

“DETERMINATION OF STOCK PRICE”

(With reference to: Nabil Bank Ltd., Nepal Investment Bank Ltd., Standard Chartered Bank Nepal Limited, Lalitpur Finance Company Ltd., Annapurna Finance Company Ltd., Universal Finance Company Ltd.)

By

SRIJANA DHAKAL

Shanker Dev Campus

T.U. Regd.: 7-1-274-485-2000

Campus Roll No.:- 504/062

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 (M.B.S)*

Kathmandu, Nepal

March, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SRIJANA DHAKAL

Entitled:

“DETERMINATION OF STOCK PRICE”

(With reference to: Nabil Bank Ltd., Nepal Investment Bank Ltd., Standard Chartered Bank Nepal Limited, Lalitpur Finance Company Ltd., Annapurna Finance Company Ltd., Universal Finance Company Ltd.)

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

.....
Asso. Prof. Achyut Raj Bhattarai
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Lect. Krishna Prasad Acharya
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

SRIJANA DHAKAL

Entitled:

“DETERMINATION OF STOCK PRICE”

(With reference to: Nabil Bank Ltd., Nepal Investment Bank Ltd., Standard Chartered Bank Nepal Limited, Lalitpur Finance Company Ltd., Annapurna Finance Company Ltd., Universal Finance Company Ltd.)

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’s in Business Studies (M.B.S.)

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 **“DETERMINANTION OF STOCK PRICE (With reference to: Nabil Bank Ltd., Nepal Investment Bank Ltd., Standard Chartered Bank Nepal Limited, Lalitpur Finance Company Ltd., Annapurna Finance Company Ltd., Universal Finance Company Ltd.)”** 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 Master’s Degree in Business Study (M.B.S.) under the supervision of **Asso. Prof. Achyut Raj Bhattarai** and **Lecturer Krishna Prasad Acharya** of Shanker Dev Campus.

.....

SRIJANA DHAKAL

Researcher

T.U. Regd.: 7-1-274-485-2000

Campus Roll No.:- 504/062

ACKNOWLEDGEMENT

This thesis is conducted for MBS program undertaken by Tribhuvan University. This study is an attempt to analyze the determination of Stock price of listed Commercial banks and Finance Companies. I would like to express my sincere appreciation to Shanker Dev Campus, faculty of management and T.U. for providing me the opportunity to study in this topic. Throughout my study period, I gained lots of guidelines and suggestions from my teachers, friends, and other company's officials.

Firstly, I wish to express my profound gratitude Mr. Achyut Raj Bhattarai, Associate Professor and Mr. Krishna Prasad Acharya, Lecturer, thesis supervisors. I am grateful for their valuable suggestions, intellectual guidance, encouragements and providing all kinds of help to complete this thesis.

In course of preparing this research I got an opportunity to meet, discuss and debate with various people. I have been benefited from such meetings. I would like to express thanks to my friends Uma, Laxmi, Sanjeev, Sabina and Nabina for their continuous help and support during the entire study period. Last but not least, I humbly acknowledge my husband Komal and my mom Shanti, for their unfailing support during my research period.

I also acknowledge to the respondents of the questionnaire, staffs of selected sample banks, finance companies, security board of Nepal, Nepal stock exchange for providing necessary information and required data and also the library staffs of Shanker Dev Campus, Nepal Commerce campus and T.U. library for their cooperation.

SRIJANA DHAKAL

TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	
	Page No.
CHAPTER-I: INTRODUCTION	
1.1 General Background:	1
1.2 Statement of the Problem	6
1.3 Objectives of the study	8
1.4 Importance of the study	8
1.5 Limitation of the study	9
1.6 Organization of the study	10
CHAPTER-II: LITERATURE REVIEW	
2.1 Conceptual framework	11
2.1.1 Common stock (shares)	11
2.1.1.1 Positive consideration	12
2.1.1.2 Negative consideration	12
2.1.1.3 Features	13
2.1.1.4 Advantages of common stock financing from corporation's view point	14
2.1.1.5 Disadvantages of common stock financing from corporation's view point	15
2.1.2 Earning per Share (EPS)	16
2.1.3 Retaining Earnings	16
2.1.4 Dividend per Share (DPS)	17
2.1.4.1 Forms of dividends	17
2.1.5 Stock splits	18

2.1.6 Stock Repurchase	19
2.1.7 Net Worth Per Share (NWPS)/ Book Value Per share	19
2.1.8 Market Price per Share (MPS)	20
2.1.9 Determinants of Stock Price	21
2.2 Review of Previous Studies	21
2.3 Review of Previous Master's Thesis	27
2.4 Research Gap	37

CHAPTER-III: RESEARCH METHODOLOGY

3.1 Research Design	38
3.2 Population and Sample	38
3.3 Sources of Data	39
3.4.1 Primary Sources	40
3.4.2 Secondary Sources	40
3.4 Data Collection techniques	40
3.5 Data Processing Procedure	41
3.6 Data Analysis Tools	41
3.6.1 Dividend Payout Ratio	41
3.6.2 Return on Equity (ROE)	41
3.6.3 Karl Pearson's Coefficient of Correlation	42
3.6.4 Coefficient of Determination	43
3.6.5 Regression Analysis	44
3.6.7 Statistical Software used in the Analysis	47

