Factors Influencing Stock Prices in Commercial Banks of Nepal

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Abstract
This study explores the factors that influence stock prices in commercial banking business in Nepal. Descriptive and causal-comparative research design and purposive sampling technique used in this research examine how critical financial variables affect market prices per share (MPPS), including book value per share, earnings per share, dividend per share, and price-earnings ratio. There is a statistically significant but relatively small positive correlation between book value per share. The results show that MPPS and earnings per share, dividend per share, and price-earnings ratio are significantly positively correlated. The model demonstrates its robustness in capturing stock price changes by accounting for around 86.1% of the variation in MPPS. These observations offer insightful recommendations for experts and investors involved in Nepal’s commercial banking sector.

Keywords: Banking Industry, Corporate Earnings, Dividend Policy, Economic Influences

JEL Codes: G14, G21, G23, G32

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1. Introduction

The stock market is a fundamental part of any economy (Bosworth et al., 1975; Nuti, 2023) because it shows how healthy the economy is and helps people move money around (Adebayo et al., 2022; Ghimire et al., 2021; Liu et al., 2020; Melnyk et al., 2022; Rakshit & Neog, 2022). It takes people's funds and gives them to businesses needing money. This is a significant part of making the economy grow. The stock market shares financial risk and makes it easier for rich people to give their money to poor. This changing environment ensures that money goes to the best business options. The economic market encourages industrial growth, which in turn helps the national economy (Dahal, 2018; Ghimire & Neupane, 2020; Joshi et al., 2023; Shkarupa et al., 2022). When it comes to Nepal, the stock prices of commercial banks change due to some factors, such as financial data and the overall state of the economy (Maharjan, 2022; Rimal, 2023; Pant et al., 2022; Shrestha & Gnawali, 2022). Price changes don't happen constantly; it occurs over time in the economy. This raises a core question: what causes these changes in stock prices?

People who work in the capital market are very interested in this question. Recent market downturns have presented new challenges for economic and statistical models, necessitating a closer examination of the factors influencing stock prices. This research aims to explain the dynamics at play whenever stock prices shift. It is particularly interested in the factors that influence the stock values of commercial banks. This analysis aims to determine the relationship between market price per share (MPPS) and earnings per share (EPS), dividend per share (DPS), price earning ratio (P/E), and book value price per share (BVPS). It also will examine how market mood, rumors, interest rates, and government security affect stock prices. Demand and supply patterns are one of them. These are EPS, DPS, P/E ratio, BVPS, firm growth, monetary policy, interest rates, political conditions, gross domestic product (GDP), information dissemination, company governance, and more. Buyers need to know how these essential factors affect stock prices because it helps them make intelligent choices and helps companies raise their market value. Investors need an understanding of share price dynamics, including what causes price fluctuations and how often they occur, to make informed investing decisions. A small number of studies have been conducted on securities traded on the NEPSE; however, most of these studies present capital structure analysis, deposit mobilization of the companies, dividend policy, risk, and return, etc., but enough researches have not been conducted to provide a fundamental understanding of the factors that influence the stock price. This research aims to shed light on the dynamics of stock prices by determining the elements that affect them and how specific factors relate. The specific objectives of the study are listed below:

- To evaluate how EPS, DPS, P/E ratio, and BVPS relate to and impact Nepalese commercial banks' MPPS.
This research holds significant value for a wide range of stakeholders. It is a valuable resource for future students that lay the groundwork for more study. Financial managers and people who trade on the Nepal Stock Exchange (NEPSE), such as brokers, financial intermediaries, and mentors, can learn valuable things to help them make better choices and understand how the market works. This study is also helpful for people who are interested in the Nepalese commercial banks' share market, especially those who don't know much about stock prices and the factors that affect them. Nepalese commercial banks can use this study to learn more about market trends, how investors act, and the factors that affect the success of their stocks. This will help them make better strategic decisions and make the market more competitive.

