Factors Affecting Stock Price Volatility of Commercial Banks in Nepal

Abstract

This study explores the factors affecting the market price of Nepalese commercialbanksovertheperiodfrom2017/18to2021/22 AD.Utilizingbivariatecorrelation and regression models, data sourced from the annual reports and official publicationsofeightNEPSE-listedbanksunderwentcomprehensiveanalysisfacilitatedbyMS-Exceland SPSS.The results unveil a significant positive correlation between earnings per share(EPS)andprice-earningsratio(P/Eratio),indicatingthatasEPSincreases,so does the P/E ratio, and consequently, the market price. However, the impact of bookvalueanddividendpershareonmarketpriceswasfoundtobenegligible,suggesting that these factors exert minimal influence on market valuations. Theprimary inference drawn from the findings underscores the dominance of price-earningsratioandearningspershareaspivotaldeterminantsofshareprices withinNepalesecommercialbanks.Thisindicatesthatinvestorsplacesubstantialemphasis on these metrics when evaluating the investment potential of Nepalesecommercialbanks.Thesefindingsprovidevaluableinsightsforinvestors,financialanalysts,andpolicymakers,offeringaclearerunderstandingofthemarketdynamics and the key drivers of share prices within the Nepalese banking sector.Moreover, they underscore the importance of considering EPS and P/E ratio whenmakinginvestment decisions in Nepalesecommercial banks.

Keywords: *Stock Price Volatility; BVPS; DPS; MPS; EPS; MVPS; PE Ratio*

JEL Classifications: *G21; G35; O16; Y40; Z23*

Introduction

Thecapitalmarketisthemarketplacethatoffersamechanismfordirectingcurrentsavingstowards investments in productive infrastructure, or for dividing up the nation's capitalresources among various uses. It is an essential part of contemporary financial systems for the survival and growth of businesses. Since, the present decisions on the allocation of capitalresources are a primary determinant of tomorrow's output, the capital market effectivelyacts as an economy's link to the future. Understanding that there are two categories ofinvestors in the market stock traders and stock investors becomes crucial. While stockinvestors make investments on the primary market, stock traders make investments on

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thesecondary market. Most businesses rely on the financial market for long-term funding. Itconsists of stock exchanges and bond markets where securities are traded.

Anothercrucialpartofthefinancialsystemiscommercialbanks,whichprovideloans and take deposits. The capital market and banks are the primary external finance sourcesforgovernments,enterprises,andindividuals,andtheycoexist.The national economy also heavily depends on the capital markets. The capital marketmakes it easier to distribute money among savers and borrowers. Long-term financing isanissueofthecapitalmarketasfinancialitemslikeequitiesandbonds,whichareexchanged, raise the market's funds(Bajracharya &Bhattarai, 2005). If there is an effective price mechanism on the capital market, thisallocation would be at its best. There will be no doubt that the present share price of thecompany accurately reflects the information available if the capital market is functioningproperly.For thisreason, the only elements that should be used to determine share prices in an efficientsecurities market are economic and publicly available facts. In a well-functioning market,the current price of a share should give the most accurate representation of its true value.As a result, the securities market acts as a marketplace where, thanks to a well-organizedbrokerage system, shares of listed businesses can be exchanged or transferred betweenparties at a reasonable price. Setting competitive prices is the securities market's primaryrole in fostering future market stability and liquidity.

Overall, both primary and secondary markets contribute to effective capital allocation andsecurelong-term fundingforprofitable ventures inthe securities market.The volatility of Nepalese stock prices is unpredictable and influenced by the interactionofsupplyanddemand,withbothqualitativeandquantitativefactorsplayingarole.Despite the capitalmarketbeinginitsearlystagesofdevelopmentinNepal,investorsheavilyinvestin newly established companies, particularly in the financial sector. This trend is likely tocontinueuntilinvestorsaresatisfiedwithmanagementdecisions.Dividendsareakeyfactorinspiri ng investor confidence, although their impact on the firm's value requires preciseunderstandingbymanagementtoenhanceshareholderwealth.Investorsinunderdevelopedc ountries, like Nepal, prioritize a firm's profitability when purchasing equity shares fromthe secondary market. The study aims to identify the factors affecting stock prices inNepalese commercial banks, considering supply and demand as primary determinants.However,pinpointingspecificfactorsaffectingstockpricesremainsdebatableandch allenging.

