An Empirical Study on Evaluating the Performance of Share Price Drivers in the Commercial Banking Service Sectors

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ABSTRACT

The stock market significantly impacts a country's economic development by influencing capital allocation and investment decisions. In this context, the current study set its sights on Nepalese commercial banks' variations in stock prices from the fiscal year 2013/2014 to 2023/2024. The study employed a descriptive and causal-comparative design using secondary data from seven conveniently selected commercial banks to analyze the impact of EPS, P/E ratio, DPS, and BVPS on MPS through multiple regression and correlation analysis. The results show that EPS and the P/E Ratio have a statistically significant and positive impact on MPS, implying that they have a high predictive value for explaining stock price movements. DPS and BVPS, while theoretically expected to be positive, had a weak and slightly negative relationship with MPS. This implies they do not significantly contribute to the observed stock price fluctuations. Based on these findings, the study recommends that regulatory authorities tighten policies and enforce them to promote a more competitive and transparent capital market in Nepal, thereby increasing investor confidence and market efficiency.

Keywords: Distributed earnings per share, Net asset per share, Share trading value

1. Introduction

Market participants, financial experts, managers, and the government consider the stock market's performance to be the most exciting issue of economic study (Raza et al., 2021). The share price is the company's market value divided by outstanding shares (Weston, 1989). It indicates the price of a firm or financial institution's marketable stocks, derivatives, or other financial assets (Dahal 2022; Pant et al., 2022). The stock price reflects either the highest amount a buyer is willing to pay or the lowest amount a seller is ready to accept. Stocks are securities that enable investors to invest in a company with the expectation of earning a greater return than they would receive from a bank account or bonds. Stock markets bridge savers and capital users by pooling funds, spreading risk, and trading value (Almumani, 2014; Gurung et al., 2024).

Stock markets ensure that resources are directed to the most profitable investment opportunities, which is why they are crucial for economic progress. Daily stock prices are influenced by various economic factors, including gross domestic product, interest rates, periodic supply, current account, employment, and others (Kurihara, 2006). Fundamental methods of figuring out what factors affect the real value of a share. The main idea is that all market events occur regularly, and price changes follow each event differently. Since "values" (and much more) are already mirrored in prices, investors' expectations are not considered when determining fundamental values. Consequently, it should be easy to communicate the basics in a way that makes sense by using price behavior (Karki & Dahal, 2024; Plummer, 1989). Using the stock's trading

history, the technician forecasts when a price movement begins or changes direction, providing clear guidance on which shares to buy and sell.

The success of businesses, industries, and nations influences the prices of stocks. The price of a share of the NCBs (Nepalese Commercial Banks) has fluctuated significantly on the market. The stock market presents an unpredictable environment for both investors and companies. A significant factor that influences stock prices is the trading volume on the Nepal Stock Exchange (NEPSE). The stock price volatility of the NCBs is examined in this study in relation to their financial statements and other relevant economic factors. The study's primary objective was to evaluate how internal components/factors impact the stock price in the NCBs. More specifically, the study looked at how MPS (Market Price per Share) relates to EPS (Earnings Per Share), DPS (Dividend Per Share), P/E (Price/Earnings) Ratio, and BVPS (Book Value Per Share) of the NCBs.

The research has focused on the stock price volatility of publicly listed commercial banks in Nepal. Managers, bankers, investors, academics, students, government officials, and market analysts would all find it valuable for tracking share price fluctuations. The stock price movement study focuses on how and why share prices change in Nepal's secondary market. The study suggests that because the financial market constantly tries to predict the future, changes in financial market prices always occur before changes in fundamental conditions.

