

**Bank Specific Factors and Market Price of Stock: Evidence from Nepalese  
Commercial Banks**

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**Abstract**

The main purpose of this study is to examine the effect various bank specific factors on the market price per share of Nepalese commercial banks. Descriptive and causal comparative research design was carried out to complete this study. The sample comprises 10 commercial banks listed in NEPSE with 100 bank-years observation for the period of 2013/14 to 2013/24. Descriptive statistics, correlation analysis and regression analysis were performed to conduct this study. The results indicated that there were significant positive relationships between market price per share and earnings per share, price earnings ratio, return on equity, cash dividend and stock dividend, while there is a positive relationship with dividend pay-out ratio but statistically insignificant. Additionally, the regression result revealed that price to earnings ratio had the strongest positive impact on market price per share, followed by stock dividend, earnings per share, DPR and ROE whereas cash dividend has negative impact on the MPS of commercial banks in Nepal but statistically insignificant. Based on these findings, it can be concluded that Nepalese commercial banks can enhance their market price per share by focusing on improving their earnings per share, price earnings ratio, and stock dividend. Further, this study helps to provide useful insights regarding dividend practices in Nepalese commercial banks to regulators, policymakers, bank managers, and investors

*Keywords:* market price, dividend per share, earning per share, return on equity stock dividend, cash dividend,

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Capital market is a vital financial system for buying and selling long-term securities like stocks and bonds which allows companies to raise capital for expansion and operations. Participants include individual, institution, corporate, and government entities. Regulatory bodies oversee these markets to maintain transparency and stability (Uddin, 2016). The stock market promotes capital formation and expansion, which both greatly advance economic development. It makes it possible to trade securities, which facilitates the transfer of wealth, risk sharing, and fund pooling amongst savers and capital users. By enabling the distribution of resources to the most profitable ventures, this procedure promotes economic growth. Investors generally base their judgments on company share prices, and a number of theories suggest that changes in these prices are frequently associated with shifts in fundamental financial factors (Nisa& Nishat, 2011).

Modern corporate finance primarily focuses on establishing effective dividend policies that can draw in a greater number of investors and ultimately enhance the firm's value (Shrestha, 2020). Regarding the impact of dividend policy, MM proposed irrelevancy theory that stated there is no significant impact of dividend policy on the price of stock; thus, it does not have any significant effect on shareholders wealth (Miller & Modigliani 1961). On the other hand, Gordon (1963) concluded that dividends are relevant for the value of the firm. The market price reflects the perceived value of

financial assets, determined by factors such as supply, demand, and investor sentiments. The market price of a stock fluctuates regularly. Shiller (1981) found that share prices are unstable and continuously fluctuate in relation to news about fundamentals, primarily due to market irrationality. Therefore, it is essential to understand fundamental variables affecting share price in order to make profitable investment decisions.

Stock investments offer significant returns, but share prices are influenced by various factors like EPS, pay-out ratios, dividend per share, firm size, and dividend yield. Future share prices are predicted by calculating current fair value and forecasted ratios. Understanding these variables is crucial for investors to make informed decisions about stock investments (Srinivasan, 2012). Similarly, the Tandon et.al. (2013) study investigated stock prices across several stock markets with a concentration on National Stock Exchange (NSE) 100 businesses. The findings show that dividend yield has a large negative relationship with the market price of the firm's stock, book value, earnings per share, and p/e ratio have a significant positive effect with the firm's stock price. Arshad et al. (2015) studied 22 Pakistani commercial banks' stock prices from 2007 to 2013, analyzing internal and external variables. The study found that earnings per share (EPS) significantly impacted stock prices, while book to market value ratio and interest rate had a negative relationship

Nepal's capital market, despite being in its early stages, presents significant opportunities for investors to make high capital gains. Despite being volatile and risky,

capital markets are crucial for economic development and serve as platforms for investment activities (Menike et al., 2015). In the case of Nepal, dividend policy is not found to be uniform. Some companies pay regular dividends, while others may not. Certain firms have never distributed dividends to their shareholders. A key parameter that demonstrates banks' profitability and draws in investors is dividends on shares. Before making an investment in the stock market, investors review the bank's dividend policy. However, as Nepal's commercial banks' dividend policies fluctuate, investors are unable to predict the future cash flow from cash dividends (Bhandari & Pokharel, 2012). A consistent dividend should not be thought of as strict or unchanging policy. It has been perceived that an increase in the value of dividends increases the market price of stocks.

