

# The Internal Financial Determinants of Common Stock Market Price of Commercial Banks in Nepal

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## Abstract

*Purpose of this study is to measure the impact of earnings per share, book value per share, dividend per share, total assets, and non-performing loan on market value per share per share of commercial banks in Nepal. Descriptive, correlational, and casual comparative research design used in this study. This study examined data from secondary sources. Information was gathered from the corresponding bank's annual audit report. This study investigated data from fiscal years 2012–13–2022–2023 from 26 and 19 commercial banks before and after merger. Rastriya Baanijya Bank, which is entirely owned by the government, is not included in this study's analysis of all commercial banks. The mean, maximum, minimum, standard deviation, and coefficient of variation are descriptive statistical methods that were employed in this investigation. Inferential statistical procedures such as multiple regression analysis and correlation analysis were also employed in this investigation. Highest dispersion in dividend per share, non-performing loan, book value per share, earnings per share, market value per share, and total assets respectively based on coefficient of variation. There is direct association of book value per share with earnings per share, dividend per share, and total assets but negative association between market value per share and non-performing loan. Insignificant association between market value per share and book value per share. There is positive impact of earnings per share, dividend per share, and total assets on market value per share. Out of these, total assets highest influenced on market value per share. Non-performing loan negative impact on market value per share but there is insignificant impact of book value per share on market value per share of commercial banks in Nepal.*

**Keywords:** *Broad Money Supply, Base Rate, Spread Rate, Loan Loss Reserve, Bank Capital, Earnings per Share, Commercial Bank*

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## Introduction

Since the majority of stock markets in the Arab and Middle Eastern nations were just recently founded, their characteristics and operations are different from those of comparable institutions in more developed nations like the United States, Japan, and England. Since most firms can finance their operations by issuing common stock, common stock is the most traded security type in most stock markets. Since common stocks don't impose additional liabilities or risk on these companies, many prefer this over using bonds or other debt securities. The fact that common stock prices can fluctuate every day and perhaps even within a single day due to supply and demand for equities is undeniable. The price of a stock will rise in response to an increase in demand, but it will fall in response to an increase in supply. A number of variables or causes might cause the supply and demand for a common stock to fluctuate.

Over the past few years, a lot of stockholders have lost a lot of money, maybe as a result of their inability to decide when it is best to buy or sell common stocks, as well as their inability to decide which stocks to buy or sell and

how many to acquire. Furthermore, small investors and stockholders typically lose the most money while trading stocks. The significant losses incurred by this investor group give rise to the current study's issue. If investors have sufficient knowledge and are able to forecast the anticipated future values of the stock market, this issue can be resolved and the magnitude of these losses may be decreased.

Most earlier studies (e.g., Beaver, 1968; Ramadan, 1989; Abdullah, 1993) employed EPS to analyze fluctuations in the prices of common stocks. According to Gibson (2001), EPS is calculated by dividing earnings by the total number of outstanding common shares. Stated otherwise, it is the total amount of money received from a share of common stock during the course of the accounting period. Many individuals think that the amount of earnings has an impact on stock prices. Although this is true in theory, it is not always the case in various financial markets and circumstances. Earlier studies (Uddin 2009, Lee 2006, Terregrossa 2005, and Ohlson 2000) sought to ascertain whether EPS, a measure of earnings, had an impact on stock prices. Firm value is positively and significantly impacted by the variable price-earnings ratio (PER) and variable return on equity (ROE). This suggests that as the Price Earnings Ratio (PER) and Return on Equity (ROE) increase, the company's value increases as well and exhibits noteworthy outcomes based on study of Indonesian manufacturing consumer goods industry sector listed on stock exchanges from 2014 – 2016 (Prasetya, & Riyantob, 2020).

Stockholders' claim to the creation of net income is diminished by dividends, which are cash transfers to shareholders that lower retained earnings (Horngren, 1984). The board of directors of the company has the power to announce dividends. The profitability of a business determines its capacity to pay dividends. The amount of money allocated to each common stock is known as the DPS. The weighted average number of outstanding common stocks divided by the total amount of declared dividends to common stockholders yields the DPS (Gibson, 2001). Some studies concluded that DPS is one internal driver of stock market prices based on the results of related research. Given that many investors want to receive dividends on a regular basis, these findings make sense. According to Uddin (2009), Lee (2006), Abdullah (1993), and Pouheydari et al. (2008), DPS has an impact on stock prices.

For example, Porheydari (2008), Terregrrsa (2005), Ohlson (2000), and others found that BVPS influences stock prices. According to Al-Deehani and Al-Thamer (2008), the three most significant internal financial factors influencing the values of common stocks are earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS).

There must be a clear reason for starting a business. Both short-term and long-term objectives exist. The company's long-term objective is to maximize shareholder welfare by raising the company's worth or wealth for shareholders, while its short-term objective is to maximize earnings utilizing its current resources. According to Sartono (2002), company value serves as a stand-in for shareholder wealth.