2. Literature Review

The market's stock values are puzzling to many casual investors. The investor's primary challenge is whether or not to invest in specific items or assets to gain a better, more sustainable, and fair return on their investment while assuming little to no risk. According to this perspective, many people have been researching the fluctuations in security prices for over a century. Sharma (2011) observed an excellent connection between the EPS and the MPS. Fama (1970) looked into the nature of the stock market and wanted to know if the prices of stock shares reflected all the information that was known at the time. Technical and fundamental analyses would be used to evaluate stock prices in a well-functioning market. Based on historical stock price data, the technical study analyzes the volatility of share prices and makes predictions of the price of stocks. Fundamental analysis determines whether the business is worth it (Dahal et al., 2023; Ghimire et al., 2023) and is then compared with the stock price.

Malhotra and Tandon (2013) examined the factors affecting the share prices of 100 companies listed on the NSE (National Stock Exchange). Using a linear regression model, the study found a significant positive relationship between BVPS, EPS, P/E Ratio, and the stock price. However, Malhotra and Tandon (2013) also noticed a substantial inverse connotation between the firm's stock price and dividend yield. Almumani (2014) examined the variables that affect the equity share price. Among the six factors influencing the share price, Almumani's (2014) study discovered through regression and correlation research that four of them - EPS, BVPS, P/E Ratio, and Size - have a substantial effect on the price of the stock, while the other two, DPS and Dividend Payout, have no such impact.

Srinivasan (2013) researched the factors influencing Indian equity share prices and noticed that BVPS has a favorable consequence on stock price, whereas DPS has a big negative impact. In addition, Srinivasan (2013) stated that size, the P/E Ratio, and EPS are excellent predictors of share prices. Geetha and Swaminathan (2015) analyzed the effects of BVPS, P/E Ratio, and EPS on the MPS and noticed that EPS significantly affects market pricing. However, the dividend is unaffected by the market price, whether it is a direct or indirect effect. There are direct relationships between dividend policy and share price volatility (Ali & Waheed, 2017; Dahal et al., 2024). The variables significantly influenced price volatility, suggesting that companies offering consistent dividends enjoy more stable stock prices, while profitability and leverage were directly associated with both dividend yield and share price, the share price has a

substantial negative relationship with firm size and growth.

An earlier study found that in Nepal, dividends exceeded retained profits. Dividends are significant in setting share prices in the banking and non-banking industries (Joshi, 2012). Bhattarai (2014) studied the determinants influencing bank share prices using NEPSE data from 2006 to 2014. The study revealed that, whereas EPS and the Price-to-Earnings (P/E) Ratio had a significant positive influence on stock prices, dividend yield had a significant negative effect. Velankar et al. (2017) explored how EPS and dividend per share (DPS) affected stock prices in India's public sector banks. Their analysis used time-series data from 2006/2007 to 2014/2015. The ARCH-LM test was used to determine the impact of EPS and DPS on stock prices, measure stationarity, and confirm the regression model's assumptions. The hypothesis testing revealed that both had a considerable impact on stock prices, but it also revealed the need to consider other variables that influence share price changes.

Ghimire and Mishra (2018) examined the relationship between stock prices and their influencing characteristics using a sample of eleven financial and non-financial sector companies in Nepal. The research used basic and multiple regression analysis, as well as descriptive analysis, to investigate the variables that influence stock prices. The study found that the MPS to BVPS ratio and the P/E ratio are important factors directly impacting stock price. Thapa (2019) analyzed the variables influencing stock prices in Nepal and analyzed Nepalese-listed commercial banks on the NEPSE. The study found that, whereas interest rates and the P/E Ratio had a substantial negative relationship with stock price, EPS, DPS, and effective legislation, market rumors did not. Even more important, it had been found that dividends and direction changes in interest rates substantially impacted the stock market. Bhattarai (2020) found a negative relationship between the dividend payout ratio and market price per share, while dividend yield and earnings per share showed a positive and significant correlation with market share and stock price.

