DETERMINANTS OF STOCK PRICES IN NEPALESE CAPITAL MARKET

By: **SAROJ GYAWALI.** Roll No: 867 / 062 T. U. Reg. No: 7-1- 49 -797- 98 Shanker Dev Campus

Submitted to:

Office of Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirements for the degree of Masters of Business Studies (M. B. S.) Kathmandu, Nepal March, 2010

VIVA -VOCE SHEET

We have conducted the viva-voce of the thesis

Submitted by:

SAROJ GYAWALI

Entitled:

DETERMINANTS OF STOCK PRICES IN NEPALESE CAPITAL MARKET

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	
Date:	

RECOMMENDATION

This is to certify that the thesis:

Submitted by:

SAROJ GYAWALI

Entitled:

DETERMINANTS OF STOCK PRICES IN NEPALESE CAPITAL MARKET

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

Prof. Snehalata Kafle	Prof. Bisheshwor Man Shrestha	Prof. Dr.	Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Departm	ent)	(Campus Chief)

Laxman Raj Kandel (Thesis Supervisor)

DECLARATION

I hereby declare that the work done in thesis entitled "DETERMINANTS OF STOCK PRICES IN NEPALESE CAPITAL MARKET" has been submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master's of Business studies (M.B.S.) course under the guidance of respected teacher supervisor Prof. Snehalata Kafle and Laxman Raj Kandel lecturer of Shanker Dev Campus.

> Saroj Gyawali Researcher

ACKNOWLEDGEMENT

This entitled thesis DETERMINANTS OF STOCK PRICES IN NEPALESE CAPITAL MARKET has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect.

I extend my deep sense of indebtedness to my respected supervisor Prof. Snelahata Kafle and Laxman Raj Kandel teacher of Shanker Dev Campus for their precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis paper. I acknowledge my profound gratitude to Sample Banks for the cooperation shown and providing necessary data.

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev Campus Library who provided the reference and reading materials during the period of research.

Finally, I would like to express my sincere gratitude to all my family members for their assistance, timely encouragement in every steps and financial support. In addition, the special thanks to Amit Barakoti and all my family members who provided me crucial support, is also part of my sincere thanks.

> Saroj gyawali Researcher

TABLE OF CONTENTS

Page No

Recommendation
Viva-Voce sheet
Declaration
Acknowledgement
Table of Content
List of table
List of figure
Abbreviation

CHAPTER – I

INTRODUCTION	1
1.1 General Background	1
1.1.1 Securities Board Nepal (SEBON)	2
1.1.2 Nepal Stock Exchange (NEPSE)	3
1.1.3 Securities Market	4
1.2 Statement of the Problem	6
1.3 Objective of the Study	7
1.4 Significance of the Study	8
1.5 Limitations of the Study	8
1.6 Organization of the Study	9
CHAPTER – II	
REVIEW OF LITERATURE	10
2.1. Theoretical framework	10

2.1.1 Common stock	10
2.1. 2 Capital market	12

2.1.3 Security market	13
2.1.4 Stock exchange	14
2.1.5 Function of stock exchange	15
2.1.6 Price determination	16
2.1.7 Theory of price behavior	17
2.1. 7.1 Inefficient market theory	17
2.1.7.2 Efficient market hypothesis	28
2.1.8 Determinants of equity price	31
2.1.9 Pricing status of stock	35
2.2 Review of Related Studies	37
2.2.1 Review of Journals	37
2.2.2 Review of Thesis	44
CHAPTER – III	
RESEARCH METHODOLOGY	53
3.1 Research Design	54
3.2 Nature and sources of data	54
3.3 Sampling Procedure	55
3.4.1 Financial tools	56
3.4.2 Statistical Tools:	60
CHAPTER – IV	
DATA PRESENTATION AND ANALYSIS	64
4.1 Presentation of Financial Variables	64
4.1.1 Analysis of EPS of the sample banks	64
4.1.2 Analysis of DPS of sample banks.	67
4.1.3 Analysis of Dividend Payout Ratio (DPR)	68
4.1.4 Analysis of Market Price of Share (Stock Price)	70
4.1.5 Analysis of Price-Earning Ratio (P/E) of the sample banks	72
4.1.6 Analysis of Dividend Yield (D.Y) of the sample banks	74
4.1.7. Analysis of NWPS of the sample banks	75
4.2 Statistical Analysis	77

4.2.1 Correlation Analysis	77
4.2.1.1 Correlation Coefficient of SCBNL	77
4.2.1.2 Correlation between financial variables of NSBL	78
4.2.1.3 Correlation between financial variables of Nabil Bank Ltd.	78
4.2.1.4 Correlation between financial variables of HBL	79
4.2.1.5 Correlation between financial variables of NIBL	79
4.2.2 Regression Analysis	80
4.2.2.1 Regression analysis between MPS on EPS	81
4.2.2.2 Regression analysis between MPS on DPS	82
4.2.2.3 Regression analysis between MPS on DPR	83
4.2.2.4 Regression analysis between MPS on D.Y.	84
4.2.2.5 Regression analysis between DPS on EPS	85
4.2.2.6 Regression analysis between DPS on NWPS	85
4.2.2.7 Regression analysis of MPS on P/E Ratio and DPS	87
4.2.2.8 Regression analysis of MPS on EPS and DPR	89
4.3 Major Findings of the Study	90
CHAPTER - V	
SUMMARY, CONCLUSIONS AND RECOMMENDATION	93
5.1 Summary	93
5.2 Conclusions	95
5.3 Recommendations	97

Bibliography

Appendix

LIST OF TABLE

	Page No
Table 4.1 Market Capitalization	64
Table 4.2Comparative Earnings per Share of banks under study	64
Table 4.3Comparative Dividend per Share of banks under study	67
Table 4.4Comparative Dividend Payout Ratio of banks under study	69
Table 4.5Comparative MPS of banks under study	71
Table 4.6 Comparative P/E of Banks under study	72
Table 4.7Comparative Dividend Yield of banks under study	74
Table 4.8 Comparative Analysis of Net worth per Share of banks under study	75
Table 4.9 Correlation Coefficient of SCBNL	77
Table 4.10 Correlation coefficient of NSBL	78
Table 4.11 Correlation coefficient of Nabil Bank Ltd.	78
Table 4.12 Correlation coefficient of HBL	79
Table 4.13 Correlation coefficient of NIBL	79
Table 4.14 Regression Analysis of MPS on EPS	81
Table 4.15 Regression analysis of MPS and DPS	82
Table 4.16 Regression Analysis of MPS on DPR	83
Table 4.17 Regression Analysis of MPS on D.Y.	84
Table 4.18 Regression Analysis of DPS on EPS	85
Table 4.19 Regression Analysis of DPS on NWPS	85
Table 4.20 Regression Analysis of MPS on P/E Ratio and DPS	87
Table 4.21 Regression Analysis of MPS on EPS and DPR	89

LIST OF FIGURE

Page No

Figure No 4.1Market Capitalization of Listed Securities	64
Figure No 4.2Comparative Earnings per Share (EPS) of Banks	66
Figure 4.3Comparative Dividend per share (DPS) of banks under study	67
Figure 4.4Comparative Dividend Payout Ratio of banks under study	69
Figure 4.5Comparative MPS of banks under study	71
Figure 4.6Comparative P/E of banks under study	73
Figure 4.7Comparative Dividend Yield of banks under study	74
Figure 4.8 Comparative Analysis of NWPS of banks under study	76