

**FACTORS AFFECTING THE SHARE PRICE IN NEPALESE
COMMERCIAL BANKS**

A Thesis

By

Sharad Pandaya

Central Department of Management

Exam Roll No.:819/16

T.U. Regd. No.: 7-2-54-161-2011

Submitted in partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

September, 2018

CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree or has it been submitted as part of requirement for a degree except as fully acknowledge 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.

Sharad Pandaya

September, 2018

RECOMMENDATION LETTER

It is certified that thesis entitled An Analysis of **Factors Affecting the Share Price in Nepalese Commercial Banks** submitted by **Sharad Pandaya** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

Prof. Dr. Sanjay Kumar Shrestha
Thesis Supervisor
Central Department of Management
Tribhuvan University, Kathmandu, Nepal
Date: September, 2018

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **An Analysis of Factors Affecting the Share Price in Nepalese Commercial Banks** presented by **Sharad Pandaya**, 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.

_____.

Prof. Dr. Sanjay Kumar Shrestha
Thesis Supervisor

_____.

Lec. Santosh Kumar Ghimire
Internal Examiner

_____.

Asso. Prof. Dr. Achut Gyanwali
External Examiner

_____.

Prof. Bhawani Shanker Acharya
Chairperson, Research Committee

_____.

Prof. Dr. Bhoj Raj Aryal
Head of the Department

Date: September, 2018

ACKNOWLEDGEMENTS

I would like to graciously thank several individuals for making the completion of this thesis possible. First and foremost I would like to thank my thesis supervisor **Prof. Dr. Sanjay Kumar Shrestha**. He has provided me with invaluable advice, guidance, insight, and encouragement without which this thesis would not be a success. Thank you for believing in my ability to create a finished product worth being proud of.

I would like to express my gratefulness to **Prof. Dr. Bhoj Raj Aryal**, Head of the Central Department of Management, who provided me the opportunity to write this thesis.

Valuable thanks go to large number of staff from the different offices who cooperated by providing available data and information, special to SEBON, NEPSE and Central Library of TU, Kirtipur.

Finally, to my family and friends: there are not enough words to express my deep gratitude for all of your love and support. I could not have persevered without having all of you to lean on. Thank you for always being there for me.

Sharad Pandaya
Researcher

ABSTRACT

The focus of this thesis is to analyze the factors affecting the share price of commercial banks in Nepal over the period 2013-2017. In the present study, Bivariate Correlation and a linear multiple regression models are selected to measure the effects of explanatory variables on the dependant variables. The data are collected from the annual reports of selected commercial banks, annual report of SEBON, 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 is use to examine the relationship between independent and dependent variable.

The finding from the study shows that there is positive correlation between EPS, P/E ratio, BVPS and ROA of the bank with MPS. Since the values of correlation coefficients among the independent variables are found to be less than 0.9; implying the absence multicollinearity. Similarly, the multiple regression models are used to test the impact of internal factors on stock price.

This study indicate that EPS, P/E ratio and BVPS have significant positive impact on MPS but ROA has insignificant impact on market price of share. It means ROA has no explanatory power toward stock price movement. The R-square a measure of the overall fitness of the model indicates that the model is capable of explaining about 88.1% of the variability in the share prices of banks. This means that the model explains about 88.1% of the systematic variation in the dependent variable. That is, 11.9% of the variations in market price of the sampled banks are accounted for by other factors not captured by the model. The result could not be generalized at this movement due to small sample size and there is a need for extensive research on this issue in Nepal.

TABLE OF CONTENTS

	Page No.:
Certificate of Authorship	ii
Recommendation Letter	iii
Approval Sheet	iv
Acknowledgements	v
Table of Contents	vi
List of Table	viii
List of Figures	ix
Abbreviations	x
Abstract	xii
CHAPTER-I: INTRODUCTION	1-7
1.1 Background of the Study	1
1.2 Statement of Problem	3
1.3 Purposes of the Study	3
1.4 Conceptual Framework	4
1.5 The Variables & Hypotheses	4
1.6 Significance of the Study	6
1.7 Limitations of the Study	6
1.8 Organization of the Study	6
CHAPTER-II: LITERATURE REVIEW	8-29
2.1 Conceptual Review	8
2.1.1 Security	8
2.1.2 Security Market	9
2.1.3 Stock market	10
2.1.3.1 Primary Market	10
2.1.3.2 Secondary Market	12
2.1.4 Common Stock	15
2.1.5 Stock Price	18
2.1.6 Share Price Determinants	18
2.1.7 Stock Valuation Model	22
2.2 Review of Previous Works	23

