ANALYSIS OF RISK AND RETURN ON COMMON STOCK OF COMMERCIAL BANK OF NEPAL

By

ANJARI SHRESTHA

Shanker Dev Campus

Campus Roll No: 1712/60

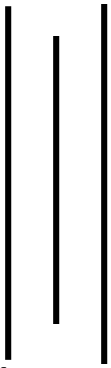
T.U. Regd. No: 18126/95

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



In partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Kathmandu, Nepal

February 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

ANJARI SHRESTHA

Entitled:

ANALYSIS OF RISK AND RETURN ON COMMON

STOCK OF COMMERCIAL BANK OF NEPAL

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

…… …… ……

Prof. Snehalata Kafle	**Prof. Bishweshor Man Shrestha**	**Prof. Dr. Kamal Deep Dhakal**
(Thesis Supervisor)	**(Head, Research Department)**	**(Campus Chief)**

……..

Rashmee Raj Karnikar

(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

ANJARI SHRESTHA

Entitled:

ANALYSIS OF RISK AND RETURN ON COMMON

STOCK OF COMMERCIAL BANK 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 requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ……..……

Member (Thesis Supervisor) ……

Member (Thesis Supervisor) ……

Member (External Expert) ……

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Analysis of Risk and Return on Common Stock of Commercial Bank of Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Snehalata Kafle** and **Rashmee Raj Karnikar** of Shanker Dev Campus, T.U.

.....

Anjari Shrestha

Shanker Dev Campus

Campus Roll No: 1712/60

T.U. Regd. No: 18126/95

ACKNOWLEDGEMENT

I gratefully acknowledge the valuable support and co-operation received from my teacher, friends, personal of various organization and family members to bring out this thesis report in this form.

I would like to express my heartfelt thanks to my thesis guides Prof. Snehalata Kafle and Rashmee Rajkarnikar, for their valuable guidance and constant help whatever I needed, throughout the study period. This form of report is the outcome of their continuous encouragement, steady inspiration, many helpful suggestions and essential comments.

I acknowledge staff of Securities Board of Nepal, Nepal Stock Exchange, and selected Banks this study who provided sources of data information for this study.

I am thankful to Mr. Narayan Timilsina and Mr. Niranjan Ghimire personal of NEPSE and SEBO, for providing me with necessary reports, booklets and other information. Similarly, I thank librarian of Tribhuvan University, Shanker Dev Campus, for providing me various books, reports and other publications.

I am grateful to my brother Shyam Shrestha, for his continuous support and inspiration to complete it in time.

Finally, I would like to thank my brother Nabin Shrestha for computerization of this Thesis.

Last but not least, I am highly indebted to my parents for their moral as well as economical support throughout the entire study period.

Anjari Shrestha

TABLE OF CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

Page No.

CHAPTER – I INTRODUCTION

1.1 Background of the Project 1

1.1.1 Commercial Banks in Nepal 2

1.2 Statement of the Problem 5

1.3 Objective of the Study 6

1.4 Significance of the Study 7

1.5 Limitations of the Study 7

1.6 Organization of the Study 8

CHAPTER – II REVIEW OF LITERATURE

2.1 Conceptual Framework 10

2.1.1 Common Stock 10

2.1.2 Security Market 11

2.1.3 Market Price of the share 13

2.1.4 Profit Maximization or Wealth Maximization 13

2.1.5 Stock Valuation 13

2.2 Concept of Investment on Common Stock 14

2.2.1 The expected Rate of Return on Common Stock 15

2.2.2. Risk on Commons Stock 15

2.3 Sources of Investment Risks 16
2.4 Relationship between Risk and Return 17
2.5 Statistical Measure of Risk 18
2.6 Diversification 18
2.7 Portfolio Analysis (Portfolio Risk and Return) 19
2.8 Systematic and Unsystematic Risks 21
2.9 Capital Assets Pricing Model 23
2.9.1 Capital Market Line 27
2.10 Reviews from Journals 27
2.10.1 Review of Other Independence Studies in Nepal 31
2.10.2 Reviews from Thesis 35
2.10 Research Gap 41

CHAPTER - III RESEARCH METHODOLOGY

3.1 Research Design 43
3.2 Nature and Sources of Data 43
3.3 Population and Sample 43
3.4 Methods of analysis 44
3.4.1 Financial Tools 44
3.4.1.1 Market Price of Stock 44
3.4.1.2 Earnings per share 44
3.4.1.3 Dividend 45
3.4.1.4 Price Earnings Ratio 45
3.4.1.5 Return on Common Stock Investment 45
3.4.1.6 Expected Return on Common Stock 46
3.4.1.7 Standard Deviation 46
3.4.1.8 Coefficient of Variance 48
3.4.1.9. Required Rate of Return 49
3.4.1.10. Portfolio Return 49

3.4.1.11. Portfolio Risk 50
3.4.1.12. Risk Minimizing Portfolio 50
3.4.2 Statistical Tools 51
3.4.2.1 Correlation coefficient 51
3.4.3 Test of Hypothesis 52

