Factors Affecting Stock Price Volatility of Commercial Banks in Nepal

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

This study explores the factors affecting the market price of Nepalese commercial banks over the period from 2017/18 to 2021/22 AD. Utilizing bivariate correlation and regression models, data sourced from the annual reports and official publications of eight NEPSE-listed banks underwent comprehensive analysis facilitated by MS- Excel and SPSS. The results unveil a significant positive correlation between earnings per share (EPS) and price-earnings ratio (P/E ratio), indicating that as EPS increases, so does the P/E ratio, and consequently, the market price. However, the impact of book value and dividend per share on market prices was found to be negligible, suggesting that these factors exert minimal influence on market valuations. The primary inference drawn from the findings underscores the dominance of price- earnings ratio and earnings per share as pivotal determinants of share prices within Nepalese commercial banks. This indicates that investors place substantial emphasis on these metrics when evaluating the investment potential of Nepalese

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commercial banks. These findings provide valuable insights for investors, financial analysts, and policymakers, offering a clearer understanding of the market dynamics and the key drivers of share prices within the Nepalese banking sector. Moreover, they underscore the importance of considering EPS and P/E ratio when making investment decisions in Nepalese commercial banks.

Keywords: Stock price volatility; BVPS; DPS; MPS; EPS; MVPS; PE ratio.

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

1. INTRODUCTION

The capital market is the marketplace that offers a mechanism for directing current savings towards investments in productive infrastructure, or for dividing up the nation's capital resources 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 capital resources are a primary determinant of tomorrow's output, the capital market effectively acts as an economy's link to the future [16]. Understanding that there are two categories of investors in the market stock traders and stock investors becomes crucial. While stock investors make investments on the primary market, stock traders make investments on the secondary market. Most businesses rely on the financial market for long-term funding. It consists of stock exchanges and bond markets where securities are traded [8,10].

Another crucial part of the financial system is commercial banks, which provide loans and take deposits. The capital market and banks are the primary external finance sources for governments, enterprises, and individuals, and they coexist [39,42]. The national economy also heavily depends on the capital markets. The capital market makes it easier to distribute money among savers and borrowers. Long-term financing is an issue of the capital market as financial items like equities and bonds, which are exchanged, raise the market's funds [6]. If there is an effective price mechanism on the capital market, this allocation would be at its best [38,40]. There will be no doubt that the present share price of the company accurately reflects the information available if the capital market is functioning properly. For this reason, the only elements that should be used to determine share prices in an efficient securities 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-

organized brokerage system, shares of listed businesses can be exchanged or transferred between parties at a reasonable price. Setting competitive prices is the securities market's primary role in fostering future market stability and liquidity [19,31].

Overall, both primary and secondary markets contribute to effective capital allocation and secure long-term funding for profitable ventures in the securities market. The volatility of Nepalese stock prices is unpredictable and influenced by the interaction of supply and demand, with both qualitative and quantitative factors playing a role. Despite the capital market being in its early stages of development in Nepal, investors heavily invest in newly established companies, particularly in the financial sector [25]. This trend is likely to continue until investors are satisfied with management decisions. Dividends are a key factor inspiring investor confidence, although their impact on the firm's value requires precise understanding by management to enhance shareholder wealth. Investors in underdeveloped countries, like Nepal, prioritize a firm's profitability when purchasing equity shares from the secondary market. The study aims to identify the factors affecting stock prices in Nepalese commercial banks, considering supply and demand as primary determinants. However, pinpointing specific factors affecting stock prices remains debatable and challenging.

Nepali securities market is still in its infancy, with a limited impact on the overall economy. Market susceptibility to price rigging and manipulation, low liquidity, and dominance of equity instruments limit participation by risk-averse investors [50,56]. Flaws in institutional and legal architecture further hinder market development. A study on the factors affecting share prices on the Bahrain Stock Exchange discovered a strong positive correlation between the firm's ROE, ROA, BVPS, and P/E ratio, indicating that these variables actively influence share prices. Nonetheless, a noteworthy inverse correlation

was discovered between MPS and dividend yield [46]. Challenges in Nepalese capital market include limited investor mobility, lack of stock market knowledge, economic imbalance, political instability, and ineffective implementation of liberal economic policies. Hence, the study aims to identify major factors influencing stock prices in Nepalese commercial banks and determine their significance.