Nepali securities market is still in its infancy, with a limited impact on the overalleconomy. Market susceptibility to price rigging and manipulation, low liquidity,

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anddominance of equity instruments limit participation by risk-averse investors. Flaws ininstitutional and legal architecture further hinder market development. A study by Sharif,Purohit,andPillai(2015)examinedthefactorsaffectingsharepricesontheBahrainStockExchange. They discovered a strong positive correlation between the firm's ROE, ROA,BVPS,andP/Eratio,indicatingthatthesevariablesactivelyinfluenceshareprices.Nonetheless, a noteworthyinverse correlationwasdiscoveredbetweenMPSanddividendyield.ChallengesinNepalesecapitalmarketincludelimitedinvestormobility, lack of stock market knowledge, economic imbalance, political instability, andineffective implementation of liberal economic policies. Hence, the study aims to identify majorfactorsinfluencingstockpricesinNepalesecommercialbanksanddeterminetheirsignificance.

Statement of Hypothesis

H1:Thereisasignificantimpactofearningspershareonmarketvaluepershare.

H2:There isasignificantimpactofdividendpershare onmarketvaluepershare.

H3: There is a significant impact of book value per share on market value per share.

H4:Thereisasignificantimpactof price earningsratioonthemarketvalue pershare.

Review of Literature

TheoreticalReview

RandomWalkTheory (RWT)

The random walk hypothesis was initially put forth by French stock broker Regnault in1863 AD. RWT holds that market prices of publicly traded assets had reflected all relevant information.In the twentieth century, Cowles explored the capacity ofprofessional market forecasters to outperform random stock selection, while Cowles andJones (1937) further developed a theory on the random walk of stock prices. Mandelbrot(1963) had rigorouslydeveloped RWT showedthatsecuritypricefluctuationswereunpredictableeven in the face of discontinuities and severe occurrences.Fama (1965) had formalized and extended the argument, utilizing the law of iteratedexpectationstoassertthatsecuritypricesshouldadheretoarandomwalk.Therandom walk model asserted that past price changes or returns could not effectively predicted the future pricemovements. The pricesgenerallyrepresentedtheintrinsicvalueofthesecurityat any particular time. Both professional and perceptive non-professional investors would getprofit from short-term variations in a stock's price from its intrinsic value if

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differinginvestorperspectivesorinterpretationsofinformationcausedthesedeviations.Theirgoalw as to drive the stock price back to its equilibrium level using aggressive buying and selling.RWT wasproposedtoexplainspeculativepricefluctuations.Long trends and prolonged cyclicalvariations in price series were outside the scope of the random-walk hypothesis if, given thetime horizon of the speculators in the market, they did not provide prospective possibilities for profit.Furthermore,becauseoftheshortdurationoftheavailabletimeseries,verifyingthe random-walkhypothesisforextremelygradualfluctuationswaspracticallylimited(Godfreyet al., 2007).

EfficientMarketTheory (EMT)

The stocks were always fairly priced in an efficient market; therefore, it was thought impossible for them toconsistently outperform. According to EMT, stock prices alwaysrepresented all available information and reacted immediately to new information in a free and fully competitive market. EMT assumed that a large number of independent, well-informed,andprofit-maximizingbuyersandsellers;random information production;andquickinvestoradjustment.Asecuritiesmarketshouldmeetseveralrequirementstob edeemedefficient,includingefficient(Angetal.,2011)Marketefficiency had been categorized into three levels based on the information impounded into stockprices.Theweakestlevelwasweak-formefficiency,wherestockpricesreflectedallinformationfrompastpricesandvolumes,allowingf ortheuseoftechnicalanalysis.Semi-strong-formefficiencyoccurredwhencurrentstockpricesincorporatednotonlypastinformation but also all publicly available information, rendering fundamental analysisineffective. The highest level was strong-form efficiency, where stock prices fully reflected allavailable relevant information, including private data, making insider information unableto beat the market(Fama, 1970).