Literature demonstrated that several factors influence stock prices. The majority of studies, including Bhattarai (2014), Bhattarai (2020), Ghimire and Dahal (2024), Ghimire and Mishra (2018), Malhotra and Tondon (2013), Srinivasan (2013), etc., have focused on the elements that influence the stock price. Previous empirical research indicates that the price of a stock is influenced by multiple critical variables, not just one. The variables selected to determine the MPS in Nepal were not selected consistently. In such circumstances, the conceptual outline of the study given in Figure 1 shows the study framework with independent and dependent variables:
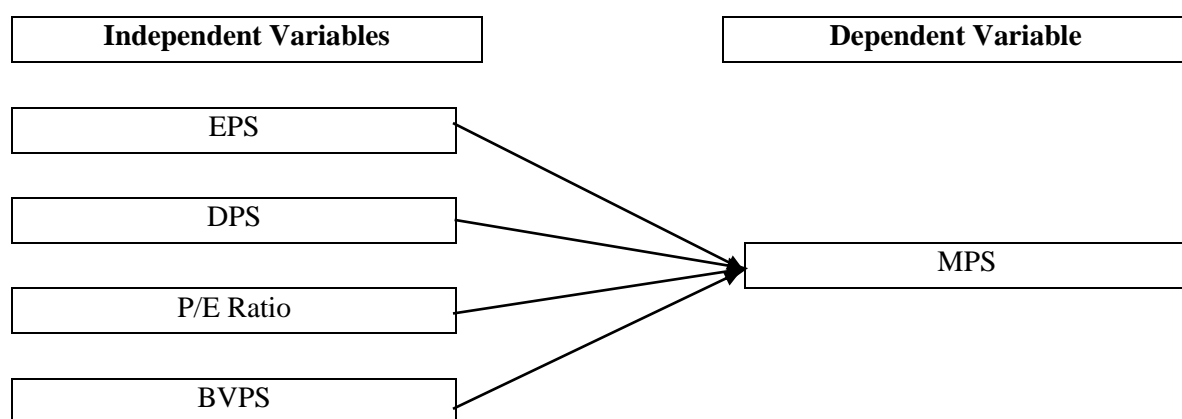
Figure 1: Study Framework

3. Research Methodology

The study adopted a causal and descriptive research design, where causal research was used to examine

the relationship between the dependent and independent variables, and descriptive research provided an overview of the data. The population included all twenty commercial banks in Nepal, and a sample of seven banks was selected using a convenience sampling technique for the analysis.

Table 1: Sample Banks

S. No	Bank	Used code
1.	Everest Bank Limited	EBL
2.	Himalayan Bank Limited	HBL
3.	Machhapuchchhre Bank Limited	MBL
4.	Nepal Investment Mega Bank Limited	NIMB
5.	Nabil Bank Limited	NABIL
6.	Siddhartha Bank Limited	SBL
7.	Standard Chartered Bank	SCB

Secondary data sources are used in this research. The firm-specific characteristics were collected through the financial statements of each bank, the periodicals from NRB (Nepal Rastra Bank), and the SEBON (Security Board of Nepal). Data acquired from many sources can only lead to a logical conclusion if the proper tools and methods are applied for data analysis. The study employed panel data from seven commercial banks over a ten-year period, from the fiscal years 2013/2014 to 2023/24. Data analysis was performed using SPSS (Statistical Package for Social Science) and Microsoft Excel, with the study model presented in Equation 1.

$$\hat{Y}MPS = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i \ldots\ldots\ldots[1]$$

Where,

$\hat{Y}MPS$ = Dependent variable,

α = Constant,

βi = Beta coefficient or slope of regression model

$X1\ldots..4$ = Independent variables,

(i.e., X1   = EPS; X2 = DPS; X3 = P/E Rati and X4 = BVPS)

e_i = Error term

4. Data Presentation and Analysis

The study assesses the price volatility of share data for NCBs. While tracking and analyzing how these variables are related, the study evaluated the impact of a number of internal features on the stock price. Then, in accordance with a causal research design, multiple financial and statistical applications (including descriptive statistics and correlation analysis) and the effects of numerous factors on the MPS of Nepali banks are explored using regression.