Statement of Hypothesis

H_1: There is a significant impact of earnings per share on market value per share.
H_2: There is a significant impact of dividend per share on market value per share.
H_3: There is a significant impact of book value per share on market value per share.
H_4: There is a significant impact of price earnings ratio on the market value per share.

2. REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 Random Walk Theory (RWT)

The random walk hypothesis was initially put forth by French stock broker Regnault in 1863 AD. RWT holds that market prices of publicly traded assets had reflected all relevant information. In the twentieth century, Cowles explored the capacity of professional market forecasters to outperform random stock selection, while Cowles and Jones (1937) [14] further developed a theory on the random walk of stock prices. Mandelbrot (1963) [41] had rigorously developed RWT showed that security price fluctuations were unpredictable even in the face of discontinuities and severe occurrences. Fama (1965) [21] had formalized and extended the argument, utilizing the law of iterated expectations to assert that security prices should adhere to a random walk. The random walk model asserted that past price changes or returns could not effectively predicted the future price movements. The prices generally represented the intrinsic value of the security at any particular time. Both professional and perceptive non-professional investors would get profit from short-term variations in a stock's price from its intrinsic value if differing investor perspectives or interpretations of information caused these deviations. Their goal was to drive the stock price back to its equilibrium level using aggressive buying and selling. RWT was proposed to explain speculative price fluctuations. Long trends and prolonged cyclical variations in price series were outside the scope of the random-walk hypothesis if, given the time horizon of the speculators in the market, they did not provide prospective possibilities for profit. Furthermore, because of the short duration of the available time series, verifying the random-walk hypothesis for extremely gradual fluctuations was practically limited[28].

2.1.2 Efficient Market Theory (EMT)

The stocks were always fairly priced in an efficient market; therefore, it was thought impossible for them to consistently outperform. According to EMT, stock prices always represented 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, and profit-maximizing buyers and sellers; random information production; and quick investor adjustment. A securities market should meet several requirements to be deemed efficient, including efficient [3]. Market efficiency had been categorized into three levels based on the information impounded into stock prices. The weakest level was weak-form efficiency, where stock prices reflected all information from past prices and volumes, allowing for the use of technical analysis. Semi- strong-form efficiency occurred when current stock prices incorporated not only past information but also all publicly available information, rendering fundamental analysis ineffective. The highest level was strong-form efficiency, where stock prices fully reflected all available relevant information, including private data, making insider information unable to beat the market [22].

2.1.3 Arbitrage Pricing Theory (APT)

An alternative known as APT to the Capital Asset Pricing Model (CAPM), contending that factors beyond systematic risks played a role in shaping stock returns [45]. APT had been grounded in three principles: securities returns could be explained through factor models; certain securities effectively captured idiosyncratic risk, and a well-functioning securities market limited the ongoing arbitrage opportunities [12]. APT had acknowledged the influenced of economic news on asset prices and proposed the reduction of the required rate of return for insecure assets based on systematic asset correlation with various risk factors [52]. In contrast to CAPM,

APT had accommodated the multiple factors impacting asset returns, but it did not specify the size or risk premium signs for each factor, necessitating careful factor selection and interpretation. APT was characterized as a unique approach to determining asset prices, aiming to capture non-market influences simultaneously affecting assets [20]. APT had defined the expected returns based on the assumption of no arbitrage opportunities, a homogeneous factor structure, and expectations [27]. APT had assumed that competitive forces rapidly eliminated opportunities for profitable arbitrage, suggesting that investors could not achieve a positive expected return without introducing some risk and making a net investment.