ArbitragePricingTheory (APT)

Ross(1976)had proposedanalternative known as APTtotheCapitalAssetPricingModel(CAPM),contending that factors beyond systematic risks played a role in shaping stock returns. APT had beengroundedinthreeprinciples:securitiesreturnscouldbeexplainedthrough factor models;certainsecurities effectivelycapturedidiosyncraticrisk, andawell-functioningsecuritiesmarketlimited theongoingarbitrageopportunities(Bodieetal.,2014).APT had acknowledged the influenced of economic news on asset prices and proposed thereduction of the required rate of return for insecure assets based on systematic

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assetcorrelation with various risk factors (Siregar & Diana, 2019). In contrast to CAPM, APThad accommodated the multiple factors impacting asset returns, but it did not specify the size orriskpremiumsignsforeachfactor,necessitatingcarefulfactorselectionandinterpretation.Elton et al., (2003) had characterized APT as a unique approach to determining asset prices,aiming to capture non-market influences simultaneously affecting assets. APThad defined theexpectedreturnsbasedontheassumptionofnoarbitrageopportunities,ahomogeneousfactorstructure,andexpectations(Gilles&LeRoy,1990).APThad assumed that competitive forces rapidly eliminated opportunities for profitable arbitrage, suggesting thatinvestors could not achieve a positive expected return without introducing some risk andmaking a net investment. APT, more inclusive than CAPM had permitted a greaternumberof factors to influencethe rate of return(Cuthbertson,2004).

Empirical Review

James (1995) concluded that stock market indirectly influenced investment by conveyingtwo types of information: insights into investment prospects and insights into managers'previous choices. Of all the different types of securities, common stock seemed to be the most romantic, though fixed-income investment returns might be more significant tomost investors (Fisher&Jordan,2000).Sharma(2011)foundthatthemarketprice of shares was significantly influenced by BVPS, EPS and DPS.Furthermore,theanalysisshowedthat EPS and DPS wereshowntobethemostsignificantfactorsinfluencingmarketprice.Asa result, the report encouraged businesses to regularly pay dividends and advocated theimplementationof aliberal dividend policy. SEBON wasresponsibleforbothestablishingandregulatingthesecuritiesmarketinNepal, as per theanalysisoftherevenuestructureinthecountry'ssecuritiesmarkets.ThesecuritiesmarketsinNepal nowfacedmoredifficultiesasaresultofthecountry's WTO membership because they must be opened to overseas investors and securities traders.

Avibrantcapitalmarket'spotentialcouldbegravelyjeopardizedifmoredutiesandobligation sare being fulfilled with insufficient resources (Shrestha,2012).Srinivasan(2012)concentratedonthefundamentaldeterminantsofsharepricesinIndia had shown that the commercial banks were positively andsignificantly impacted by size, PE ratio and EPS. Malhotra and Tandon (2013)revealed a noteworthy positive correlation between a firm's stock price and its BVPS, EPS and PE ratio. Conversely,thestudyfoundasignificant inverse relationship between dividend yield and the market price of the firm'sstock. Gyawali (2013) concluded that Himalayan Bank was the only

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one of the five commercialbanks that consistently paid dividends, along with Standard Chartered Bank. The samplebankwiththelowestpredictedreturnwasNepalBangladeshBankLtd.StandardBankwasminimalrisk, whereas Bangladesh Bankwas highly risky. Bhattarai(2014) had concluded that dividend yield, EPS, and P/E ratio were the most influential factors in determiningshareprices in Nepalese commercial banks. Almumani(2014) concluded the positive association between the market price with DPS,EPS,BVPS and PE ratio.

Dhamala (2015) concluded that the companies stock market performances might not be entirely reflected in its share prices. Arshad et al., (2015) showed that EPS had agreater and more significant positive relationship with share prices. Thebooktomarketvalueratioandinterestratehadasignificantbutnegativerelationship with share prices. On the other hand, GDP, PE ratio, DPS and leverage had no relationship with share prices. Adhikari (2015) concluded that the dividend policy was typically determined by its net profits,total assets, lagged dividends, liquidity, risk, investment opportunity set and shareholdercount. Pradhan and Dahal (2016) concluded that largerthefirmsize,higherwould be the stock price. Ghimire and Mishra (2018) concluded that the variables Market to BV and P/E ratio were the main predictors of stock price that had a direct impact on the stock price.Similarly,whileEPShadlittleeffectonthestockprice,DPSandBVPShada large positiveimpact. Faris (2018) concluded the positive relationship between MPS and NAV per share. The significant negative relationship between MPS and dividend yield, and a significant positive relationship between MPS and GDP.

