Impact of Earning Per Share and Dividend Per Share on Market Price ff Stock

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ABSTRACT

This research examines the factors affecting the financial influence of Standard Chartered Bank (SCB) and Nabil Bank, two senior banks listed on the Nepal Stock Exchange. This study of the relationship between market price per share (MPPS) and key financial activities such as earnings per share (EPS) and dividends per share (DPS). This research applying a quantitative methodology and applying secondary data on these variables utilizes statistical techniques, including mean, standard deviation, skewness, and kurtosis. The assess strength and direction of their relations with MPPS. This study covers a five-year period from 2076/077 to 2080/081. The results significant relationship was found in SCB (P=0.015) at 5% significant level but not significant in Nabil bank (P=0.439). It shows the indication of strong evidence that SCB's DPS is statistically higher than Nabil's. The findings indicate a substantial influence of EPS and DPS on stock prices. These insights are expected to provision investors in making well-informed investment decisions. The bank management assist in maximizing shareholder value and support policymakers in considering regulations and fastly the growth of Nepal's banking sector.

Keywords: EPS, DPS, Market Per Price, NEPSE, SCB and Nabil Bank of Nepal

Introduction

Nepal is a developing country, which contributes to its lower per-capita income compared to other Asian countries. While facing the challenges associated with being a developing nation, Nepal has made notable progress in recent years to revitalize its financial sector. Reforms like interest rate liberalization and the creation of a strong regulatory framework have set the stage for economic growth. The growing involvement of the private sector in the financial sector is crucial for unlocking this potential. By nurturing an environment conducive to investment and innovation, Nepal seeks to enhance its economic position and improve the quality of life for its citizens.

EPS (Earnings Per Share) and DPS (Dividends Per Share) are crucial metrics for assessing a company's financial health, significantly influencing investment decisions in the stock market (Elsheikh & Allaoui, 2021). Academics and policymakers are keenly interested in understanding their impact on stock prices, though research reveals a complex and context-dependent relationship. Despite this complexity, investors often favor companies with higher EPS and DPS, perceiving them as stronger financially and with greater growth potential. Conversely, companies with lower EPS and DPS may struggle to attract new investment.

Earnings per share (EPS), a pivotal metric for evaluating business success and guiding investment decisions, is the amount of money earned within a specific time period on behalf of each share of common stock. EPS measures both firm performance and management effectiveness (Umar & Musa, 2013). Additionally, Tambellini (2010) stated that earnings per share (EPS) is a measurement of a business's profitability that is split among all outstanding shares of common stock. Lately, Baharuddin et al. (2022) argued the company's net income and earnings that are available for distribution to all shareholders are shown by EPS. One may anticipate that a business with a high EPS will present investors with an excellent income possibility.

DPS is the term used to describe the required and calculated distribution of a portion of a SCB and Nabil net profit, as decided by the board of directors, to a class of its shareholders. The dividend can come in the form of cash, stock, or other property. According to Velankar et al. (2017), dividend per share (DPS) represents the amount allocated to shareholders for their equity per share as well as the return earned per share. The shareholders receive a cash dividend, which is the distribution of the net profit after taxes. It is an incentive for the investor's investment risk (Geetha & Swaminathan, 2015). Zafar et al. (2012) argued that DPS is part of the company's profit that is distributed to its owners.

This study seeks to examine the effect of EPS and DPS of SCB and Nabil of commercial banks in Nepal, using financial statement data. The goal is to explore how these internal factors influence the stock prices of SCB and Nabil banks. The structure of the remaining sections is as follows: the next section outlines the problem state-

ment, theoretical framework, and literature review; this is followed by an explanation of the research methods employed. The penultimate section presents the empirical findings and discussion, and the final section concludes the study.

The previous studies have examined the influence of financial variables on stock prices, a comprehensive analysis specifically focusing on the impact of EPS, DPS, and the stock price of Commercial Bank of Nepal remains under-explored. This research gap requires a deeper investigation into the unique dynamics of the Nepalese banking sector, particularly concerning the relationship between financial performance deeply measurement and stock valuation. By addressing this gap, this study aims to contribute to the existing body of knowledge, provide practical insights for investors, policymakers and potentially validate established theories in the context of the Nepalese Banking market

Research Questions

The stock price determination is one of the most debated topics within corporate finance and many academics have been trying to find the missing pieces in the puzzle for more than a half century. The study is directed to resolve the following issues:

- What is the relationship of selected banks' Earning Per Share and Dividend per share?
- What is the impact of EPS and DPS on market price per of selected bank?