The introduction covers the background, problem description, goals, significance, and paper structure. Constructing the research framework, the Literature Review integrates theoretical, conceptual, and empirical elements. The study procedures and data sources are described in the methodology. While the discussion interprets the findings, the presentation and analysis includes study findings and data analysis. The future orientations section provides suggestions for research directions and a summary of the findings and their consequences. The references are appropriately put in the designated section titled references.

2. Literature Review

In global finance, extensive research has been conducted, leading to a substantial body of literature encompassing research papers, articles, books, and journals on securities markets. While Nepal's capital market may still be in its infancy, it has not been immune to scholarly exploration. Despite its relatively underdeveloped state, Nepal's stock market has garnered attention from researchers. As delineated by Madura (2015), a financial market serves as a dynamic arena for exchanging financial securities like stocks and bonds, facilitating the flow of funds and enabling financing and investment by a diverse range of participants, including households, firms, and government agencies. Money and capital markets are two essential components of the financial market. The money market, characterized by its focus on highly liquid, short-term debt securities, facilitates trading financial instruments with short maturity periods, emphasizing easy marketability and liquidity while bearing lower risk than other securities (Choudhry, 2003).

Securities with a lengthy time horizon, including bonds and equities issued by corporations, are traded on the capital market (El Wassal, 2013). It acts as a conduit for long-term capital flow, engaging both long-term surplus and deficit units represented by governments, businesses, and individuals. The bond and stock markets are part of the capital market, where instruments like mortgages, common stock, treasury bonds and notes, corporate and foreign bonds, and state and local government bonds and notes are traded (El Wassal, 2013). The growth and development of the capital market play a pivotal role in driving
rapid economic development, as it mobilizes long-term capital necessary for the productive sector (Chalise, 2020; Dahal, 2022). It is within the capital market that financial claims and obligations with maturity periods exceeding one year are bought and sold, and it is further divided into two distinct segments: the Primary Market and the Secondary Market.

Within stock price determination, signaling theory posits that firms utilize various financial indicators, including dividend payments, to communicate essential information about their financial health and prospects to investors (Ghimire, 2021; DeWitt, 2018). Specifically, in this study, the theory suggests that the dividend policies of selected banks may serve as signals of their stability and profitability. For instance, consistent high dividend payments might signal strong financial performance and management confidence, while low dividend payments could indicate economic uncertainty or potential challenges. Analyzing how signaling theory operates within the commercial banking sector of Nepal can provide insights into the role of dividends as indicators of bank health and their subsequent influence on stock prices. Modigliani and Miller popularized that a company's dividend policy should not affect its stock price or total worth, a theory known as the Dividend Irrelevance Theory (Brennan, 1971). This theory contends that investors are indifferent between receiving dividends and capital gains, implying that a firm's dividend policy change should not have any discernible impact on its stock value.

Within this study, investigating whether changes in DPS for selected banks correspond to changes in MPPS offers an opportunity to assess the validity of the Dividend Irrelevance Theory within the specific dynamics of the Commercial Bank of Nepal sector. This exploration of financial theories, their applicability, and their implications in Nepalese commercial banking business context aims to provide a deeper understanding of the intricate interplay among firm-specific factors and stock values, offering insights into the underlying mechanisms shaping market valuations over a specified ten-year period.