Jermsittiparsert et al., (2019) in the study based on ten businesses from Malaysia,Indonesia, Thailand and Singapore concluded that PE ratio and return on equity had significantimpactonhowstockpriceswheredeterminedinASEANmarkets.Dhakal(2019)findingsindicatedanoteworthypositivecorrelationbetweenMPS and EPS, PE ratio and the size of the company. Conversely, therewas a significant negative association between share price and dividend yield, debt ratio,and dividend payout ratio. Silwal and Napit (2019) found that BVPS, PE ratio and ROE had a positive association with MPS. Despiteapositiverelationship,dividend yield had a minimal impact on MPS, while the size has shown a negative relationshipwith MPS. Bajracharya (2020) concluded the positive relationship between EPS, DPS, PE ratio with MPS. Bhattarai's (2020) revealed that DPR had negative association with MPS. In contrast, dividend yield and EPS had shown the positive relationships. Wagle (2021) found that market to book ratio, PE ratio, dividend yield and earning yield had positive relationshipwithMPS. Shrestha and Lamichhane (2022) concluded that increased dividend

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yieldandEPS had enhancedstockreturns,whilereducedearningsyield,ROA, and sales per share to MPS had contributed to higherreturnsin Nepalesecommercial banks.Darami et al., (2022) revealed the positive association between MPS and EPS, DPR, dividend yield and size. Nonetheless, there was an inverse association between MPS and PE ratio. Pandey and Sunar (2022) found a strong positive impact on Nepali banks' equity shareprices for bank-specific variables ROE, EPS, DPR except for retention ratio and exhibited a negative relationship.

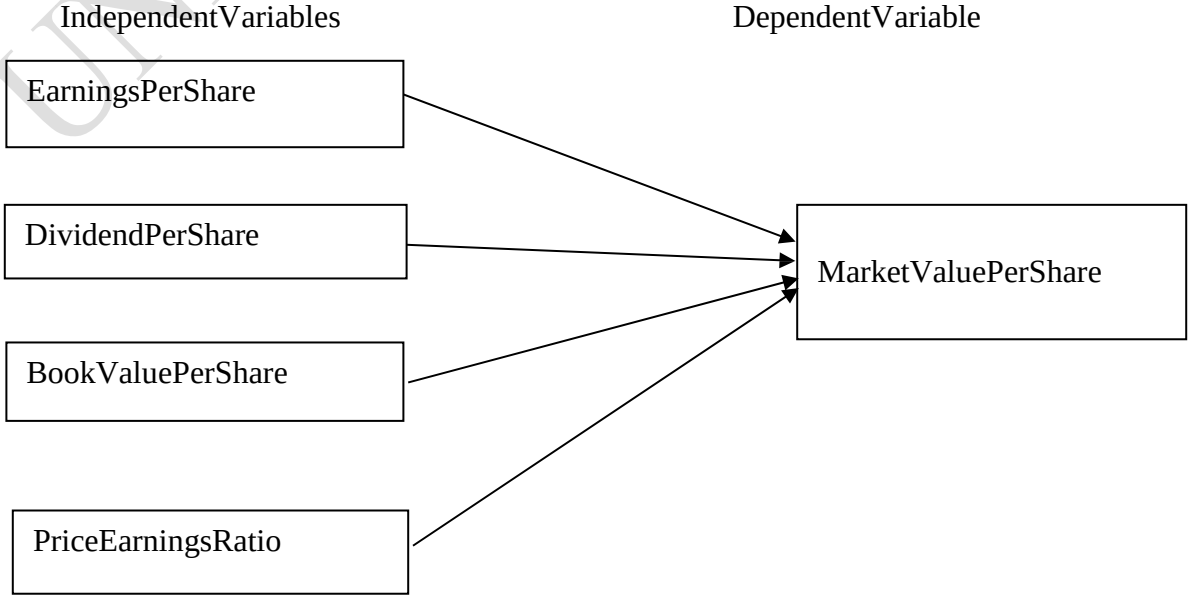
Numerous research projects on the Nepalese stock market have beenconducted though the previousstudiesonfactorsinfluencingsharepricesinNEPSE had yielded valuable findings with associated limitations. The present study aimed to supplement andaddressedthe weaknesses of previous research by analyzing the factors affecting share prices inNepalesecommercialbanks.Theprimaryfocuswasonunderstandingthemajordeterminantsinfluencing share prices, recognizing that stock prices were influenced by market-related factors. Thus, the study aimed in assessing the impactandrelationshipofmarketpriceswithfinancialindicatorsEPS, DPS, PE ratio and BVPS. Thestudy would be novel tofillgapsinunderstandingsubjectivefacts by providing insights forvarious stakeholders in thestock market.