Operational definitions

Market Price

The present study seeks to examine the factors influencing stock prices of SCB and Nabil banks in the Nepalese stock market. As observed by researchers such as Malhotra (1987), Piotrowski and Roulstone (2004), and Khan, M. N. (2012), stock prices can fluctuate rapidly due to changes in buying and selling pressure. Due to these fluctuations, it becomes challenging to determine which market price should be used as a dependent variable in analysis. In this study, the closing price of the stock at the end of the bank's financial year has been chosen to represent the market price. This market price is used as the dependent variable in the present study.

Dividend Per Share

The dividend per share provides an indication of how well earnings support dividend payments. Dhanani (2005) found that dividend policy can improve corporate market value. In fact, more mature companies tend to have a higher payout ratio. Conversely, it means that there is an inverse relationship between the payout ratio and share price changes. The hypothesis that could be tested, based on these findings is there is a negative relationship between dividend per share and share price.

Earnings Per Share

Earnings per share serve as an **indicator** of a company's profitability. Increasing earnings per share generally **leads to** a higher market price. According to Ball and Brown (2014), Baskin (1989), Malhotra and Tandon (2013), Almumani (2014), Ruhani, F., Islam, M. A., Ahmad, T. S. T., & Quddus, M. R. (2018), earnings per share have a positive relationship with market price, that is, higher earnings per share are associated with a higher market price. Based on theory and these empirical findings, another hypothesis to be tested in this study is there is a positive relationship between earnings per share and share price

Relationship between EPS, DPS and Stock Price:

Earnings Per Share (EPS) and Dividends Per Share (DPS) are key financial metrics that significantly influence a company's stock price. Higher EPS often indicates strong financial performance, attracting investors and driving up the stock price. Similarly, a higher DPS can be a sign of financial stability and a commitment to shareholders, leading to increased demand for the stock. Additionally, a company's size, typically measured by market capitalization, plays a role. Larger companies, with their established market positions and lower risk profiles, tend to have more stable stock prices. However, smaller companies, particularly those in high-growth sectors, can experience significant price fluctuations, often driven by investor sentiment and future growth expectations.

Review Of Literature

Ebrahimi and Chadegani (2011), studied the relationship between Earning, Dividend, Stock Price and Stock Return. They used cross-section, pooled data and panel data regression models for testing. They investigated the effect of earning, dividend and stock price on stock return. In earlier years the effect of dividend was significant but in later years there was not any significant relationship between dividend and stock return. The results showed that only earning has effect on stock return and there is a significant relationship between EPS to stock price ratio and stock return.

Hafeez, M. M., Shahbaz, S., Iftikhar, I., & Butt, H. A. (2018). has analyzed the impact of dividend policy on the share price volatility. The impact of two main measurement of dividend policy i.e. dividend yield and dividend payout on stock price volatility are examined by applying multiple regression and found significant negative relationship. They also observed the significant negative impact of firm size on stock price volatility Pertiwi, P. T., & Wiagustini, N. L. (2020). Further it has been observed that dividend yield and size are the most important indicators of stock price volatility.

Mehr-un-Nisa, M. N., & Nishat, M. (2011). has investigated the impact of financial fundamental and macroeconomic factor on the stock price and found that previous year's stock price, company size and previous year EPS have significant impact on current year's stock price. They also revealed that macroeconomic factors like real GDP growth, ROI and financial development have strong impact on stock price. Further they revealed that there is no significant impact of market to book value, share turnover ratio and inflation rate on stock price Jepkemei, B. (2012).

Bhatt and Sumangala (2012) have investigated the impact of EPS on market value of equity share. By applying correlation coefficient, they found the positive relationship between EPS and market value of equity share and by applying regression analysis they found the significant impact of EPS on the market value of equity shares. They also stated that EPS is only one of the factors affecting market value of equity shares, there are other factors also which affect the market value of equity shares such as company related factors, and industry related factors and economic factors.

Velankar, N., Chandani, A., & Ahuja, A. K. (2017). has examined the factors affecting stock price on NSE 100 companies. They use linear regression model and found that there is a significant positive relationship of firm's book value, EPS and Price Earnings Ratio with firm's stock price, whereas there is significant inverse relationship of dividend yield with market price of firm's stock.

