my family who inspired me in many ways to cope during the entire period of thesis.

Finally, I would like to extend my gratefulness to my friends Mr. Bikash Gurung, Mr. Sushil Kumar Shrestha and Mr. Dilip Gaire who helped me a lot in collecting the reference materials and going through my research paper many times.

.....
Ravi Rana

ABBREVIATION USED

ABBS	=	Any Branch Banking System
A.D.	=	Anon Domino
ATM	=	Automated Teller Machine/Any Time Money
B.S.	=	Bikram Sambat
	=	Beta Coefficient
CAPM	=	Capital Assets Pricing Model
CEO	=	Chief Executive Officer
CML	=	Capital Market Line
CPI	=	Consumer Price Index
CS	=	Common Stock
C.V.	=	Coefficient of Variation
DBL	=	Dubai Bank Limited
Div.	=	Dividend
DPS	=	Dividend Per Share
EBI	=	Emirates Bank International
EBL	=	Everest Bank Limited
EPS	=	Earning Price per Share
ESAP	=	Enhanced Structural Adjustment Program
F/Y	=	Financial Year
HBL	=	Himalayan Bank Limited
INR	=	Indian Rupee
IFIC	=	International Finance and Investment Company
JVB	=	Joint Venture Bank
K_{avg}	=	Average Rate of Return
Ltd.	=	Limited
MPS	=	Market Price Per Share
N	=	Number of Observation
Nabil	=	Nepal Arab Bank Limited

NBL	=	National Bank Limited
NEPSE	=	Nepal Stock Exchange Limited
NGBL	=	Nepal Grindlays Bank Limited
NIDC	=	Nepal Industrial Development Corporation
NRB	=	Nepal Rastra Bank
OTC	=	Over-the-counter
P/E ratio	=	Price Earning Ratio
P.M.	=	Post Meridian
P./Pvt.	=	Private
POS	=	Point of Sale
SAARC	=	South Asian Association of Regional Co-operation
SAPTA	=	South Asian Preferential Trading Agreement
SCBL	=	Standard Chartered Bank Limited
S.D./ σ	=	Standard Deviation
SEA	=	Security Exchange Act
SEBO/N	=	Securities Board of Nepal
SMC	=	Security Market Centre
SML	=	Security Market Line
T.U.	=	Tribhuvan University
U.S.	=	United state
	=	Sum
R	=	Expected Return

Table of Contents

	Page
Declaration	I
Acknowledgement	II
Abbreviation Used	III
Table of Content	V
List of Tables	VIII
List of Figure	IX
CHAPTER 1: INTRODUCTION	
1.1 Background of the Study	1
1.2 Focus of the Study	5
1.3 Statement of Problems	6
1.4 Objectives of the Study	6
1.5 Significance of the Study	7
1.6 Limitation of the Study	7
1.7 Organization of the Study	8
CHAPTER 2: REVIEW OF LITERATURE	
2.1 Introduction	10
2.2 Conceptual Review	10
2.2.1 Common Stock Return	11
2.2.2 Riskiness of Common Stock	12
2.2.3 Systematic and Unsystematic Risk	14
2.3 Review From Related Studies	18
2.3.1 Review From Journals	18
2.3.2 Review From Nepalese Studies	20
2.3.3 Review From Masters Degree Dissertation	23

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design	29
3.2 Population Sample and Sampling method	29
3.3 Data Collection Procedure	30
3.4 Sample Characteristics	30
3.5 Method of Data Analysis	30
3.5.1 Market Price of Stock	30
3.5.2 Dividend	30
3.5.3 Return on Common Stock Investment	31
3.5.4 Expected Rate of Return on Common Stock	32
3.5.5 Standard Deviation (σ)	32
3.5.6 Co-efficient of Variation (CV)	32
3.5.7 Portfolio Return (R_p)	33
3.5.8 Portfolio Risk (σ_P)	33
3.5.9 Risk Minimizing Portfolio	34
3.5.10 Required rate of Return (K_i)	34
3.5.11 Beta Coefficient (β)	35
3.5.12 Portfolio Beta	35
3.5.13 Correlation Coefficient (r_{xy})	36
3.6 Method of Analysis & Presentation	36

CHAPTER 4: PRESENTATION AND ANALYSIS OF DATA

4.1 Descriptive Analysis of Bank	37
4.1.1 Nabil Bank Limited	37
4.1.2 Himalayan Bank Ltd	40
4.1.3 Standard Chartered Bank	44
4.1.4 Everest Bank Limited.	46
4.2 Analysis of NEPSE (Market Return)	49
4.3 Statistical & Financial Analysis of Banks	51
4.3.1 Nabil Bank Ltd.	51
4.3.2 Himalayan Bank Ltd.	53
4.3.3 Standard Chartered Bank Ltd.	55
4.3.4 Everest Bank Ltd.	56

4.4 Comparative Analysis of Selected Commercial Banks	58
4.4.1 Comparative Analysis of Annual Return of Selected Commercial Banks and Market	58
4.4.2 Comparative Analysis of Expected Return, Standard Deviation and Coe. of Variation of Selected Commercial Banks.	59
4.4.3 Comparative Analysis of Price Earning Ratio of Selected Commercial Bank	61
4.5 Major Finding of the Study	62

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	65
5.2 Conclusion	66
5.3 Recommendatios	69

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

Table No.	Title of the Table	Page No.
4.1	NEPSE Index and Annual Market Return	49
4.2	Average Rate of Return, Standard Deviation and Coefficient of Variation of Market Portfolio	51
4.3	Statistical and Financial Indicators of NABIL	52
4.4	Statistical and Financial Indicators of HBL	53
4.5	Statistical and Financial Indicators of SCBL	55
4.6	Statistical and Financial Indicators of EBL	56
4.7	Annual Return of Selected Banks and Market	58
4.8	Expected Return, Standard Deviation, and Coefficient of Variation of Selected Commercial Banks	60
4.9	Price-Earning Ratio of Selected Banks	61
4.10	Major Statistical and Financial Indicators of Sampled Banks	62

LIST OF FIGURES

Figure No.	Title of the Figure	Page No.
2.1	Security Market Line (SML)	17
2.2	Underpriced and Overpriced Implication	17
4.1	Closing Price and EPS (Nabil)	39
4.2	DPS (Nabil)	39
4.3	Closing Price and EPS (HBL)	42
4.4	DPS (HBL)	43
4.5	Closing Price and EPS (SCBL)	45
4.6	DPS (SCBL)	45
4.7	Closing Price and EPS (EBL)	47
4.8	DPS (EBL)	48
4.9	NEPSE Index	50
4.10	Expected Return on Market	50
4.11	Comparative Annual return of Selected Banks	59
4.12	Comparative Risk and Return of Selected Banks	60