2.2.1 Review of Articles in the Journals	23
2.2.2 Review of Previous Theses	27
2.3 Research Gap	29
CHAPTER-III: METHODOLOGY	30-36
3.1 Research Design	30
3.2 Population and Sample	30
3.3 Sources of Data	31
3.4 Data Collection and Data Processing Procedure	31
3.5 Data Analysis Tools	31
3.5.1 Financial Tools	31
3.5.2 Statistical Tools	34
CHAPTER-IV: RESULTS	37-52
4.1 Analysis of Financial Variables	37
4.1.1 Market Price per Share (MPS)	37
4.1.2 Earning per Share (EPS)	39
4.1.3 Price Earnings Ratio (P/E ratio)	41
4.1.4 Book Value per Share (BVPS)	43
4.1.5 Return on Assets (ROA)	45
4.2 Presentation of Statistical Variables	47
4.2.1 Bivariate Correlations	47
4.2.2 Regression Analysis	48
4.3 Major Findings	51
CHAPTER-V: CONCLUSION	53-55
5.1 Summary	53
5.2 Conclusion	54
5.3 Implication	55
5.4 Scope of Future Research	56
REFERENCES	57
APPENDIX	60

LIST OF TABLES

Table No.	Page No.
1.1. Description of Explanatory Variables and their Expected Sign	5
3.1. Number of Commercial Banks Selected for the Study	30
4.1. Analysis of Market Price of Share (MPS in Rs)	38
4.2. Analysis of Earnings per Share (EPS in Rs)	40
4.3. Analysis of Price Earnings Ratio (P/E ratio in Times)	42
4.4. Analysis of Book Value per Share (BVPS in Rs)	44
4.5. Analysis of Return on Assets (ROA in %)	46
4.6. Bivariate Correlation Analysis	48
4.7. Variation in MPS Explained by Internal Factors (Model Summary)	49
4.8. Goodness of Fit of Regression (ANOVA ^a)	49
4.9. Regression Result for Independent Effect of Internal Factor on MPS	50

LIST OF FIGURES

Figure No.	Page No.
1.1 Conceptual Framework	4
4.1. Market Price per Share	39
4.2 Earning Per Share	41
4.3. Price Earnings ratio	43
4.4. Book Value per Share	45
4.5. Return on Share	47

ABBREVIATIONS

Adj.	:	Adjusted
AGM	:	Annual General Meeting
AM	:	Arithmetic Mean
AMEX	:	American Stock Exchange
BOD	:	Board of Director
BOK	:	Bank of Kathmandu
BVPS	:	Book Value per Share
CV	:	Coefficient of Variation
DY	:	Dividend Yield
DPS	:	Dividend per Share
DVM	:	Dividend Valuation Model
EBL	:	Everest Bank Limited
EPS	:	Earning per Share
EVM	:	Earning Valuation Model
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Ltd.
IPO	:	Initial Public Offering
IT	:	Information Technology
ITES	:	Information Technology Enabled Services
KFL	:	Katmandu Finance Ltd.
KSE	:	Karachi Stock Exchange
LBL	:	Laxmi Bank Ltd.
Ln	:	Natural Logarithm
MBL	:	Machhapuchhre Bank Ld.
MPS	:	Market Price per Share
NASDAQ	:	National Association of Securities Dealers Automated
NAV	:	Net Assets Value
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
NSE	:	National Stock Exchange
NYSE	:	New York Stock Exchange

OTC	:	Over- the-Counter
OTCEI	:	Over the Counter Exchange India
PBL	:	Prabhu Bank Ltd.
P/E	:	Price Earnings
Rs.	:	Rupees
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
S	:	Size
SBL	:	Siddhartha Bank Ltd.
SCB	:	Standard Chartered Bank Ltd.
S.D	:	Standard Deviation
SEBON	:	Security Board of Nepal
UFL	:	Universal Finance ltd.
USA	:	United State America
US\$:	US Dollar