2.2 Empirical Review

James (1995) concluded that stock market indirectly influenced investment by conveying two 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 to most investors [24]. The market price of shares was significantly influenced by BVPS, EPS and DPS. Furthermore, the analysis showed that EPS and DPS were shown to be the most significant factors influencing market price. As a result, the report encouraged businesses to regularly pay dividends and advocated the implementation of a liberal dividend policy [47]. SEBON was responsible for both establishing and regulating the securities market in Nepal, as per the analysis of the revenue structure in the country's securities markets. The securities markets in Nepal now faced more difficulties as a result of the country's WTO membership because they must be opened to overseas investors and securities traders.

A vibrant capital market's potential could be gravely jeopardized if more duties and obligations are being fulfilled with insufficient resources [49]. The fundamental determinants of share prices in India had shown that the commercial banks were positively and significantly 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 [54]. Conversely, the study found a significant inverse relationship between dividend yield and the market price of the firm's stock. Himalayan Bank was the only one of the five commercial banks that consistently paid

dividends, along with Standard Chartered Bank. The sample bank with the lowest predicted return was Nepal Bangladesh Bank Ltd. Standard Bank was minimal risk, whereas Bangladesh Bank was highly risky [30]. EPS significantly impacted the MVPS [33]. Bhattarai (2014) [2] had concluded that dividend yield, EPS, and P/E ratio were the most influential factors in determining share prices in Nepalese commercial banks. The positive association between the market price with DPS, EPS, BVPS and PE ratio was concluded.

The companies stock market performances might not be entirely reflected in its share prices [18]. EPS had a greater and more significant positive relationship with share prices. The book to market value ratio and interest rate had a significant but negative relationship with share prices. On the other hand, GDP, PE ratio, DPS and leverage had no relationship with share prices [4]. The dividend policy was typically determined by its net profits, total assets, lagged dividends, liquidity, risk, investment opportunity set and shareholder count [1]. The larger the firm size, higher would be the stock price [44]. 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, while EPS had little effect on the stock price, DPS and BVPS had a large positive impact [26]. 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 [23].

In the study based on ten businesses from Malaysia, Indonesia, Thailand and Singapore concluded that PE ratio and return on equity had significant impact on how stock prices were determined in ASEAN markets [35]. A noteworthy positive correlation between MPS and EPS, PE ratio and the size of the company. Conversely, there was a significant negative association between share price and dividend yield, debt ratio, and dividend payout ratio [17]. BVPS, PE ratio and ROE had a positive association with MPS. Despite a positive relationship, dividend yield had a minimal impact on MPS, while the size has shown a negative relationship with MPS [51]. The positive relationship between EPS, DPS, PE ratio with MPS [5]. DPR had negative association with MPS. In contrast, dividend yield and EPS had shown the positive relationships [9]. The market to book ratio, PE ratio, dividend yield and earning

yield had positive relationship with MPS [57]. The increased dividend yield and EPS had enhanced stock returns, while reduced earnings yield, ROA, and sales per share to MPS had contributed to higher returns in Nepalese commercial banks [48]. The positive association between MPS and EPS, DPR, dividend yield and size. Nonetheless, there was an inverse association between MPS and PE ratio [15]. A strong positive impact on Nepali banks' equity shares prices for bank-specific variables ROE, EPS, DPR except for retention ratio and exhibited a negative relationship [43]. The increase in financial leverage, DPS, EPS and DPR increases the ROE for all non-financial firms. There was significant positive connection between dividend policy and ROA [34].

Numerous research projects on the Nepalese stock market have been conducted though the previous studies on factors influencing share prices in NEPSE had yielded valuable findings with associated limitations. The present study aimed to supplement and addressed the weaknesses of previous research by analyzing the factors affecting share prices in Nepalese commercial banks. The primary focus was on understanding the major determinants influencing share prices, recognizing that stock prices were influenced by market-related factors. Thus, the study aimed in assessing the impact and relationship of market prices with financial indicators EPS, DPS, PE ratio and BVPS. The study would be novel to fill gaps in understanding subjective facts by providing insights for various stakeholders in the stock market.