Nepal's stock market is small in comparison to other sophisticated and well-run markets throughout the world. A restricted quantity of transactions, a limited number of publicly traded companies, and a limited number of brokers exist. The balance of supply and demand for stocks influences their prices. A range of qualitative and quantitative factors plays a role in determining stock prices; nonetheless, pinpointing the exact elements that influence these prices is a challenging and debated issue. The problem with the Nepalese stock market is that it hasn't been able to come up with a suitable plan for its expansion. The majority of government programs aimed at fostering the growth of the stock market have but, only found to have a minimal impact.

Sapkota and Pradhan (2016) examined the determinants of the share price of Nepalese commercial banks. The study concluded that EPS, DPS, P/E ratio, leverage, ROA, and GDP are some of the important variables that affect the MPS of commercial banks of Nepal. Singh and Tandon (2019) study demonstrated that the dividend policy had a major effect on the stock price of the company with a dividend policy on the National Stock Exchange. Earnings per share has a major positive influence on stock market price, but dividend yield, return on equity, and profit after taxes have a negative impact. Similarly, the retention ratio and dividend per share has no significant impact on the stock market price of stocks listed on the National Stock Exchange.

In spite of these results, the link between specific factors of banks and the stock market price of Nepalese commercial banks remains unclear and changes based on the circumstances. There are currently no thorough studies that explore this particular relationship on banking sector, particularly in Nepal, remains understudied. Therefore, primary objectives of this research are to investigate how bank specific factors impact on the stock price of Nepalese commercial banks. The study intends to fill the research gap by empirically examining the variations in market price of stock (MPS) of Nepalese commercial banks by using different variables such as earnings per share (EPS), price earnings ratio (P/ER), returns on equity (ROE), dividend pay-out ratio (DPR), cash dividend (CD), and stock dividend (SD). The rest of the paper is organized as follows; second section provides an overview of literature review along with hypothesis

development, third section elaborate the research method with model and research framework, fourth section present the result and discussion and the final section conclude the paper with implication of finding

### **Literature Review and Hypothesis**

Khan (2012) study on how chemical and pharmaceutical industries' stock prices responded to dividend announcements in Pakistan using a sample of 29 companies. The finding show there is a positive relation between stock dividend, earning per share and profit after tax with stock price whereas return on equity and retention ratio have inverse but statistically insignificant relationship to stock price. Additionally, the research indicates that investors in Pakistan favor cash dividends, and if a company cannot issue cash dividends, they tend to opt for stock dividends instead.

Hunjra et al. (2014) examined the impact of dividend policy, earnings per share, return on equity, and profit after tax on stock prices in Pakistan. The data of the study is taken from the non-financial sectors (sugar, chemicals, food and personal care, energy), out of which 63 companies listed at Karachi stock exchange were analyzed for the period of 2006-2011. The findings of the research indicate that both the dividend yield and the dividend payout ratio, which are indicators of dividend policy, significantly influence stock price. There is an inverse correlation between dividend yield and stock price, whereas the dividend payout ratio is directly correlated with stock price. Additionally, other independent factors such as profit after tax and earnings per share exhibit a

significant positive influence, while return on equity has a positive but insignificant effect on stock price.

.In the context of Indonesia, Margaretha (2015) study analysed the effect of cash dividends per share, retained earnings per share, earnings per share, and leverage on the stock price. The findings indicated that cash dividends per share, retained earnings per share, earnings per share, and leverage all significantly influence the stock prices of Indonesian manufacturing companies. Therefore, investors will be drawn to invest their money in a higher stock price. Consequently, cash dividends per share, retained earnings per share, earnings per share, and leverage are all crucial elements for both investors and companies when evaluating the factors that influence changes in stock prices.

