STOCK PRICE BEHAVIOUR OF LISTED COMPANIES

'A CASE OF NEPAL STOCK EXCHANGE LTD.'

By Ishwar Panday

Saptagandaki Multiple Campus

T.U. Regd. No.: 7-1-240-274-2000

Exam Roll No.: 717

A Thesis Submitted to
Office of The Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements of the degree of Master of Business Studies (M.B.S)

Bharatpur, Chitwan, Nepal Dec. 2008

RECOMMENDATION

This is to certify that the thesis

Submitted by

Ishwar Panday

Entitled

STOCK PRICE BEHAVIOUR OF LISTED COMPANIES A Case of Nepal Stock Exchange Ltd.

has been prepared as app	proved by this Department in prescri	ibed format of Faculty of
Managem	ent. This thesis is forwarded for Ex	amination
Supervisor	Head of Department	Campus Chief
Date :		

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Ishwar Panday

Entitled Stock Price Behaviour of Selected Companies

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

VIVA-VOCE COMMITTEE

DECLARATION			
Date :			
Member (External Expert)			
Member (Thesis Supervisor)			
Chairman (Research Committee)			

I hereby declare that this thesis entitled "Stock Price Behaviour of Listed Companies a case of Nepal Stock Exchange Ltd." submitted to the Department of Management, Saptagandaki Multiple Campus, Bharatpur is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision of lecturer Kapil Dev Subedi, Faculty of Management, Saptagandaki Multiple Campus, Bharatpur.

.....

Ishwar Panday

(Researcher)

Saptagandaki Multiple Campus

Bharatpur, Chitwan

Exam Roll No.: 717

Date:.....

ACKNOWLEDGEMENT

The study "Stock Price Behaviour of Selected Companies" have the

challenges to explore about factors affecting stock price. But the study faced

the challenge by receiving the positive help from all the stakeholders of this

study. I would like to offer my first thanks to all the stakeholders of the

study.

I would like to express my sincere gratitude to my supervisor Mr. Kapil Dev

Subedi for his admirable co-operation and inspirable guidance. His precious

suggestion and remarkable co-operation made this study simple and possible.

I am grateful to my honorable lecturer of this Department, especially to Mr.

Govinda Ghimire, Mr. Narendra Kandel, Mr. Madan Puri and all of the

other lecturers of the department for their valuable suggestions and

intellectual support throughout the study.

I would like to thanks to my friends Mr. Sudan Gyawali, Mr. Nabaraj

Pokhrel and all of my friends who wishes to conduct this study.

Finally, I would like to express my sincere and humble respect to all my

family members for providing me continuous support, encouragement and

academic environment in my study. At last, I thank to Mr. Milan Rana and

Suju Photocopy for prompt computerizing.

Dec. 2008

Ishwar Panday

TABLE OF CONTENT

REC	COMME	NDATION	
VIV	A-VOCE	SHEET	
ABS	TRACT		
ACF	KNOWLI	EDGEMENT	
TAB	BLE OF (CONTENT	
LIST	Γ OF TA	BLE	
LIST	r of fic	GURES	
ACF	RONYMS	S	
		CHAPTER-I	
		INTRODUCTION	
1.1	Genera	al Background	1
	1.1.1	Constitutient of Capital Market in Nepal	2
1.2		of the Study	4
1.3	Statem	nent of Problems	4
1.4		tive of the Study	6
1.5	Signifi	icance of the Study	6
1.6	Limita	ation of the Study	7
1.7	Organi	ization of the Study	7
		CHAPTER-II	
		REVIEW OF LITERATURE	
2.1	Introdu	uction	8
2.2	Conce	ptual Framework	8
	2.2.1	Fundamental Analysis	9
	2.2.2	Technical Analysis	10
	2.2.3	Efficient Market Theory	11
2.3	Stock	Price	14
	2.3.1	Par Value	14
	2.3.2	Book Value	15
	2.3.3	Market Price of Share	15