If the company's value rises and is accompanied by a high rate of return on investment to shareholders, then the value of shareholders will also rise. If the share price rises, the company's value will rise as well; conversely, if the share price falls, the company's value will fall. The market price of the shares, which is a reflection of the investment decision, is a measure of wealth in stocks. According to Soliha (2002), owners of businesses want their companies to have a high value because this indicates that shareholder wealth is high.

The price that possible investors must be prepared to pay in the event that a firm is sold is the definition of a company's value, according to Sartono Sartono (2008). The worth of the firm's assets, such as securities, can be reflected in its company value. One of the instruments that the company issues is stock, and the issuer has a significant impact on the high and low share prices. The capacity of businesses to pay dividends is one of the elements that affects stock prices. The mechanism of supply and demand on the exchange, which is reflected in the listing price, can be used to calculate the company value of firms that have gone public (Karnadi, 1993).

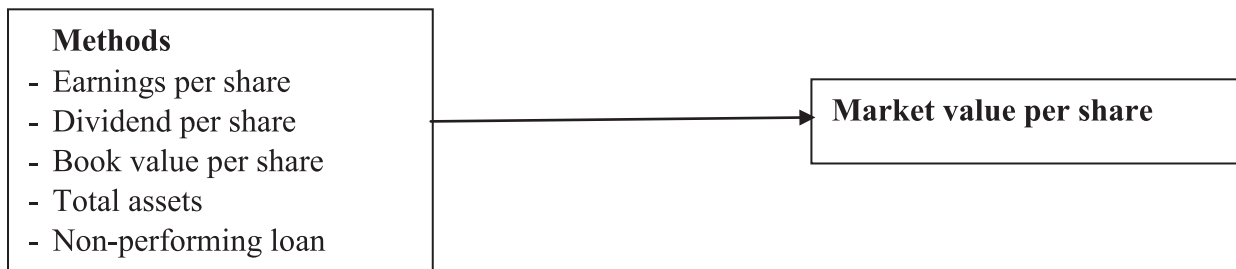
A company's size, debt, price-earnings ratio (PER), and return on equity (ROE) are just a few of the variables that might affect its value. The size of the business is thought to have an impact on its worth. Sujoko, Safitri, and Anindita (2007) assert that a large company's size indicates that it is growing, which will appeal to investors and raise the company's worth. The relative market share indicates that the business is more competitive than its primary rivals. Investors' reactions will be favorable, increasing the company's worth.

Silitonga, Ramadhani, and Nugroho (2019) studied on how price-earnings ratios, market value-added, economic value-added, and total asset turnover affect stock returns. To determine how independent variables affect the

dependent variable, multiple linear regression analysis is utilized. The consumer products industry listed on the Indonesia Stock Exchange provided the sample. The three-year period covered by the data is 2015–2017. The study's findings show that price-earnings ratio (PER) and total asset turnover (TATO) significantly impact stock return.

The magnitude of non-performing loans (NPLs) has a significant impact on the stability of the banking industry. Therefore, banks can benefit greatly from knowing the elements that contribute to troubled loans. Notably, research on the banking industry in tiny developing nations has gotten less attention in this area.

Above review approved that study of combine impact of total assets, non-performing loan, earnings per share, book value per share, and dividend per share on market value per share of commercial banks in Nepal is still remaining. This is the research gap of the study. Based on this research gap, aim of this study is to measure the existing position of total assets, non-performing loan, earnings per share, book value per share, dividend per share, and market value per share as well as relationship between them. Again, this study has focused combine impact of total assets, non-performing loan, earnings per share, book value per share, and dividend per share on market value per share. Based on this following theoretical frame work has been developed.



## Methodology

This study has measured the existing situation of total assets, non-performing loan, earnings per share, book value per share, dividend per share, and market value per share of commercial banks of Nepal. For this descriptive statistical tool: mean, standard deviation, coefficient of variation, and range statistical tools were used in this study. So, this study used descriptive research design. Correlation analysis statistical tools used for measuring relationship between mentioned variables. So, correlational analysis research design also used in this. This study analyzed the impact of total assets, non-performing loan, earnings per share, book value per share, and dividend per share on market value per share of commercial banks in Nepal. It means this study also used casual comparative research design. For this following regression model has been tested.

$$MVPS_{i,t} = \alpha_0 + \beta_1 EPS_{i,t} + \beta_2 BVPS_{i,t} + \beta_3 DPS_{i,t} + \beta_4 TA_{i,t} + \beta_5 NPL_{i,t} + \varepsilon_{i,t}$$

Where, dependent variable is Market value per share. Independent variables are: Earnings per share, Book value per share, Dividend per share, Total assets, and non-performing loan.

## Results

Table 1 has presented mean, maximum value, minimum value, standard deviation, and coefficient variation of market value per share, earnings per share, dividend per share, book value per share, total assets, and non-performing loan.