Essential aspects, including firm size and book-to-market ratio, are highlighted by Fama and French's Three-Factor model for explaining stock returns (Fama & French, 1993). Numerous studies have examined the state of the Nepalese stock market, yielding essential insights. Earnings per share, dividends per share, and returns on assets are all factors that have been shown to have positive correlations with share prices in the market, while leverage and inflation are shown to have negative correlations (Ghimire & Pant., 2022; Karki et al., 2023; Sapkota, 2016). While exposing negative correlations with book-to-market ratio, asset growth, and earnings price ratio, Gautam (2017) reaffirmed the positive relationship between market returns and firm-specific variables such as market capitalization, leverage, dividend payout, and dividend yield ratios. The influence of accounting information and firm-specific factors on stock prices is not unique to Nepal; it holds relevance in other emerging markets such as Ghana (Aveh & Awunyo-Vitor, 2017). Pradhan et al. (2017) confirmed the positive associations between
fundamental factors like dividend per share, return on assets, and earnings per share with stock values, highlighting the significance of these variables. Firm-specific and macroeconomic factors reveal the multifaceted determinants of share prices within the Nepalese banking and insurance sectors (Bhattarai, 2018). In addition to highlighting the negative correlations with interest rates, Nepal (2018) emphasized the significance of factors such as business size, earnings per share, return on assets, dividend per share, gross domestic product, and inflation in determining market pricing.

Two factors that significantly impact stock prices among commercial banks are earnings per share and stock dividend per share, emphasizing the statistical and economic significance of the stock dividend variable (Karki, 2018). Silwal and Napit (2019) accentuated the positive relationship between book value per share, price-earnings ratio, and return on equity with stock prices. Wasfi Al Salamat et al. (2021) reveal the complex relationship between trading volume, dividend yield, GDP, return on assets, dividend payout ratio, and P/E in determining stock price volatility, highlighting the risk-reducing potential of increased dividend payments. Kaur and Gupta (2021) explored firm-specific attributes influencing shareholding patterns of BICs, offering insights into the dynamics of stock ownership within the context of Nepalese commercial banks and additional evidence that there is a positive correlation between metrics like Market Book proportion, Price-earnings proportion, and Earning Yield proportion with stock market prices, while noting the limited influence of Dividend Yield proportion (Wagle, 2021). Shrestha and Lamichhane (2022) highlighted the beneficial impact that dividend yield and earnings per share have on stock returns. The study identified adverse effects from earnings yield, return on assets, and the sales per share to stock price ratio. Shrestha (2022) discovered strong connections between firm-specific characteristics and market price per share. The study found that firm size, dividend per share, and earnings per share had a positive impact, while return on equity and dividend yield had a negative influence. Katuwal (2021) added to the knowledge pool, emphasizing the relevance of earnings per share and book value per share in explaining stock prices among Nepalese commercial banks, underscoring the role of these fundamental variables in stock pricing dynamics.

Regarding bank share price fluctuations, Rubaiyath and Lalon (2023) isolate Bank Size and Market Ratio as the critical influential variables, underscoring their importance in impacting stock prices. These empirical studies help us learn more about the complicated connections between firm-specific and macroeconomic factors and stock prices in Nepalese commercial banks. This is valuable information for investors, financial institutions, policymakers, and academics. The previous studies are like a solid base for this study that helped examine the complicated connections between factors affecting stock prices in Nepal's commercial bank sector.
Independent Variables

- EPS
- DPS
- PER
- BVPS

Dependent Variable
- MPPS

Figure 1: Research Framework

Study Hypotheses:

H1: EPS has a significant effect on the MPPS of commercial banks in Nepal.
H2: DPS significantly affects the MPPS of commercial banks in Nepal.
H3: The P/E ratio significantly affects the MPPS of commercial banks in Nepal.
H4: BVPS significantly affects the MPPS of commercial banks in Nepal.

3. Methodology

Using tables with simple computations, the study determined the impact of EPS, BVPS, P/E ratio, and DPS on stock price using a descriptive and causal-comparative research design.

This study focused on firm-specific factors influencing stock prices in the commercial banks of Nepal; the population under study comprises all commercial banks operating within Nepal during the specified ten-year period from 2012-2013 to 2021-2022. The research aims to investigate the relationships between the dependent variable, MPPS, and several independent variables, including EPS, DPS, PER, and BVPS. The study's sample banks include Nepal Bank Ltd (NBL), Nepal SBI Bank Ltd (NSBL), Everest Bank Limited (EBL), and Himalayan Bank Limited (HBL). NIC Asia Bank Limited (NICA), Kumari Bank Limited (KBL), Nabil Bank Limited (NABIL).