2.4	Reviews from Foreign Previous Studies	16
2.5	Review from Nepalese Previous Thesis Study	17
	CHAPTER-III	
	RESEARCH METHODOLOGY	
3.1	Introduction	21
3.2	Research Design	21
3.3	Research Hypothesis	21
3.4	Population and Sample	23
3.5	Study Period	25
3.6	Nature and Sources of Data	25
3.7	Data Collection Techniques	25
3.8	Data Analysis Tools	26
	3.8.1 Statistical Tools	26
	3.8.1.1 Average (Mean)	26
	3.8.1.2 Standard Deviation	27
	3.8.1.3 Coefficient of Variation	27
	3.8.1.4 Correlation Coefficient	27
	3.8.1.5 Regression Analysis	28
	3.8.1.6 Coefficient of Determination	29
	3.8.1.7 Test of Hypothesis	29
	3.8.1.8 t-statistics	29
	3.8.1.9 z-statistics	30
	3.8.2 Financial Tools	30
	3.8.2.1 Earning Per Share (EPS)	30
	3.8.2.2 Dividend Per Share (DPS)	31
	3.8.2.3 Market Price Per Share (MPS)	31
	3.8.2.4 Book Value Per Share (BPS)	31
3.9	Method of Data Presentation	31
	CHAPTER-IV	
	DATA PRESENTATION AND ANALYS	SIS
4.1	Introduction	32
	4.1.1 Analysis of Individual Company	32

4.2	Relation	onship of DPS, EPS and BPS with MPS	32
	4.2.1	Correlation and Regression Analysis of BOK	33
	4.2.2	Correlation and Regression Analysis of HBL	36
	4.2.3	Correlation and Regression Analysis of MFL	38
	4.2.4	Correlation and Regression Analysis of NFL	41
	4.2.5	Correlation and Regression Analysis of EIL	43
	4.2.6	Correlation and Regression Analysis of ULL	46
	4.2.7	Correlation and Regression Analysis of NLOL	48
	4.2.8	Correlation and Regression Analysis of BBC	50
	4.2.9	Correlation and Regression Analysis of SHL	52
	4.2.10	Correlation and Regression Analysis of DCB	55
4.3	Compa	arative Analysis of Correlation Coefficients of Sampled Companies	58
4.4	Analys	sis of Primary Data	60
	4.4.1	Higher the Earnings (EPS), Higher the Share price	61
	4.4.2	Higher the Cash Dividend, Higher the Share Price	61
	4.4.3	Lower the Growth Rate (g), Higher the Share Price	62
	4.4.4	Stock Dividend Increases the Share Price	63
	4.4.5	Higher Cost of Equity (ke) Reduces the Share Price	63
	4.4.6	Change in Policy by National Bank Affects the Share Price	64
	4.4.7	Instability of Government Reduces the Share Price	65
	4.4.8	Strikes, Demonstrations Reduces the Share Price	65
	4.4.9	Peace Process Affect Positively to the Share Price	66
	4.4.10	Better the National Economy Better the Share Price	67
	4.4.11	Better the Global Economy, Better the Share Price	67
	4.4.12	Higher the Market Liquidity, Lower the Share Price	68
	4.4.13	Higher the Risk of a Company, Higher the Share Price	69
	4.4.14	Share Price Increases with Change in Management	69
	4.4.15	Lower the EPS, Higher the Share Price	70
	4.4.16	Capital Market is not well Developed Due to Poor Regulatory	
		Mechanism	71
	4.4.17	Public Listed Companies are not Serious Towards Shareholder's	
		Interest	72
	4.4.18	NEPSE and SEBO/N are Able to Protect Share Holder's Interest	72
4.5	Empir	ical Findings of the Study	73

	4.5.1 Empirical Findings from the Secondary Data Analysis	73
	4.5.2 Empirical Findings from the Primary Data	75
	CHAPTER-V	
	SUMMARY, CONCLUSION AND RECOMMENDA	TION
5.1	Introduction	76
5.2	Summary	76
5.3	Conclusions	77
5.4	Recommendations	79