ConceptualFramework

Theconceptualframework,derivedfromathoroughliteraturereviewofarticlesbyrenowned authors had illustrated the relationships among variables and theirnature and direction. The framework had described the relationship between the dependentvariable,MPS andindependentvariables EPS, DPS, BVPS and PE ratio. Basedoncurrenttheoriesandactualdata,theframeworkpredictedthatthesefactorswould probably have impact on MPS of commercial banks.

Figure1

Conceptual Framework



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Source:Silwaland Napit(2019);Bhattrai (2014);Chettri(2023)

OperationalDefinitionsofVariables

EarningsPerShare(EPS)

EPS had represented the portion of a company's profit allocated to eachoutstanding common share. EPS had been determined as thenetincomeavailable to equity shareholders dividedbytheweighted average number of outstanding shares over time.

DividendPerShare(DPS)

Dividend per share (DPS) was determined bydividing the total dividends, including interim dividends, by the number of outstandingcommon shares. DPS was essential in achieving a company's goal of returning value toshareholders through dividend payments and share prices, contributing to shareholdervalue.

BookValuePerShare(BVPS)

The book value of a business had been derived from its financial statements, specifically thebalance sheet, and was calculated as the difference between total assets and liabilities. Thebookvaluehad representedthevalueofthecompanyasperits financialrecords, audited bythecompany'sauditors(Srivastava,2023).

PriceEarningsRatio(PERatio)

PE ratio had been used to determinehowmuchacompany'scommonstockwasworthinthemarket.PE ratio would be a crucialtool for investors to evaluate how the market valued a company's earnings to its share price. PE ratio had been computedbydividingMPS by EPS. Whilea low ratio could indicate more cautious growth forecasts, a high ratio might indicatehigher expectations for future profit growth.

MarketValuePerShare(MVPS)

Thebuyingandsellingpressureonstockscouldfluctuateminutebyminute.Selectingwhich market value to regress as a measure of independent variables had become challenging as aresult of these changes. The market value was determined as the closing priceof the bank's stock at the end of its fiscal year.

Research Methods

Thestudyhad adoptedthedescriptiveandanalyticalresearchdesign.Usingsecondarydata from credible sources, it had employed a quantitative approach as its primary methodology. The information regarding dividends and sharepricesweresourcedfromNEPSE.Additionalinformation and datawereobtainedfromtheannualreportsofsampledbanks. The population consisted of all

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twenty commercial banks listed in NEPSE. There are eight carefully chosen banks based on purposive and convenience sampling methods had represented the forty percentages ofthe population. The sample was taken from 2017/18 to 2021/22 AD from the sampled banks;StandardCharteredBankLimited,SiddharthaBankLimited,SanimaBankLimited, EverestBankLimited, NepalBankLimited, HimalayanBankLimited, NICAsiaBankLimited and AgricultureDevelopmentBankLimited. Theanalysiswasprimarily conducted using the financial tools andstraightforward statistical analysis.The mean, standard deviation, coefficient of variation, correlation analysis, independent t-test, ANOVA and regression analysis had been employed to analyze theconnection between twovariablesanddetermine the nature of their relationship. Analysis of multiple linear regression was used to forecast how the independent factors would affect the financial performance of sampled banks.