The sampling design employed for this research is purposive. Utilizing secondary data for analysis, the study provides valuable insights into the intricate relationships between these firm-specific factors and their influence on stock values within the context of the Nepalese commercial banking industry.

The data collection approach for this study entailed acquiring secondary financial and stock price data from some credible sources. Historical financial statements, including annual reports, balance sheets, and income statements, were obtained for the selected seven commercial banks. This study sought to comprehensively understand how these factors interplay and contribute to stock price fluctuations over a decade through a combination of quantitative techniques, including descriptive statistics, correlation analysis, and regression modeling. This study's overarching goal was to use rigorous
analytic techniques to illuminate the complex interrelationships that underpin the financial performance of the sampled commercial banks and, by extension, their impact on market valuation. The following financial tools were used in the study.

**Table 1**

Financial Tools

<table>
<thead>
<tr>
<th>Variables</th>
<th>Tools Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPPS</td>
<td>Total market capitalization / No. of shares outstanding</td>
</tr>
<tr>
<td>EPS</td>
<td>Total earnings of the organization / No. of shares outstanding</td>
</tr>
<tr>
<td>DPS</td>
<td>Total dividend paid / No. of shares outstanding.</td>
</tr>
<tr>
<td>P/E Ratio</td>
<td>Market price per share / Earning price per share</td>
</tr>
<tr>
<td>BVPS</td>
<td>Net worth / No. of shares of outstanding</td>
</tr>
</tbody>
</table>

**Study Model**

\[ Y = a + \beta_1 \text{EPS} + \beta_2 \text{DPS} + \beta_3 \text{PER} + \beta_4 \text{BVPS} \]

Where,

- \( Y = \text{MPS}, a = \text{y-intercept} \)
- \( \text{EPS}= \text{Earnings per Share} \)
- \( \text{DPS}= \text{Dividend per Share} \)
- \( \text{PER}= \text{Price Earnings Ratio} \)
- \( \text{BVPS}= \text{Book Value per Share} \)
- \( \beta_1, \beta_2, \beta_3, \beta_4 = \text{beta coefficient of respective variables} \)

4. Presentation and Analysis

This section presents MPPS, EPS, DPS, PER, and BVPS for the seven leading commercial banks included in the research. These descriptive statistics serve as an initial snapshot of the data and provide context for the subsequent analyses.

**Table 1**

Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>70</td>
<td>7.48</td>
<td>198.53</td>
<td>36.23</td>
<td>27.42</td>
</tr>
<tr>
<td>DPS</td>
<td>70</td>
<td>.000</td>
<td>73.68</td>
<td>22.96</td>
<td>16.75</td>
</tr>
<tr>
<td>PE Ratio</td>
<td>70</td>
<td>.86</td>
<td>54.68</td>
<td>23.39</td>
<td>10.23</td>
</tr>
<tr>
<td>BVPS</td>
<td>70</td>
<td>-24.50</td>
<td>335.60</td>
<td>189.44</td>
<td>73.35</td>
</tr>
<tr>
<td>MPPS</td>
<td>70</td>
<td>171.0</td>
<td>3385.00</td>
<td>816.61</td>
<td>660.03</td>
</tr>
</tbody>
</table>

Table 4.1 shows a snapshot of their distribution and central tendencies within 70 observations. EPS exhibits a wide-ranging distribution, with values spanning from a
minimum to a maximum. On average, the mean EPS stands at a moderate level of earnings per share across the selected banks. However, it is essential to note that the standard deviation suggests considerable variability in EPS among the banks. DPS reveals a distinct pattern, with values ranging from a minimum (Min.) to a maximum (Max.). The mean DPS signifies a moderate dividend payout across the banks. The standard deviation suggests a notable dispersion in dividend payments, reflecting differences in dividend policies among the commercial banks.