Akbar and Afiezan (2018) measure the influence of fundamental factors and macro-economic factors on sharia stock price in Indonesia. The study concluded that the exchange rate, debt to equity ratio (DER), return on assets (ROA), and earnings per share (EPS) all had a major impact on stock prices. However, stock prices are not much impacted by interest rates. Chowdhury et al. (2019) study revealed that main variables that significantly affect the stock prices of Bangladesh's financial sectors include the banks' size, dividend, P/E, NAV, EPS, and DPR. Conversely, only the dividend, P/E ratio, DPR, and NAV influence non-bank financial institutions. Dhakal (2019) investigates the factors that influence the share prices of financial companies that are listed between the years 2009 and 2018 on the Nepal Stock Exchange Limited. The findings showed that the size



of the company, price-earnings ratios, and earnings per share all significantly positively correlate with share price. On the other hand, there was a notable negative correlation seen between the share price and the dividend yield, debt ratio, and dividend pay-out ratio. The study concluded that the most important variables affecting the share price of Nepalese finance companies are the company's size, earnings per share, and price-earnings ratio.

Bhattarai (2020) examined the factors that influenced Nepalese commercial banks' market share price using bank's specific secondary panel balance from 12 sample commercial banks. The relationship between the market share price and the dividend pay-out ratio was negative and statistically significant. Additionally, the market share per price, dividend yield, and earnings per share showed a statistically significant and positive correlation. The research indicated that the bank's management should enhance their efforts to effectively manage bank-specific factors to avoid adversely affecting the share price, as elements such as the bank's size, GDP, growth rate, and inflation rate were not determinants of the market share price. Neupane (2020) examined how EPS, DPS, BPS, and P/E ratio influence the stock prices of manufacturing companies listed on NEPSE. The study found that DPS and BPS have a significant negative impact on the market stock price, while EPS and P/E ratios are insignificant and cannot predict the stock price. The study also identified Unilever as the most valuable stock and SHIVM Cement as the riskiest firm among the manufacturing companies listed on NEPSE.

Nekesa et al. (2021) examined how dividend decisions impact the market performance of share prices for commercial banks listed on the Nairobi Securities Exchange. The findings indicated that a stable dividend payout ratio and residual policy are the primary influences; however, discretionary dividend policy does not have a significant effect on the market performance of share prices for commercial banks. The results of the research imply that commercial banks should make sound dividend choices to promote strong market performance of their share prices.

Pandey and Sunar (2022) investigated the relationship between share price and return on equity, earnings per share, dividend payout ratio, retention ratio, and dividend per share. The result revealed that earning per share, dividend per share, return on equity and dividend payout ratios have a significant positive association with market price per share. In contrast, retention ratio is negatively related with stock price. Gyawali (2022) investigated the factors affecting the market price of commercial banks in Nepal. The findings indicated that DPS, EPS, and P/E ratio have a positive and statistically significant influence on stock prices. In contrast, ROA and GDP show a positive yet insignificant effect on stock prices, while the inflation rate exerts a negative and insignificant influence.

Rubaiyat and Lalon (2023) investigate the effects of specific bank variables on the stock price of Bangladeshi commercial banks listed on the Dhaka Stock Exchange (DSE). The result from the regression models by GLS method reveals that Book to Market Value Ratio has significant negative impact on the change in market price per share. On the

other hand, Bank Size has significant positive impact in explaining the impact of the bank-specific variables on the change in share price of banks. Chhetri (2023) investigates the factors influencing the share prices of commercial banks in Nepal. Multiple regression models were utilized to assess how firm-specific variables affect the share prices of joint venture commercial banks in Nepal; findings indicate that factors such as earnings per share, price-to-earnings ratio, book value per share, and return on assets significantly influence stock prices, whereas the firm's size appears to have a negligible effect in the context of Nepal's joint venture commercial banks.

Pandey et al. (2024) investigates the elements influencing the market prices of commercial banks in Nepal from the fiscal years 2017/18 to 2021/22 AD. The research revealed a notable positive relationship between earnings per share (EPS) and the price-earnings ratio (P/E ratio), suggesting that an increase in EPS corresponds with a rise in the P/E ratio and, thus, the market price. The findings indicated that book value and dividend per share have a negligible impact on market prices, signifying that these factors play a minor role in market valuations. Thus, based on the above empirical reviews the study has set following hypothesis

H1: There is a significant effect of EPS on MPS.