2.3 Conceptual Framework

The conceptual framework, derived from a thorough literature review of articles by renowned authors had illustrated the relationships among variables and their nature and direction. The framework had described the relationship between the dependent variable, MPS and independent variables EPS, DPS, BVPS and PE ratio. Based on current theories and actual data, the framework predicted that these factors would probably have impact on MPS of commercial banks.

2.4 Operational Definitions of Variables

2.4.1 Earnings Per Share (EPS)

EPS had represented the portion of a company's profit allocated to each outstanding common share. EPS had been determined as the net income available to equity shareholders divided by the weighted average number of outstanding shares over time.

2.4.2 Dividend Per Share (DPS)

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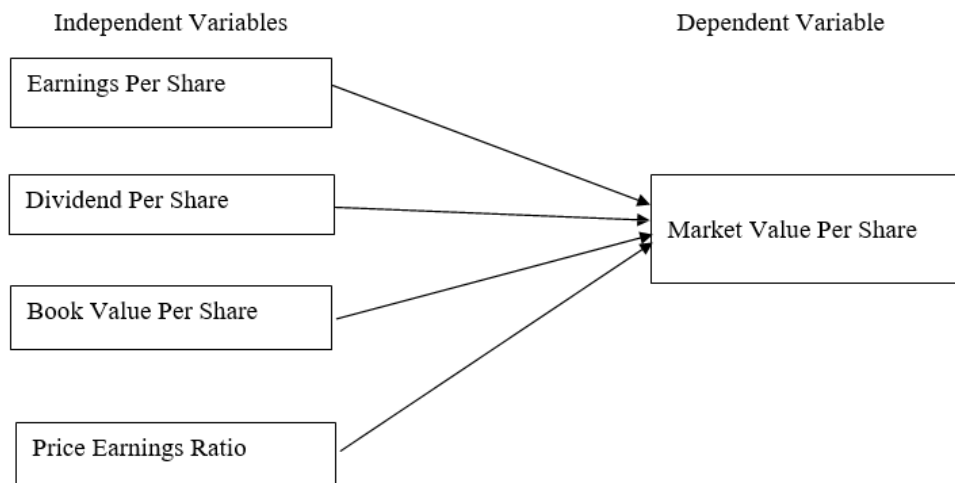

Fig. 1. Conceptual framework
Source: Silwal and Napit (2019); Bhattrai (2014); Chettri (2023)

2.4.3 Book Value Per Share (BVPS)

The book value of a business had been derived from its financial statements, specifically the balance sheet, and was calculated as the difference between total assets and liabilities. The book value had represented the value of the company as per its financial records, audited by the company's auditors [55].

2.4.4 Price Earnings Ratio (PE Ratio)

PE ratio had been used to determine how much a company's common stock was worth in the market. PE ratio would be a crucial tool for investors to evaluate how the market valued a company's earnings to its share price. PE ratio had been computed by dividing MPS by EPS. While a low ratio could indicate more cautious growth forecasts, a high ratio might indicate higher expectations for future profit growth.

2.4.5 Market Value Per Share (MVPS)

The buying and selling pressure on stocks could fluctuate minute by minute. Selecting which market value to regress as a measure of independent variables had become challenging as a result of these changes. The market value was determined as the closing price of the bank's stock at the end of its fiscal year.

3. METHODS

The study had adopted the descriptive and analytical research design. Using secondary data from credible sources, it had employed a quantitative approach as its primary methodology. The information regarding dividends and share prices were sourced from NEPSE. Additional information and data were obtained from the annual reports of sampled banks. The population consisted of all twenty commercial banks listed in NEPSE. There are eight carefully chosen banks based on purposive and convenience sampling methods had represented the forty percentages of the population. The sample was taken from 2017/18 to 2021/22 AD from the sampled banks; Standard Chartered Bank Limited, Siddhartha Bank Limited, Sanima Bank Limited, Everest Bank Limited, Nepal Bank Limited, Himalayan Bank Limited, NIC Asia Bank Limited and Agriculture Development Bank Limited. The analysis was primarily conducted using the financial tools and straight forward statistical analysis. The mean, standard deviation,