Model Specification;

$$Y=\beta 0+\beta 1EPS+\beta 2P/E+\beta 3BVPS+\beta 4DPS+E$$

Where, Y= Market value per share (MVPS); β0=Constant term; MPS = Market Price Per Share;EPS = Earning Price Per Share;DPS=Dividend PerShare, P.E ratio= Price- Earnings Ratio;BVPS = Book value per share; E=Errorterms

Results

Status of Commercial Banks: MVPS, EPS, DPS and BVPS in Nepal

Table1had providedthefive-yearssummaryofthefinancialdataofthe sample banks,coveringtheperiodfrom2017/18to2021/22.The analysis had shown that the average market value of the stock wasrupees 465.78 with the standarddeviation 174.44, whose minimum and maximum values were rupees 249 and 994 respectively.EPS was found fluctuated in between rupees14.41and42.88,averaging rupees 26.45 with a standard deviation of 6.87. DPS mean was found to be rupees 4.22 per share with 2.54 standard deviation. PE ratio was fluctuated in between 7.03 and 37.06,averaging 17.90 with a standard deviation of 6.82. BVPS was fluctuated in between rupees 134.83 and314.49, with an average of 203.68 and a standard deviation of 48.82. The descriptive analysis had indicated that there was high volatility in the market prices and book value per share. The increased in PE ratio indicated that the investors were ready to pay 17.90 times more to earn one rupee per share expecting the high price in future.

Table1

Status of MVPS, EPS, DPS and BVPS of Commercial Banks in Nepal

Variables	Minimum	Maximum	Mean	Std.Deviation
MVPS	249	994	465.78	174.44
EPS	14.41	42.88	26.45	6.87
DPS	0	12.86	4.22	2.54
BVPS	134.83	314.49	203.68	48.82
PE Ratio	7.03	37.06	17.90	6.82

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Source:AnnualReportsofCommercial banks

Relationship between MVPS, EPS, DPS, BVPS and PE ratio

Using Pearson correlation analysis on the forty firm-years observations, Table 2 had shown that theassociationbetweenMVPS and PE ratio was positive and significant ($r = 0.730$, $p < 0.001$). It had indicated that higher the market price higher would-be PE ratio. Apositivecorrelationof0.27wasidentifiedbetweenMVPSandEPS,indicating a subtle inclination for MVPS to rise alongside increasing EPS. Conversely, amarginalnegativecorrelationof-0.03wasnotedbetweenMVPSandDPS,suggestingaslighttendency for MVPS to decrease when DPS was higher. MVPS had demonstrated a weaknegativecorrelation(-0.09)withBVPS,implyingamodesttrendforMVPStodecrease as BVPS increased.

Table2

RelationshipbetweenMVPS, EPS,DPS,BVPS,and P.ERatio

	MVPS	EPS	DPS	BVPS	PE Ratio
MVPS	1				
EPS	0.27	1			
DPS	-0.03	0.52**	1		
BVPS	-0.09	0.46**	0.29	1	
P.E	0.73**	-0.34*	-0.33*	-0.25	1

*N=40.*p<.05;**p<.01*

ImpactAnalysis

The multiple regression analysis was conducted to analyze the impact of EPS, DPS, BVPS and PE ratio on MVPS of commercial banks in Nepal. The model summaryhad indicated a strong fit, with an overall R value of 0.928, explaining 86.20 percentages of thevarianceinMVPS was explained by the explanatory variables. Even after takingthe number of predictors into consideration, the adjusted R-squared of 0.846 still had shown astrong model fit. The estimate's standard error, which had shown the usual difference betweenactual and anticipated values was 68.481. F-statistics value was found significant at five percentage level of significance had indicated the proper fitness of the model for further impact analysis.Theresidualsappearedtohaveno apparent autocorrelation, as indicated by the Durbin-Watson value of 2.42.

Table 3

ModelSummary

Model	R	RSquare	Adjusted RSquare	SE ofEstimate	ChangeStatistics				
					R SquareChange	F-value	df1	df2	p-value
0.928		0.862	0.846	68.481	0.862	54.514	4	35	0.000

Predictors:(Constant),PE ratio, BVPS, DPS & EPS

Table 4 has shown the collinearity diagnosis to analyze whether there was the

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presence of multicollinearity problem or not. The analysis had indicated the absence of multicollinearity in the model. The condition index was found in the range of one to thirty as suggested by Belsley et al., (1980); Belsley (1991) and Jakob et al., (1996) indicated the no serious problem of collinearity in the model.