Descriptive Statistics

This section shows the descriptive analysis results. Table 2 summarizes the independent and dependent

variables used in the study from fiscal year 2013/2014 to 2023/2024 for the seven NCBs served as samples.

Table 2: Descriptive Results

Variables	N	Min.	Max.	Mean	Std. Deviation
EPS	70	5.72	78.04	29.85	14.06
MPS	70	174.00	3600.00	771.04	687.58
PE Ratio	70	11.26	78.33	23.77	11.90
DPS	70	0.00	105.26	22.85	17.29
BVPS	70	124.43	335.60	200.71	46.00

Table 2 shows EPS vary significantly among data, demonstrating disparities in profitability across organizations. MPS varies significantly, reflecting various enterprises' market valuations. P/E Ratio, which indicates investor expectations, shows considerable variation. DPS varies from zero to a significant sum, indicating that although some companies do not pay dividends, others do. BVPS also fluctuates greatly, indicating variances in firms' underlying worth. The standard deviations indicate high dispersion in most variables, showing that enterprises have distinct financial characteristics.

Correlation Analysis

This section presents the interplay and mutual effect of financial factors on stock performance through correlation analysis.

Table 3: Correlation Analysis
N = 70

Variables	MPS	EPS	P/E Ratio	DPS	BVPS
MPS	1	0.778**	0.820**	0.743**	0.736**
EPS		1	0.352**	0.687**	0.778**
P/E Ratio			1	0.595**	0.520**
DPS				1	0.654**
BVPS					1

**. Significancanc Level= 0.01 level (2-tailed).

*. Significancanc Level= 0.05 level (2-tailed).

Table 3 demonstrates that the correlations between MPS with BVPS (0.736), DPS (0.743), P/E Ratio (0.820), and EPS (0.778) were substantially favorable at a 1% level of significance. Such an association revealed that all the observed variables affect the stock price of the NCBs. While observing the overall correlation among independent variables at 1 % level of significance, EPS had a favorable and substantial correlation with the DPS (0.687) and BVPS (0.778), and P/E Ratio (0.352). Similarly, the DPS also had a positive and significant correlation with BVPS (0.654) at 1 % level of significance. Furthermore, the P/E Ratio had a positive correlation with DPS (0.595) and BVPS (0.520) at 1 % level of significance.

Regression Analysis

Table 4 presents the results of the regression analysis. It depicts the regression of independent factors on the stock price.

Table 4: Regression Model of MPS

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t-statistics	P-value
(Constant)	-799.316	100.103		-7.985	.000
EPS	30.155	2.501	.617	12.058	.000
P/E Ratio	37.660	2.192	.652	17.181	.000
DPS	-0.941	1.829	-.024	-.514	.609
BVPS	-1.017	.749	-.068	-1.357	.179
R	R Square	F-statistics		F (probability)	
0.973	0.947	290.67		0.000	

DV: MPS

Predictors: (Constant), EPS, P/E Ratio, DPS, BVPS

Model Summary:

$$\hat{Y}MPS = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$$

$$\hat{Y}MPS = -799.316 + 30.155\ EPS X_1 + 37.660\ P/E\ Ratio - 0.941\ DPS - 1.017\ BVPS + e_i$$

Table 4 showed that the observed variables explained approximately 94.70 % (R Square = 0.947) of the variation in NCBs share prices. The 94.70% of variance was explained by the model. F-Statistics proved the estimated model's validity. The statistics indicate that the descriptive variables were simultaneously and significantly connected to the dependent variable and explained the effect on how market share prices behave.

EPS and the P/E ratio strongly and positively influence MPS, indicating that higher profitability and investor expectations are linked to higher stock prices. The dividend per share shows a negative relationship with MPS in this study, suggesting that while dividends contribute to stock valuation, their effect is less noticeable and statistically insignificant. BVPS, however, has a statistically insignificant impact on MPS, implying that intrinsic value alone may not be a significant influencing factor in market price.