coefficient of variation, correlation analysis, independent t-test, ANOVA and regression analysis had been employed to analyze the connection between two variables and determine 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;

$$Y = \beta_0 + \beta_1 EPS + \beta_2 P/E + \beta_3 BVPS + \beta_4 DPS + E$$

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

4. RESULTS

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

Table 1 had provided the five-years summary of the financial data of the sample banks, covering the period from 2017/18 to 2021/22. The analysis had shown that the average market value of the stock was rupees 465.78 with the standard deviation 174.44, whose minimum and maximum values were rupees 249 and 994 respectively. EPS was found fluctuated in between rupees 14.41 and 42.88, 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 and 314.49, 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.

4.2 Relationship between MVPS, EPS, DPS, BVPS and PE Ratio

Using Pearson correlation analysis on the forty firm-years observations, Table 2 had shown that the association between MVPS and PE ratio was positive and significant (r = 0.730, p < 0.001). It

Table 1. 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

Source: Annual Reports of Commercial banks

Table 2. Relationship between MVPS, EPS, DPS, BVPS, and P.E Ratio

	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

had indicated that higher the market price higher would-be PE ratio. A positive correlation of 0.27 was identified between MVPS and EPS, indicating a subtle inclination for MVPS to rise alongside increasing EPS. Conversely, a marginal negative correlation of -0.03 was noted between MVPS and DPS, suggesting a slight tendency for MVPS to decrease when DPS was higher. MVPS had demonstrated a weak negative correlation (-0.09) with BVPS, implying a modest trend for MVPS to decrease as BVPS increased.

4.3 Impact Analysis

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 summary had indicated a strong fit, with an overall R value of 0.928, explaining 86.20 percentages of the variance in MVPS was explained by the explanatory variables. Even after taking the number of predictors into consideration, the adjusted R-squared of 0.846 still had shown a strong model fit. The estimate's standard error, which had shown the usual difference between actual 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. The residuals appeared

to have no apparent autocorrelation, as indicated by the Durbin-Watson value of 2.42.

Table 4 has shown the collinearity diagnosis to analyze whether there was the 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) [7]; Belsley (1991) [9] and Jakob et al., (1996) [32] indicated the no serious problem of collinearity in the model.

Table 5 had shown that when all predictors were zero, the estimated value of the dependent variable was represented by the intercept negative 269.61. With a statistically significant positive impact on MVPS a standardized coefficient of 0.675, EPS would become as one of the predictor variables that had a relatively substantial influence. In contrast, DPS had high 0.684 p-value and a coefficient of -2.112, meaning it did not significantly contribute to the prediction of MVPS. BVPS was found significant at the five percentages level of significance with a coefficient of negative 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 3. Model summary

Model-R	R Square	Adjusted R Square	SE of Estimate	Change Statistics				
				R Square Change	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. Collinearity diagnostics

Model	Eigenvalue		Condition Index	Variance Proportions				
				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

Dependent Variable: MVPS

Table 5. Regression analysis results

	Unstandardized Coefficients		Standardized Beta	t-value	p-value	95 % CI	
Model 1		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	-2.11	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

Dependent Variable: MVPS; Source: SPSS Output Version 25

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

MVPS=−269.61+17.16EPS−2.11DPS−0.61BVPS +23.22 PE Ratio + E

Test of Hypothesis

H_1: There is a significant impact of earnings per share on market value per share.
Decision: Accepted
H_2: There is a significant impact of dividend per share on market value per share.
Decision: Rejected
H_3: There is a significant impact of book value per share on market value per share.
Decision: Accepted
H_4: There is a significant impact of price earnings ratio on the market value per share.
Decision: Accepted

4.4 Major Findings of the Study

- 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 EPS and PE ratio of the commercial would lead to increase in MVPS and vice-versa.