Table 4
CollinearityDiagnostics

Model	Eigenvalue		ConditionIndex	VarianceProportions				
				Constant	EPS	DPS	BVPs	PE Ratio
1	1	4.60	1.000	.00	.00	.01	.00	.00
	2	.266	4.155	.00	.00	.38	.00	.16
	3	.088	7.230	.01	.06	.54	.11	.40
	4	.029	12.683	.00	.70	.07	.65	.00
	5	.017	16.680	.99	.23	.00	.23	.44

a.DependentVariable:MVPS

Table 5 had shown that when all predictors were zero, the estimated value of thedependent variable was represented by the intercept negative 269.61. With astatisticallysignificantpositiveimpactonMVPS astandardized coefficient of 0.675, EPS would become as one of the predictor variables thathad a relatively substantial influence. In contrast, DPS had high0.684 p-value and a coefficient of -2.112, meaning it did not significantly contributeto the predictionofMVPS.BVPS was found significant at the five percentages level of significance with a coefficientofnegative 0.614,indicated that one percentage increased in BVPS would lead to 0.614 percentages decreased in MVPS. PE ratio was found significantly positively impacted on MVPS. One percentage increased in PE ratio would lead to 23.215 percentages increased in MVPS.

Table 5
Regression Analysis Results

Model 1	UnstandardizedCoefficients		Standardized Beta	t-value	p-value	95 % CI	
		SE				LL	UL
Constant	-269.61	72.47		-3.72	0.001	-416.74	-122.49
EPS	17.16	2.04	0.675	8.39	0.000	13.01	21.31
DPS	-2.112	5.14	-0.031	-0.411	0.684	-12.55	8.33
BVPS	-0.61	0.26	-0.172	-2.40	0.022	-1.13	-0.095
PE Ratio	23.22	1.75	0.907	13.24	0.000	19.66	26.78

DependentVariable:MVPS; Source: SPSS Output Version 25

Based on the impact analysis, the regression equation would be as follows:

$$MVPS = -269.614 + 17.159EPS - 2.112DPS - 0.614BVPS + 23.215\ PE\ Ratio + E$$

Test of Hypothesis

H1:Thereisasignificantimpactofearningspershareonmarketvaluepershare.

Decision: Accepted

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H2:There isasignificantimpactofdividendpershare onmarketvaluepershare.
Decision: Rejected
H3: There is a significant impact of book value per share on market value per share.
Decision: Accepted
H4:Thereisasignificantimpactof price earningsratioonthemarketvalue pershare.
Decision: Accepted

MajorFindingsoftheStudy

- The analysis had found that there was high volatility in the market prices and book value per share. The increased in PE ratio indicated that the investors were ready to pay 17.90 times more to earn one rupee per share expecting the high price in future.
- The bivariate Pearson correlation analysis had concluded that an increased in EPSand PE ratio ofthecommercial would lead to increase in MVPS and vice-versa. Conversely, an inversedrelationshipwas found with DPSand BVPS.
- The empirical analysis above revealed the positive association between EPS and MVPS. The analysis had found that one percentage changed in EPS corresponded to a substantial67.50 percentageschangedinMVPS.
- DPS and BVPS had exhibited an inverse relationship with MVPS. One percentage changed in DPS and BVPS would lead to 3.10 percentages and 17.20 percentages changed in MVPS in the opposite direction of sampled commercial banks in Nepal respectively.
- The analysis had found that one percentage changed in PE ratio would lead to 90.70 percentages changed in MVPS.
- In overall, the analysis had found that EPS, BVPS and PE ratio were the significant predictors of MVPS of commercial banks in Nepal whereas DPS was not counted as the significant explanatory variable in the analysis.

Discussion

The analysis revealedthat both EPS and PE ratio have a significant positiverelationship with MVPS of Nepalese commercial banks. This implies that anincrease in EPS and PE ratio leads to a corresponding rise in market pricepershare,indicatingtheinfluenceofthesefactorsonstockvaluation.Conversely,DPS andBVPS exhibited a statistically insignificantrelationshipwithstockprice.TheconclusiondrawnisthatPE ratio emergesasthemostinfluentialfactordeterminingstockpricesinNepal,possiblyduetoitsindicationo facompany'ssoundfinancialperformance.Thesignificantrelationship between EPSandmarketpricealignswiththefindingsofAlmumani(2014); Arshadetal.,(2015);

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PradhanandDahal(2016);Silwaland Napit (2019) and Bhattarai(2020). This consistency underscores EPSasadeterminingfactoraffectingmarketprices,reflectingthe companies' profitability.Thepositiveandsignificantassociationbetween PE ratio andmarketprice,consistentwithPradhanandDahal(2016) and Bhattarai (2020)suggestthatthehigherPEratiosignalsoptimismamonginvestorsregardingfuture earnings growth.