H2: There is a significant effect of PE ratio on MPS.

H3: There is a significant effect of DPR on MPS.

H4: There is a significant effect of ROE on MPS.

H5: There is a significant effect of cash dividend on MPS.

H6: There is a significant effect of Stock dividend on MPS.

### **Research Methods**

The main purpose of study is to examine the effect of bank specific variables on the market price of stock of commercial bank in Nepal, descriptive and casual research design has been used to conduct the study. Among the 20 listed commercial banks in NEPSE 10 banks were selected as sample using simple random sampling method. The study is mainly based on secondary data for bank specific factors which is obtained from bank and financial statistics published by NRB, NEPSE and the website of sample banks. The study covers data range from the year 2013/14 to 2023/24 panel data set from the 10 commercial banks extracted for 10 years with 100 bank-years observation. SPSS 20 was used for data analysis and to estimate the effect of bank-specific factors on market price of stock.

### **The model**

The model estimated in this study assumes that the bank specific factors on market price per share may be seen as under:

Market price per share = f (firm specific variables)

MPS =f (EPS, P/ER, ROE, DPR, CD, and SD)

$$MPS_{it} = a + b_1EPS_{it} + b_2P/ER_{it} + b_3ROE_{it} + b_4DPR_{it} + b_5CD_{it} + b_6SD_{it} + e_{it}$$

MPS<sub>it</sub> = Market Price per Share for the bank during t period

EPS it = Earnings per Share for the bank during t period

P/ER it= Price Earnings Ratio for the bank during t period

ROE it= Return on Equity for the bank during t period

DPR it= Dividend Payout Ratio for the bank during t period

CD it= Cash Dividend for the bank during t period

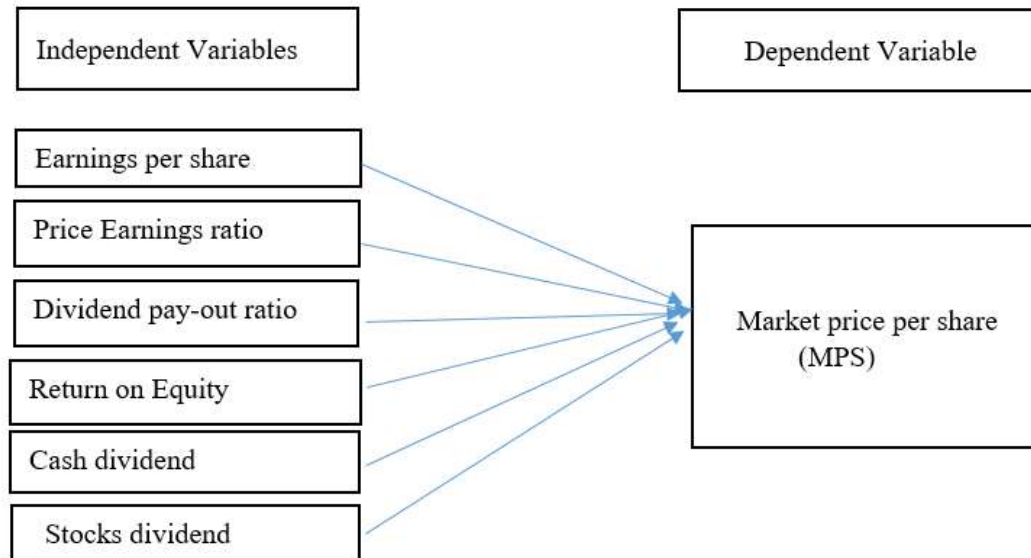
SD it= Stock Dividend for the bank during t period

b1, b2, b3 b4, b5, b6 = regression coefficient for respective variables

eit= error terms

### **Research Framework and Definition of Variables**

The study framework is based on previous empirical research conducted by various scholars. In this study, the market price per share is treated as the dependent variable, while the independent variables include earnings per share, price earnings ratio, return on equity, dividend pay-out ratio, cash dividend and stock dividend. The framework for the study is presented in Figure 1:

**Figure 1***Framework for the study***Table 1***Definition of variables*

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Variables	operational definition
MPS	Closing price of stock of banks at the end of fiscal year.
EPS	Net Income after tax to total share outstanding
PE ratio	Market price per share to Earnings per share
DPR	Total Dividend paid to Total Earning
ROE	Net Income after tax to Total shareholder's equity
CD	percentage of cash dividend distributed by banks to their shareholders
SD	Percentage of stock dividend distributed by banks to their shareholders

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## Results and Discussion

### Descriptive Result

Descriptive statistics is a field of statistics focused on gathering, analysing, interpreting, and presenting data. It is used to summarize the main features of a dataset, such as its central tendency and variability. Table 2 presents the descriptive statistics for the dependent variable (market price per share) and a range of independent variables, including EPS, PE ratio, ROE, DPR, CD and SD.

**Table 2**

*Descriptive Statistics*

Variables	Minimum	Maximum	Mean	Std. Deviation
MPS (Rs)	165.00	3385.00	645.53	556.916
EPS (Rs)	7.46	86.04	28.546	14.426
PE (time)	9.92	51.31	21.01	7.696
DPR (%)	0.00	186.27	72.05	32.057
ROE (%)	5.31	32.98	16.26	5.086
CD (%)	0.00	50.63	5.83	8.401
SD (%)	0.00	70.00	14.81	11.164

Table 2 provides the descriptive statistics of dependent and independent variables. The variable MPS range its minimum value from Rs 165 and the maximum Rs3385 with

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mean value 645.53 and the SD is 556.916. This indicates that MPS of banks vary widely from the mean. Similarly, EPS has minimum value Rs 7.5 to maximum Rs 86 with mean value Rs 28.55 and SD 14.43. This also indicates that there is significant variation in the EPS of Nepalese banks. Likewise, PE of banks have minimum value 9.92 times to maximum is 51.31 with average mean 21.01 and SD 7.69. DPR has minimum value of 0% to maximum with 186.27% with mean value 72.05 and SD 32.05. Similarly, ROE of banks ranges from 5.31% to 32.96% with average mean value 16.6 and SD 5.08.

Cash dividend of banks range with minimum 0 to maximum 50.63% with average value 5.83 and SD 8.401 and lastly, Stock dividend of banks in Nepal range with minimum 0 to maximum 70% with mean value 14.81 and SD 11.16.

**Table 3**

### *Correlation Result*

#### **Correlations Matrix**

	MPS	EPS	PE	DPR	ROE	CD	SD
MPS	1						
EPS	.891**	1					
PE	.736**	.421**	1				
DPR	.115	.015	.246*	1			
ROE	.722**	.836**	.341**	.023	1		
CD	.457**	.626**	.037	.100	.456**	1	
SD	.614**	.463**	.587**	.617**	.421**	-.095	1

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

\*. Correlation is significant at the 0.05 level (2-tailed).



As Table 3 shows the correlation result among different pairs of bank specific variables with MPS of commercial banks. The result showed EPS, PE, ROE, CD and SD has significant positive correlation with MPS at 1 percent of significant level, which indicate that if these predictors variable increase then outcome variable (MPS) also increase and vice-versa, whereas DPR also has the positive correlation but statistically insignificant. Among the six bank specific factors EPS has the highest correlation whereas DPR has the lowest correlation with outcome variable MPS. Similarly, all the predictor variables show positive correlation with each other ranging moderate to weak indicating that there is no problem of multicollinearity, whereas, SD and CD has negative as well as weak correlation but not statistically significant that indicate that if SD increases then CD decreases and vice-versa.

**Regression Result****Table 4***Multiple Regression Result of Bank Specific Factors on MPS*

Model	Unstandardized		Standardized	t- value	Sig.	Collinearity	
	Coefficient		Coefficient			Statistics	
1	B	Std. Error	Beta			Tolerance	VIF
	-						
(constant)	443.395	75.062		-5.907	0.001		
EPS	16.912	2.977	0.438	5.68	0.001	0.278	3.595
PE	29.114	1.814	0.402	16.049	0.001	0.616	1.624
DPR	4.119	0.854	0.237	4.824	0.001	0.16	6.248
ROE	4.299	4.025	0.039	1.068	0.288	0.286	3.497
CD	-0.692	2.089	-0.01	-1.513	0.134	0.126	7.939
SD	18.032	3.40	0.361	5.303	0.001	0.502	1.994
R squared- 0.976							
Adj. R squared- 0.953							
F value- 382.66							
F sig.- 0.000							