5. Discussions

This research analyzed the influence of various internal factors on stock prices of NCBs. The findings indicated a positive relationship between EPS and MPS, supporting the notion that an increase in EPS leads to higher equity share market values. These results align with previous studies by Almumani (2014), Bhattarai (2014), Khadka et al. (2024), Joshi (2012), Sharma (2011), Thapa (2019), and Velankar et al. (2017), confirming the positive role of EPS in determining stock prices. DPS exhibited a negligibly negative correlation with MPS; however, its impact on share prices was relatively weaker. Interestingly, this outcome supported the findings of Almumani (2014), Geeta and Swaaminathan (2015), and Malhotra and

Tandon (2013), who reported a significant negative effect of DPS on the MPS of listed banks in Nepal. Theoretically, the relationship between MPS and DPS is expected to be positive. Contradictory, regression analysis revealed a weak and negative relationship between the BVPS with MPS. Moreover, regression analysis revealed a positive relationship between the P/E and MPS. The results suggest that an increase in the P/E Ratio tends to drive up market price per share. These results align with previous studies conducted by Almumani (2014), Ghimire and Mishra (2018), Malhotra and Tandon (2013), and Sharma (2011), which demonstrated a notable positive impact and P/E Ratios on stock prices and contradicts about BPVS.

The study shows the current financial indicators. EBL has the most fluctuating market price, while NIMB has the least fluctuation. Furthermore, HBL has the most stable, and EBL has the most erratic EPS compared to other sampled banks. SBL's dividend yield was negative due to its high volatility, whereas MBL constantly paid dividends. With respect to P/E Ratio, SCB seems to fluctuate more than HBL's earnings multiplier. NABIL had a less volatile BVPS than EBL. According to the study, out of all the commercial banks in Nepal, market price sensitivity fluctuates the most, while valuation measures are very consistent. Market value and important financial indicators have been shown to have a significant and direct link in previous studies. While other variables do have a little beneficial effect on stock prices, our analysis shows that profitability and investor confidence have a much more significant impact on market value.

6. Conclusion

Company-specific variables influence stock price variations, which is well supported by this research. It was expected that important financial factors would impact market value in commercial banks, and theoretical and empirical observations supported this prediction. The research suggests financial indicators have significant explanatory power, allowing for exact future stock price projections. Consequently, investors should analyze the company's accounting features before investing. The investigation's findings presented fresh information from a Nepalese viewpoint, which is important for market players. Equity investors and stock fund managers may look for these key indicators when estimating share price and stock return; hence, the study's results are very useful.

The study reveals that the bank's profit position influences dividend decisions, and additional research discovered that benefits are important for determining the bank's value before buying its stock. The earnings position reflects the potential for a dividend payout capacity and enhances the per share market price. Investors are encouraged to buy firm shares only after doing extensive fundamental and technical research and taking reasonable risks. Most investors consider themselves intelligent and knowledgeable, yet they do not research their assets beforehand. Investors seek to purchase the company shares with the highest EPS and DPS, even at a higher price. NCBs aims to draw the attention of most investors with dividend distributions through organizational strength and sound management. The focus of the study has been the only factors influencing the stock price specific to the NCBs, such as EPS, DPS, PE Ratio, and BVPS. Therefore, the conclusion derived from the study may not be utilized to describe the entire stock market.

The study's findings have important implications for investors, financial analysts, and policymakers. The study provides a foundation for informed investment decisions and valuation practices by showing the predictive power of EPS and the P/E ratio. For future research, increasing the sample size to include more banks or incorporating macroeconomic variables such as interest rates and inflation may provide more in-depth knowledge. For more information, the impact of regulatory changes and digital banking innovations on market performance can be examined in the future.

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