CHAPTER – IV ANALYSIS AND PRESENTATION OF DATA

4.1 Analysis of Individual Commercial Banks 53
4.1.1 Himalayan Bank Ltd. 53
4.1.1.1 Introduction 53
4.1.1.2 Data 54
4.1.2 Bank of Kathmandu 57
4.1.2.1 Introduction 57
4.1.2.2 Data 57
4.1.3 Standard Chartered Bank Nepal Limited 60
4.1.3.1 Introduction 60
4.1.3.2 Data 61
4.2 Inter Bank Comparison 64
4.3 Market Capitalization 65
4.4 Comparison with Market 66
4.4.1 Market Risk and Return Analysis 66
4.4.2 Market Sensitivity Analysis 69
4.4.3 Required rate of Return Expected Rate of Return and Price 72
4.5 Portfolio Analysis 73
4.5.1 Analysis or Risk Diversification 74
4.5.1.1 Portfolio of stocks HBL and BOK 75
4.5.1.2 Portfolio of stocks BOK and SCBNL 76
4.5.1.3 Portfolio of stocks HBL and SCBNL 78
4.6 Systematic and Unsystematic Risk 80

4.6.1 Systematic Risk 80
4.6.2 Unsystematic Risks 80
4.6.3 Systematic and Unsystematic Risk of HBL with Market 81
4.6.4 Systematic and Unsystematic Risk of BOK with Market 82
4.6.5 Systematic and Unsystematic Risk of SCBNL with Market 82
4.7 Testing of Hypothesis 83
4.7.1 Testing of hypothesis Expected return of HBL with overall Market 83
4.7.2 Testing of Hypothesis Expected Return of BOK with overall Market 85
4.7.3 Testing of Hypothesis Expected Return of
SCBNL with overall Market 86
4.8 Major Findings of the Study 88

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS
5.1 Summary 91
5.2 Conclusion 92
5.3 Recommendations 93

Bibliography
Appendices

LIST OF TABLES

Table No.	Title	Page No.
4.1	MPS, Dividend, EPS, P/E Ratio of HBL	54
4.2	Expected Return Standard Deviation and Coefficient of variation of HBL	56
4.3	MPS, Dividend, EPS, P/E Ratio of BOK	58
4.4	Expected Return Standard Deviation and Coefficient of variation of BOK	59
4.5	MPS, Dividend, EPS, P/E Ratio of SCBNL	61
4.6	Expected Return Standard Deviation and Coefficient of variation of SCBNL	63
4.7	Expected Returns, SD. and of each Bank	64
4.8	Market Capitalization of Commercial Bank	66
4.9	Calculation of Return, and of Overall Market	67
4.10	Beta coefficient of C.S of HBL	69
4.11	Beta Coefficient of the C.S of BOK	70
4.12	Beta Coefficient of the C.S of SCBNL	71
4.13	Beta Coefficient of each Bank72	
4.14	Required Rate of Return, Expected Return and Price Evaluation	73
4.15	Portfolio Risk and Return	80
4.16	Proportion of SR and USR	83

LIST OF FIGURES

Figure No.	Title	Figure No.
4.1	Year and Price movement of the Common Stock of HBL	55
4.2	Annual Rate of Return of C.S of HBL	56
4.3	Year and Price Movement of C.S of BOK	58
4.4	Annual Rate of Return of C.S of BOK	60
4.5	Year and Price Movement of C.S of SCBNL	62
4.6	Annual Rate of Return of C.S of SCBNL	65
4.7	Expected return, S.D. and C.V, of each Commercial	66
4.8	Comparative Proportion of Market Capitalization of Listed Commercial Banks	66
4.9	NEPSE Index Movement	68
4.10	NEPSE Market Returns	68

ABBREVIATIONS

AGM	=	Annual General Meeting
BOKL	=	Bank of Kathmandu Limited
CAPM	=	Capital Assets Pricing Model
CML	=	Capital Market Line
CS	=	Common Stock
CV	=	Coefficient of Variation
DPS	=	Dividend per Share
EMH	=	Efficient Market Hypothesis
EPS	=	Earning per Share
FY	=	Fiscal Year
GDP	=	Growth Domestic Product
HBL	=	Himalayan Bank Limited
HPR	=	Holding Period Return
JV	=	Joint Venture
MPS	=	Market Price of Share
NB Bank	=	Nepal Bangladesh Bank
NBL	=	Nepal Bank Limited
NEPSE	=	Nepal Stock Exchange
NIBL	=	Nepal Investment Bank Limited
NRB	=	Nepal Rastra Bank
SBI Nepal	=	State Bank of India Nepal
SCBNL	=	Standard Chartered Bank Nepal Limited
SD	=	Standard Deviation
SEBON	=	Security Exchange Board of Nepal
SML	=	Security Market Line
SR	=	Systematic Risk
TU	=	Tribhuwan University
USR	=	Unsystematic Risk