Table 4 exhibits the result of multiple regression of bank specific factors like EPS, PE ratio, DPR, ROE, CD and SD on market price of stock of commercial banks in Nepal. The value R square 0.976 indicates that independent variables explain about 97.6% on dependent variable MPS. Likewise, F stat value is 382.66 with F sig.0.001, it means the overall model is significant for the study and it can use the OLS to test the variables. VIF of all variables ranges from 1.624 to 7.939 which is less than 10 therefore there is no problem of multicollinearity.

The beta value of EPS is 16.911, with a p-value of 0.001. The positive and statistically significant beta value of EPS in the model indicates that EPS has a strong positive effect on MPS, making it an important factor to predict changes in stock price of Nepalese banks. Hence, H1 (There is a significant effect of EPS on MPS) is accepted. This finding is consistent with the finding of Chaudhary et. al (2019), Gyawali (2022) and Al-Dwiry (2022) while contradict with the findings of Budhathoki et. al (2023) and Neupane (2020). Similarly, beta coefficient value of P/ER is 29.114., with a p-value of 0.001. This suggests that there is a strong positive effect of P/ER on market price per share, and also statistically significant. Hence, H2 (i.e., There is a significant effect of PE ratio on MPS) is accepted. This result is consistent with the findings of Chhetri (2023) and Dhodary (2023) while contradicting with the findings of Neupane (2020)

Likewise, beta coefficient value of DPR is 4.119, with a p-value of 0.001 which indicates that there is also positive effect of DPR on market price per share, which is also statistically significant. This indicate that higher dividend payout ratio intend to increase higher the market price of share of Nepalese banks. Hence, H3 (i.e., There is a significant effect of DPR on MPS) is accepted. This result is consistent with the empirical findings of Pandey and Sunar (202), Budhathoki et. al (2023) but contradict with the findings of Bhattarai (2020) and Dhakal (2019). Similarly, the beta value of ROE is 4.297, with a p-value of 0.288. This indicates that there is a positive effect of ROE on market price per share but not statistically significant. Hence, H4 (i.e., There is a significant effect of ROE

MPS) is rejected. This result is consistent with the empirical findings of Hunjrae et.al (2014) and Silwal and Napit (2019) while contradict with the findings of Khan (2012).

The beta value of CD is  $-0.692$ , with a p-value of  $0.134$ . This result pointed that there is a negative effect of cash dividend on market price per share but this finding is not statistically significant. This result indicates that higher cash dividend has inverse effect on the market price of share however there is not strong evidence to support it. Hence, H5 (i.e., There is a significant effect of CD on MPS) is rejected. Whereas, the beta value of SD is  $18.033$ , with a p-value of  $0.001$ . This indicates that there is a positive effect of stock dividend on market price per share and this result is statistically significant. This finding suggests that higher SD of bank lead to higher increase in the market price of share his Hence, H6 (i.e., There is a significant effect of SD on MPS) is accepted. This result is consistent with the empirical findings of Shrestha (2020) while contradict with the empirical findings of Khan (2012)

### **Conclusion and Implication for Future Research**

This paper examines various bank specific factors that effects on the market price of Nepalese commercial banks. Among the various bank specific variables EPS, P/ER, ROE, DPR, CD and SD are taken as major predictors to measure the effect on market price of banks in Nepal. The study concludes that EPS, PE ratio, SD and DPR has the strong statistically significant positive impact on the market price whereas CD has negative impact but statistically insignificant. The study further conclude that Nepalese

commercial banks can enhance their market value by focusing on improving their earnings per share, price to earnings ratio, dividend pay-out ratio, and stock dividend.

This research focuses solely on a selection of 10 commercial banks in Nepal. More extensive findings could be obtained by exploring a broader range of variables associated with the banks as well as other external macroeconomic factors and their connection to the market prices of these banks. This study focuses only on the bank specific factor that effect on the MPS but there are several behavioural and psychological factors in investors that influence on the market price of banks. so future researcher can incorporate those factors to observe the real picture that determine the market price of share.

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