TheriseinPEisinterpretedasanexpectationofmoresubstantialreturns,contributingtoincreasedde mandforsuchstocksandasubsequentriseinstockprices (Bhattarai,2014).ThefindingsalignwiththeEfficientMarketHypothesis(EMH)tosomeextent.The significantimpactofEPSonMVPSsuggests that investors arereactingtoandvaluingcompaniesbasedontheirearnings performances, supporting thesemi-strongformofEMH.Similarly,thesignificantimpactofPE ratio onMVPSalignswiththewidelyacceptedpracticeofusingPEratioas a valuation metric, indicating market optimism about a company's future earnings growth.However, thestatisticallyinsignificantrelationshipbetweenBVPS andMVPS,consistentwiththefindingsofChenetal.,(2019)andJohnsonand Smith (2017)contradicttheresultsofSilwalandNapit(2019) andBhattarai(2020). The same holds true for theinsignificantrelationshipbetweenDPS and MVPS, consistent withGordonandShapiro(1956)butinconsistentwithJohnsonandBrown(2020)and Smith(2018).Thesediscrepanciesmaystemfromvariationsinstudyperiods, market conditions andlevelsofinvestor awareness.The insignificantresultscanbe explained by the theories assumptionsaboutmarketefficiency,rationalinvestorbehaviour,and the instantaneousabsorptionofinformationintostockpricesinthecontextofEMH. Inanefficientmarket,previousdividendsandbookvalue may not haveastatisticallysignificanteffectonMVPS ifinvestorsbelieve they are less relevant or useful.

Conclusions

Thestudyoffactorsaffectingthesharepricesofcommercialbankshasbecomeasignificant area of interest, particularly in the banking sector. EPS and PE ratio demonstratesthe significantpositive association with share prices, indicating that an increase in these factors led to acorrespondingincreaseinshareprices.Onthecontrary,BVPS and DPS shownnoexplanatorypowerregardingstockpricemovement.Insimplerterms, if EPS and PE ratio increase, the share price is likely to increase, but the same relationship does not apply to BVPS and DPS.The analysis concludes that the majority of the financial indicators are healthy for theentirecommercial bankingsectorinNepal. The study concludes that EPS and PE

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ratio have played a pivotal role indetermining the share price of Nepalese commercial banks. This study provides valuableinsights from a Nepalese perspective, benefiting market participants. Equity investors and fund managers, in particular, can use these findings to guide their investment decisions, as they highlight significant factors to consider when estimating stock returns and predicting the share prices. Inessence,thisstudy contributesvaluableinformationthatcanenhancetheunderstanding of share price dynamics in the context of Nepalese commercial banks.Investors need to consider every aspect that could directly or indirectly affect commonstockprices to enablethem to makelogical decisions.

Implications

Future researchcouldextend the studyto include other financialsectors likedevelopmentbanks,insurancefinancecompanies,andmicro-financecompanies.Consideration of primary data and the triangulation of primary and secondary data issuggestedfor futurestudies.Largersamplesizesandlongertimeperiodscanbeemployedinfuturestudies to enhancethe scope of the study. Exploring other models beyond multiple linear regressions and examining theimpact of corporate governance on the capital structure of Nepalese commercialbanksis recommended.Thefindingsarespecifictonepalesecommercialbanks,limitinggeneralization,sofutureresearchshouldconsiderabroaderscopeanddiversefirms.The government should provide a conducive environment for the development oftheNepalesesecurities market.Commercialbanksshoulddiversifyinvestments,hirefinancialexperts,andcommunicatetimely information to relevant groups.SEBONshouldregulateinsideinformationleakage,whileNEPSEneedstoanalyzecontroversialfactorsaffectingshareprices tomeetinternationalstandards.Investors are advised to conduct a detailed study of financial indicators suchas EPS, DPS, BVPS, and price appreciation before investing or trading stocks ofanybanks, avoiding hasty decisions based on rumors.Furtherresearchisrecommendedtoexploretheimpactofmacro-economicvariableson stock pricesforfirms listed in theNEPSE.

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