The average PE Ratio indicates that, on average, investors are prepared to pay approximately times the earnings per share for stocks in the sample. The standard deviation suggests some variability in the P/E ratios among the banks. BVPS showcases a broad distribution. The average BVPS reveals a substantial book value per share among the selected commercial banks. However, the relatively high standard deviation indicates significant disparities in book values per share, suggesting varying levels of asset backing across the banks. MPPS exhibits the most comprehensive distribution, with values ranging from 0 to 1. The average MPPS reflects the diverse stock price levels within the sample. The considerable standard deviation underscores the substantial volatility and dispersion in market prices among commercial banks. These descriptive statistics shed light on the mean and standard deviation of the most critical factors, paving the way for further investigation into the interplay between these factors and the stock price dynamics of Nepal's commercial banking industry. The study looks at the links between the different variables (EPS, DPS, PER, BVPS) and the studied variable (MPPS) in this part. The size and direction of the links between these factors can be found through correlation analysis.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>DPS</th>
<th>PE Ratio</th>
<th>BVPS</th>
<th>MPPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPPS</td>
<td>.474**</td>
<td>.808**</td>
<td>.618**</td>
<td>.534**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows significant associations among critical financial variables in the Nepalese commercial banking sector. A moderate positive correlation exists between a bank's EPS and MPPS, indicating that higher earnings per share are associated with higher market share prices. A strong positive correlation is observed between DPS and MPPS, suggesting that companies paying higher dividends per share tend to have higher market share prices. The PE ratio exhibits a moderate positive correlation with MPPS, indicating that a higher PE ratio is associated with a higher market share price. A moderate positive correlation exists between a company's BVPS and its MPPS, signifying that higher book values per share are linked to higher market share prices. These findings emphasize the status of these economic variables in encroaching on
stock prices within the Nepalese commercial banking sector.

This study explored the influence of EPS, DPS, PER, and BVPS on MPPS in Nepal's commercial banking sector through regression models to make proper conclusions about how specific factors affect stock prices by looking at the quantitative links between these factors through regression analysis.

Table 3

<table>
<thead>
<tr>
<th>Factors</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-813.763</td>
<td>-6.548</td>
<td>.000</td>
</tr>
<tr>
<td>EPS</td>
<td>8.458</td>
<td>6.367</td>
<td>.000</td>
</tr>
<tr>
<td>DPS</td>
<td>15.718</td>
<td>5.307</td>
<td>.000</td>
</tr>
<tr>
<td>PE Ratio</td>
<td>31.231</td>
<td>9.184</td>
<td>.000</td>
</tr>
<tr>
<td>BVPS</td>
<td>1.227</td>
<td>2.164</td>
<td>.034</td>
</tr>
<tr>
<td>R= .928</td>
<td>R Square = .861</td>
<td>F Value= 100.506</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: MPPS

Table 3 details how well the regression model explains MPPS in Nepal's commercial banking industry. The independent variables (book value per share, earnings per share, price-earnings ratio, and dividend per share) and MPPS have a strong positive linear association, as indicated by the high correlation coefficient (R) of 0.928. These independent variables may account for about 86.1% of the variance in MPPS, according to the coefficient of determination (R Square) of 0.861, highlighting the model's efficacy. In light of the model's complexity, the corrected R Square of 0.852 supports the model's goodness of fit. The ANOVA table shows that the F-statistic is highly significant, underlining the model's nearly perfect fit. The constant term's significance indicates a baseline MPPS even without other factors. The coefficients of the individual independent variables provide insights into their influence on MPPS. EPS, DPS, and PE ratios demonstrate strong positive relationships with MPPS, while BVPS exhibits a relatively weaker but statistically significant positive association. These findings collectively underscore the model's efficacy in elucidating stock price determinants in Nepal's commercial banking sector, providing valuable insights for investors and analysts.