Almumani (2014) has examined the determinants of Equity Share Price. They used regression and correlation analysis and found that out of six factors affecting the share price, 4 factors which are EPS, Book value per share, Price Earnings Ratio and Size have significant impact on share price whereas other two factors which are DPS, Dividend Payout have no significant impact on the share price.

Islam, Khan, Choudhury, and Adnan (2014) have investigated how the EPS affects share price and firm's value. They revealed that as EPS increases the share price also increases but not that much. EPS is only one of the factors affecting share price, there are also other factors affecting share price such as macroeconomic factor, microeconomic factor on the company, director's role and company's factor and other factors. The researcher has suggested that investor should keep in mind above said factors along with EPS while investing in capital market.

Adebisi and Lawal (2015) has investigated the factors affecting firm's equity share price. They identified that the DPS, EPS, book value per share, dividend payout, price earnings ratio and size of the firm has the major impact on the firm's equity share price. Velankar, N., Chandani, A., & Ahuja, A. K. (2017), has investigated the impact of book value, DPS, EPS, of the firm, Dividend per share, dividend yield, return on net worth, and Price Earnings ratio on the equity price of listed Companies in BSE. By employing multiple regression analysis, they found that book value and return on net worth have significant positive relationship with market share price.

Conceptual Framework

The conceptual framework is designed to test the effect of these variables on the market price per share to EPS and DPS of SCB and Nabil Bank in this study. This framework describes the dependent and independent variables relationship and tentative outcomes of the study in
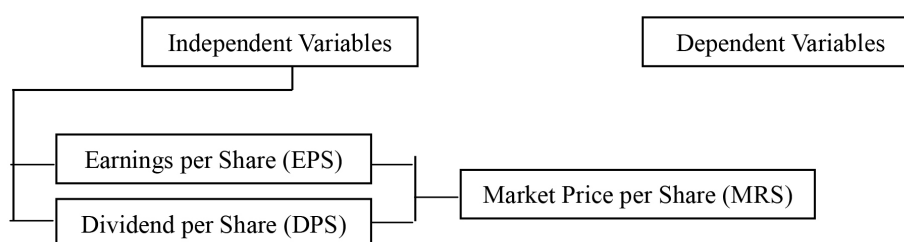
The relationship between SCB and Nabil Bank are listed on the Nepal Stock Exchange (NEPSE), is primarily influenced by their respective financial performance and dividend policies. Both banks' market price per share (MPPS) is influenced by their earnings per share (EPS) and dividends per share (DPS). Higher EPS and DPS generally lead to higher share prices and attracting investors observing both capital appreciation and income. This analysis provides a basic framework of financial statement analysis and market research.

Research Methods

With a view to attaining the overall objectives of the research, the research has been carried out following the systematic methodology. The section provides a description of the type of data and with the description of methods and procedures for analyzing data.

Data Collection Procedure

This study is based on secondary data. The basic data have been collected from the annual reports of the selected banks. Other supplementary data and information have been obtained from various sources such as Nepal Rastra Bank, Nepal stock exchange limited, previous dissertation, research publication, and relevant database form websites.

Results
Earnings Per Share
Earnings Per Share (EPS): EPS is the portion of a company's profit allocated to each outstanding share of common stock. It reflects the earning power of a company. It makes easy to compare past and present EPS of the company and compare with competitions.

Table 1: Data analysis of EPS of SCB & NABIL Bank

Year	SCB (Rs)	NABIL(Rs)
2076/77	24.76	37.24
2077/78	16.35	32.54
2078/79	24.07	22.67
2079/80	37.39	27.82
2080/81	35.03	26.10
MEAN	27.52	29.274
SD	8.633	5.699
SKEWNESS	-0.04578	0.489
KURTOESIS	-1.5999	-0.715

Source: websites of selected banks

The trend of earning per share for SCB was increasing in trend while as NABIL bank was decreasing. SCB's have a lower mean EPS (27.52) and higher standard deviation (8.633) indicate more volatility and higher risk, suggesting smaller operations. In contrast, Nabil Banks have a higher mean EPS (29.274) and lower standard deviation (5.699) imply greater stability and lower risk, indicating larger operations. SCB's negative skewness (-0.04578) and kurtosis (-1.5999) suggest a less volatile and less skewed distribution, potentially indicating fewer extreme values in EPS, whereas Nabil Bank's positive skewness (0.489) and negative kurtosis (-0.715) indicate a more volatile and skewed distribution, possibly reflecting a more dynamic market position.