Table 1

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	C.V.
Market value per share	265	137.00000	3600.00000	550.6626415	505.71925729	91.83831
Earnings per share	267	-40.23000	457.00000	28.6134457	36.39425053	127.1928

	N	Minimum	Maximum	Mean	Std. Deviation	C.V.
Book value per share	263	0.00000	2866.72600	204.1783981	277.53716031	135.9288
Dividend per share	266	0.00000	1305.00000	22.5758297	80.17623003	355.1419
Total assets	267	176686000	217697049129	52504070585.58	48154040683.784	91.71487
Non- performing loan	258	2641171	14546613429	1426077629.97	2032968857.304	142.5567
Valid N (listwise)	252					

Based on result of table one coefficient of variation (C.V.) highest dispersion in dividend per share, non-performing loan, book value per share, earnings per share, market value per share, and total assets respectively.

Table 2

Correlation Analysis

Variables	MVPS	EPS	BVPS	DPS	TA	NPL
MVPS						
EPS	.169**					
BVPS	.059	-.012				
DPS	.129*	.005	-.005			
TA	.237**	.043	-.089	-.010		
NPL	-.205**	.092	.136*	-.045	-.173**	

\*\* . Correlation is significant at the 0.01 level (2-tailed) and \* . Correlation is significant at the 0.05 level (2-tailed)

Above result approved that there is low degree of direct relationship market value per share with earnings per share and total assets at one percent level of significance. Similarly, there is low degree of direct relationship between market value per share and dividend per share at five percent level of significance. Whereas there is weak negative association between market value per share and non-performing loan at one percent level of significance. But there is not significant relationship between market value per share and dividend per share.

Table 3 has presented the regression result of market value per share regressed on earnings per share, book value per share, dividend per share, total assets, and non-performing loan.

Table 3

Regression results

$$MVPS_{i,t} = \alpha_0 + \beta_1 EPS_{i,t} + \beta_2 BVPS_{i,t} + \beta_3 DPS_{i,t} + \beta_4 TA_{i,t} + \beta_5 NPL_{i,t} + \epsilon_{i,t}$$

	$\beta_0$	$\beta_1 EPS_{i,t}$	$\beta_2 BVPS_{i,t}$	$\beta_3 DPS_{i,t}$	$\beta_4 TA_{i,t}$	$\beta_5 NPL_{i,t}$
Standardized coefficients		.180	.108	.124	.207	-.201
t	6.016	3.031	1.806	2.088	3.433	-3.303
Sig.	.000	.003	.072	.038	.001	.001
VIF		1.015	1.025	1.003	1.039	1.061

Dependent variable is Market value per share. Independent variables are: Earnings per share, Book value per share, Dividend per share, Total assets, and non-performing loan. ANOVA: d.f. 5, Residual 246, Total = 251, Sig. at 0.000,  $F = 8.099$ , Durbin Watson = 1.605 Adjusted R-Squared = 0.124.

ANOVA results has approved that regression result is statistically significant at one percent level of significance. The variance was explained by this regression model by 12.4%. Value of Durbin Watson has approved that this regression model is free from auto correlation problem. Each independent variable's variance inflation factor is less than 10. Thus, regression model is free from multicollinearity problem.

The coefficient value of earnings per share has explained that, if all else remains constant at the one percent significance level, an increase in the earnings per share on unit, on average, market value per share will be increased by 0.18 unit. Coefficient value of independent variable dividend per share has approved that when dividend per share will be increased by one unit on average market value per share per share will be increased by

0.124 unit if other things remaining the same at five percent level of significance. When bank total assets will be increased by one unit on average market value per share will be increased by 0.207 unit if other things are constant at one percent level of significance. Similarly, coefficient value of non-performing loan has explained that when independent variable non-performing loan will be increased by one unit on average market value per share will be decreased by 0.201 unit if other things remain same at one percent level of significance. There is insignificant impact of book value per share on market value per share up to five percent level of significance.

## **Discussion**

There is direct association between dividend per share and market value per share as well as market value per share positive influenced by dividend per share in Commercial banks in Nepal and these findings are similar with Al-Deehani and Al-Thamer (2008). Regarding's of earnings per share, direct relationship between earnings per share and market value per share and market value per share is positive effected by earnings per share and this is similar with Porheydari (2008), Terregrrsa (2005), Ohlson (2000). There is not significant relationship between market value per share and book value per share as well as there is no significant impact of book value per share on market value per share and this result is just opposite with Porheydari (2008), Terregrrsa (2005), Ohlson (2000). In the perspective of non-performing loan, there is inverse relationship between market value per share and non-performing loan and market value per share negative influenced by non- performing loan. Similarly, there is positive association between total assets and market value per share and total assets positive effect on market value per share of commercial banks in Nepal.

## **Conclusion**

Market value per share of Nepalese commercial banks is influenced by different factors. Out of these earnings per share, dividend per share, and book value per share positive effect on market value per share where as non-performing loan negative effect on market value per share. But there is insignificant impact of book value per share on market value per share. Out of these, total assets highest impact on market value out of five determinant factors. So, this study concluded that financial information influence on market value per share of commercial banks in Nepal.

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