LIST OF TABLES

Table No.	Title	Page No
Table 3.1	Population sample of listed companies	23
Table 4.1	Summary of the Financial Performance of BOK	33
Table 4.2	Relationship of DPS, BPS and EPS with MPS of BOK	33
Table 4.3	Summary of the Financial Performance of HBL	36
Table 4.4	Relationship of BPS, EPS and DPS with MPS of HBL	37
Table 4.5	Summary of the financial performance of MFL	38
Table 4.6	Relationship of DPS, BPS and EPS with MPS of MFL	39
Table 4.7	Summary of the Financial Performance of NFL	41
Table 4.8	Relationship of DPS, BPS and EPS with MPS of NFL	42
Table 4.9	Summary of the financial Performance of EIL	43
Table 4.10	Relationship of BPS, EPS and DPS with MPS of EIL	44
Table 4.11	Summary of the Financial Performance of ULL	46
Table 4.12	Relationship of DPS, BPS and EPS with MPS of ULL	47
Table 4.13	Summary of financial performance of NLOL	48
Table 4.14	Relationship of EPS, DPS and BPS with MPS of NLOL	49
Table 4.15	Summary of the Financial Performance of BBC	51
Table 4.16	Summary of the Financial Performance of SHL	53
Table 4.17	Relationship of BPS, EPS and DPS with MPS of SHL	54
Table 4.18	Summary of the Financial Performance of DCB	55
Table 4.19	Relationship of BPS, DPS and EPS with MPS of DCB	56
Table 4.20	Comparison of Correlation Coefficients of Sampled Companies	58
Table 4.21	Higher the Earnings (EPS), Higher the Share Price	61
Table 4.22	Higher the Cash Dividend, Higher the Share Price	62
Table 4.23	Lower the Growth Rate (g), Higher the Share Price	62
Table 4.24	Stock Dividend Increases the Share Price	63
Table 4.25	Higher Cost of Equity (ke) reduces the Share Price	64
Table 4.26	Policy Change by National Bank Affects the Share Price	64
Table 4.27	Instability of Government Reduces the Share Price	65
Table 4.28	Strikes, Demonstrations Reduces the Share Price	66
Table 4.29	Peace Process Affect Positively to the Share Price	66

Table 4.30	Better the National Economy Better the Share Price	67
Table 4.31	Batter the Global Economy, Better the Share Price	68
Table 4.32	Higher the Market Liquidity, Lower the Share Price	68
Table 4.33	Higher the Risk of a Company, Higher the Share Price	69
Table 4.34	Share Price Increase with Change in Management	70
Table 4.35	Lower the BPS, Higher the Share Price	70
Table 4.36	Capital Market is not Well Developed Due to Poor Regulatory	
	Mechanism	71
Table 4.37	Listed Companies are not serious towards Shareholder's Interest	72
Table 4.38	NEPSE and SEBO/N are Able to Protect Shareholder's Interest	72

LIST OF FIGURES

Figure No.	Title	Page No.
Figure 4.1	Relationship of MPS with DPS, BPS and EPS of BOK	34
Figure 4.2	Relationship of MPS with DPS, BPS and EPS of HBL	36
Figure 4.3	Relationship of MPS, DPS, BPS and EPS of MFL	39
Figure 4.4	Relationship of MPS with BPS, DPS and EPS of NFL	41
Figure 4.5	Relationship of MPS with DPS, BPS, and EPS of EIL	44
Figure 4.6	Relationship of MPS with DPS, BPS and EPS of ULL	46
Figure 4.7	Relationship of MPS with DPS, BPS and EPS of NLOL	49
Figure 4.8	Relationship of MPS with DPS, BPS and EPS of BBC	51
Figure 4.9	Relationship of MPS with, DPS, BPS and EPS of SHL	53
Figure 4.10	Relationship of MPS with DPS, BPS and EPS of DCB	56
Figure 4.11	Comparative Correlation Coefficient of Sample Companies	59

ACRONYMS

AGM : Annual General Meeting

AM : Arithmetic Mean

AMEX : American Stock Exchange

BBC : Bishal Bazar Company

BOK : Bank of Kathmandu

BPS : Book Value per Share

CV : Coefficient of Variation

DCB : Development Credit Bank

DPS : Dividend per Share

EIC : Everest Insurance Corporation Ltd.

EPS : Earning per Share

HBL : Himalayan Bank Ltd.

IMF : International Monetary Fund

IRR : Internal Rate of Return

Ltd. : Limited

MBA : Masters of Business Administration

MBS : Masters of Business Studies

MFL : Mahalaxmi Finance Ltd.

MPS : Market Price per Share

NA : Not Applicable

na : Not Auditing

NEPSE : Nepal Stock Exchange

NFCL : National Finance Corporation Ltd.

NLOL : Nepal Lube Oil Ltd.

NPV : Net Present Value

NYSE : New York Stock Exchange

OE : Organized Exchange

Prof. : Professor

r : Simple Correlation Coefficient

r² : Coefficient of Determination

Re. : Rupee

Rs. : Rupees

SEBO/N : Security Board of Nepal

SHL : Soaltee Hotel Ltd.

SPSS : Statistical Package of Social Science

T.U. : Tribhuvan University

ULL : Unilever Ltd.