5. Discussions

The different studies in the literature review shed light on the complex link between variables unique to a company and stock prices in different situations. Each study focuses on its factors and area of study, but comparing their results shows similarities and differences. One thing that comes up a lot in these studies is how some firm-specific factors are positively linked to stock prices. Dividend-related factors, such as DPS and dividend yield, tend to positively correlate with stock prices (Gautam, 2017; Bhattarai,
2018). This similarity shows how important revenue and payout policies affect investors' feelings about a stock and its worth. There are, however, differences when looking at the effect of other firm-specific factors, comparing studies that found positive and negative links between firm size and stock prices (Shrestha, 2022; Rubaiyath and Lalon, 2023), showing that size has different effects. Return on assets (ROA) and equity (ROE) also have mixed results. Studies show that firm-specific factors positively affect stock prices, while others show adverse effects (Nepal, 2018; Shrestha, 2022). These differences may be due to the complex nature of these factors and how they affect certain market situations. Different studies show different effects of macroeconomic factors on stock prices. Gross domestic product (GDP) is often seen as a good thing, which means that economic growth is good for stock prices (Nepal, 2018). However, inflation and interest rates have mixed effects. Some studies show that factors negatively affect stock prices (Bhattarai, 2020; Wasfi Al Salamat et al., 2021). These differences show the complex relationship between firm-specific and global factors that affect stock prices.

Another interesting difference is how critical different factors are in other regions. For instance, research done in Bangladesh (Ferdaous and Barua, 2020) and Jordan (Wasfi Al Salamat et al., 2021) stresses how vital company beta and trade volume is in determining stock returns. However, these factors might not be as crucial in Nepal. Most people agree that variables related to earnings and dividends have an excellent effect on stock prices. Also, other firm-specific and global factors seem to depend on the situation. These differences show how important it is to look at the unique features of each market when figuring out what affects stock prices. Researchers show how complicated it is to determine what affects stock prices in different economic situations (Dhodary, 2023; Silwal and Samrina, 2019). More study is needed to determine the complex dynamics in each situation and give investors, policymakers, and financial experts a fuller picture.

6. Conclusions

The present study concludes by thoroughly analyzing the firm-specific determinants that impact stock prices in the commercial banks of Nepal. This analysis has provided valuable insights into the complex dynamics within the banking industry. A comprehensive examination of the BVPS, MPPS, DPS, EPS, and PE ratios has shown numerous essential conclusions. The study's primary finding is that financial performance measurements greatly influence stock values. Stock prices positively correlate with EPS, which has been recognized as a critical factor. The DPS further indicates a significant impact of dividends on stock value and investor sentiment. The Price-Earnings Ratio has also become a vital indicator of investor readiness to pay more for equities with attractive valuation multiples. Concerning explaining around 86.1% of the variance in MPPS across the chosen banks, the study's regression model has shown to be somewhat effective. BVPS demonstrated statistical significance; nevertheless, its
influence on MPPS was not as strong as other components.

7. Future Orientations

For Nepali decision-makers and executives of commercial banks, the study's conclusions have significant management ramifications. The apparent positive correlation between EPS and MPPS highlights the significance of concentrating on profitability and financial success. Since sound business practices will probably lead to higher stock prices and more shareholder value, bank management should work to boost earnings. Acknowledging the favorable effect of DPS on MPPS emphasizes the function of dividends as a means of luring and keeping investors. Bank executives must consider their dividend policy and express their dedication to providing dividend payments to shareholders. Financial institutions with advantageous valuation ratios should look at measures to keep and improve their standing in the market, which could draw in additional investors.

Banks may better manage risk and balance asset growth by comprehending the dynamics of book value with comparatively less influence on stock prices. Bank management must actively participate in value evaluations and be open and honest with investors about their financial situation. Concerning Nepal's commercial banking industry, these managerial implications enable bank executives to make well-informed decisions that conform to the expectations and preferences of investors. This research can shed light on possible convergence or divergence patterns in international markets and further our understanding of how stock prices behave in various financial settings. Additionally, by promoting international partnerships and scholarly discourse, this study can help advance global knowledge of stock market dynamics.

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