This means SCB's higher risk might prevent conservative investors but attract those seeking higher returns, while Nabil Bank's stability and stronger market position likely appeal to a broader range of investors, promoting confidence.

Dividend Per Share
Earnings per share was increasing in SCB Dividend Per Share (DPS) is the total amount of dividends attributed to each individual share of a company's outstanding stock. Calculating the dividend per share allows an investor to assess how much money he or she will receive from the company on a per-share basis.

Table 2 Data analysis of DPS of SCB & NABIL

Year	SCB	NABIL
2076/77	11.84	35.26
2077/78	13.06	38
2078/79	16.51	30
2079/80	19	11
2080/81	25.5	10
Mean	9.99	25.704
SD	4.868	11.0285
SKEWNESS	0.927	-0.415
KURTOESIS	0.409	-2.839

Source: websites of selected banks

SCB's lower mean DPS (17.182) and higher standard deviation (5.442) indicate lower average operational levels and higher volatility, suggesting greater risk. In contrast, Nabil Bank's higher mean DPS (24.852) and lower standard deviation (13.418) imply higher average operational levels and greater stability. SCB's positive skewness (0.927) indicates potential for rapid growth but higher risk, while Nabil Bank's negative skewness (-0.414) suggests a more conservative approach with lower risk and moderate growth potential. Additionally, SCB's kurtosis (0.409) suggests a higher risk of extreme events in financial performance, whereas Nabil Bank's kurtosis (-3.072) implies a lower risk of extreme events and potentially more stable financial performance. This analysis

highlights the contrasting financial dynamics between SCB and Nabil Bank, giving insight into their respective market positions and investor perceptions.

Table 3: Relation between Earning per share and dividend per share

Year	SCB		Nabil	
	EPS (Rs)	DPS(Rs)	EPS (Rs)	DPS(Rs)
2076/77	24.76	11.84	37.24	35.26
2077/78	16.35	13.06	32.54	38
2078/79	24.07	16.51	22.67	30
2079/80	37.39	19	27.82	11
2080/81	35.03	25.5	26.10	10
P-value(t-test)	P= 0.015*		P= 0.439	

*Significant at 5% level of significant

Table 3 shows the relationship between earning per share and dividend pers share within the SCB and Nabil banks. Significant relationship was found in SCB (p=0.015) at 5% significant level but not significant in Nabil bank (p=0.439). It shows the indication of strong evidence that SCB's DPS is statistically higher than Nabil's.

Conclusion and Findings

The analysis of Earnings Per Share (EPS) and Dividends Per Share (DPS) for SCB and Nabil Bank reveals distinct financial profiles. SCB, with lower average EPS and higher volatility, suggests smaller operations and greater risk exposure. In contrast, Nabil Bank exhibits higher average EPS and lower volatility, indicative of larger operations and a stronger market position.

Also, SCB's DPS analysis indicates lower average levels and higher volatility, suggesting greater risk. Nabil Bank, on the other hand, demonstrates higher average DPS and lower volatility, suggesting higher operational levels and greater stability.

The study's findings over the period 2076/077 to 2080/081 demonstrate a significant positive association between both EPS and DPS with the share prices of Nepalese commercial banks. This highlights the crucial role of these financial indicators in determining stock prices within the Nepalese banking sector. SCB has significantly higher DPS than Nabil and SCB provides better returns to shareholders in the form of dividends. EPS does not differ significantly between SCB and Nabil suggesting both banks have similar profitability trends.

The results of this study exposed new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seem to be particularly useful for equity investors. Banks managers are watching significant factors while estimating stock returns and predicting share prices.

Nabil has a higher average EPS (29.274) than SCB (15.934), suggesting stronger profitability. SCB's EPS is more volatile (SD = 8.633) than Nabil's (SD = 5.699), indicating greater earnings instability. SCB has significantly higher DPS than Nabil (p = 0.015), meaning it distributes more earnings as dividends. Nabil has higher EPS but lower DPS, suggesting it retains more profits rather than distributing them to shareholders.

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