CHAPTER-IV: DATA PRESENTATION AND ANALYSIS

4.1. Secondary Data Analysis	48
4.1.1 Correlation Coefficient Analysis	48
4.1.2 Regression Analysis	52
4.1.2.1 Simple Regression Analysis	53
4.1.2.2 Multiple regression equation Analysis	57
4.2 Primary Data Analysis	67

4.2.1 Questionnaire Analysis (Investors' awareness toward the Investment decision)	67
4.2.1.1 Investment in Shares of Listed Companies	68
4.2.1.2 Determinants of Stock Price in the Share Market	68
4.2.1.3 Purpose of Holding Share	69
4.2.1.4 Investors' Interest in Different Sector	69
4.2.1.5 Trading Of Shares in the Secondary Market	69
4.2.1.6 Investors' Interest on Price of Shares	70
4.2.1.7 Investors Views towards Return on Investment	70
4.3 The Major Findings	71
4.3.1 Findings based on the Correlation Coefficient Analysis	71
4.3.2 Findings based on the Simple Regression Analysis	71
4.3.3 Findings based on the Multiple Regression Analysis of MPS on EPS and NWPS	72
4.3.4 Findings based on the Analysis of MPS on EPS and DPS	72
4.3.5 Findings base on the cross section Multiple Regressions Analysis	73
4.3.6 Findings Based On the Analysis of Primary Data	73

CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	74
5.2 Conclusion	76
5.3 Recommendations	76

Bibliography

Annexes

LIST OF TABLES

Table No.	Title	Page No
1	Summary of Financial Indicators	17
2	Listed Companies in Nepal Stock Exchange	39
3	Relationship between MPS and EPS, NWPS, DPS and DPR of Commercial Banks and Finance Companies.	49
4	Regression Equation of MPS on EPS: ($MPS = a + b \text{ EPS}$) of Commercial banks and Finance Companies.	53
5	The Regression Equation of MPS on NWPS of Commercial banks and Finance Companies.	54
6	Regression Equation of MPS on DPS: ($MPS = a + b \text{ DPS}$) of Commercial banks and Finance Companies.	55
7	The Regression Equation of MPS on DPR: ($MPS = a + b \text{ DPR}$) of Commercial banks and Finance Companies.	56
8	Multiple Regression Equation of MPS on EPS and NWPS: ($MPS = a + b_1 \text{ EPS} + b_2 \text{ NWPS}$) of Commercial banks and Finance Companies.	58
9	Multiple Regression Equation of MPS on EPS and DPS: ($MPS = a + b_1 \text{ EPS} + b_2 \text{ DPS}$) of Commercial banks and Finance Companies.	62
10	The Cross Section Multiple Regression Analysis of Average MPS on Average EPS, NWPS and DPS of Commercial banks And Finance Companies. ($\text{Avg. MPS} = a + b_1 \text{ Avg. EPS} + b_2 \text{ Avg. NWPS} + b_3 \text{ Avg. DPS}$)	66

Abbreviations

AFCL	:	Annapurna Finance Company Ltd
ANOVA	:	Analysis Of Variance
b	:	Retention Ratio
CR	:	Current Ratio
DPS	:	Dividend per Share
EACS	:	Earning Available To Common Stockholders
EAT	:	Earning After Tax
EBIT	:	Earning Before Interest And Taxes
EBT	:	Earning Before Tax
EPS	:	Earning Per Share
F.Y.	:	Fiscal Year
g	:	Growth Rate
GDP	:	Gross Domestic Product
K	:	Cost of Capital
Ke	:	Capitalization rate (Cost of Capital)
LFCL	:	Lalitpur Finance Company Ltd
Ltd.	:	Limited
MM	:	Money Market
MPS	:	Market Per Share
MSE	:	Mean Sum Of Squares Due To Error
MSR	:	Mean Sum Of Squares Due To Regression
N	:	No. Of Outstanding Shares

NBL	:	Nabil Bank Ltd
NEPSE	:	Nepal Stock Exchange
NIBL	:	Nepal Investment Bank Ltd.
NRB	:	Nepal Rastra Bank
NRs.	:	Nepalese Rupees
NWPS	:	Net Worth per Share
OTC	:	Over the Counter
P	:	Price of Share
r	:	Rate Of Return
Ref.	:	Reference
ROE	:	Return on Equity
Rs	:	Rupees
SCBNL	:	Standard Chartered Bank Nepal Limited
SEBO/N	:	Security Board of Nepal
SPSS	:	Statistical Program for Social Science
SSE	:	Sum of Squares Due To Error
SSR	:	Sum of Squares Due To Regression
T.U.	:	Tribhuvan University
UFCL	:	Universal Finance Company Ltd
Vol.	:	Volume