Conversely, an inversed relationship was found with DPS and 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 substantial 67.50 percentages changed in MVPS.
- 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.

5. DISCUSSION

The analysis revealed that both EPS and PE ratio have a significant positive relationship with MVPS of Nepalese commercial banks. This implies that an increase in EPS and PE ratio leads to a corresponding rise in market price per share, indicating the influence of these factors on

stock valuation. Conversely, DPS and BVPS exhibited a statistically insignificant relationship with stock price. The conclusion drawn is that PE ratio emerges as the most influential factor determining stock prices in Nepal, possibly due to its indication of a company's sound financial performance. The significant relationship between EPS and market price aligns with the findings of Almumani (2014) [2]; Jatoi et al., (2014) [33]; Arshad et al., (2015) [4]; Pradhan and Dahal (2016) [44]; Silwal and Napit (2019) [51] and Bhattarai (2020) [9]. This consistency underscores EPS as a determining factor affecting market prices, reflecting the companies' profitability. The positive and significant association between PE ratio and market price, consistent with Pradhan and Dahal (2016) [44] and Bhattarai (2020) [9] suggest that the higher PE ratio signals optimism among investors regarding future earnings growth. The rise in PE is interpreted as an expectation of more substantial returns, contributing to increased demand for such stocks and a subsequent rise in stock prices (Bhattarai, 2014) [11]. The findings align with the Efficient Market Hypothesis (EMH) to some extent. The significant impact of EPS on MVPS suggests that investors are reacting to and valuing companies based on their earnings performances, supporting the semi-strong form of EMH. Similarly, the significant impact of PE ratio on MVPS aligns with the widely accepted practice of using PE ratio as a valuation metric, indicating market optimism about a company's future earnings growth. However, the statistically insignificant relationship between BVPS and MVPS, consistent with the findings of Chen et al., (2019) [13] and Johnson and Smith (2017) [36] contradict the results of Silwal and Napit (2019) [51] and Bhattarai (2020) [9]. The same holds true for the insignificant relationship between DPS and MVPS, consistent with Gordon and Shapiro (1956) [29] but inconsistent with Johnson and Brown (2020) [37] and Smith (2018) [53]. These discrepancies may stem from variations in study periods, market conditions and levels of investor awareness. The insignificant results can be explained by the theories assumptions about market efficiency, rational investor behaviour, and the instantaneous absorption of information into stock prices in the context of EMH. In an efficient market, previous dividends and book value may not have a statistically significant effect on MVPS if investors believe they are less relevant or useful.

6. CONCLUSIONS

The study of factors affecting the share prices of commercial banks has become a significant area of interest, particularly in the banking sector. EPS and PE ratio demonstrates the significant positive association with share prices, indicating that an increase in these factors led to a corresponding increase in share prices. On the contrary, BVPS and DPS shown no explanatory power regarding stock price movement. In simpler terms, 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 the entire commercial banking sector in Nepal. The study concludes that EPS and PE ratio have played a pivotal role in determining the share price of Nepalese commercial banks. This study provides valuable insights 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. In essence, this study contributes valuable information that can enhance the understanding of share price dynamics in the context of Nepalese commercial banks. Investors need to consider every aspect that could directly or indirectly affect common stock prices to enable them to make logical decisions.

7. IMPLICATIONS

Future research could extend the study to include other financial sectors like development banks, insurance finance companies, and micro-finance companies. Consideration of primary data and the triangulation of primary and secondary data is suggested for future studies. Larger sample sizes and longer time periods can be employed in future studies to enhance the scope of the study. Exploring other models beyond multiple linear regressions and examining the impact of corporate governance on the capital structure of Nepalese commercial banks is recommended. The findings are specific to Nepalese commercial banks, limiting generalization, so future research should consider a broader scope and diverse firms. The government should provide a conducive environment for the development of the Nepalese securities market. Commercial banks should diversify investments, hire financial experts, and communicate timely information to

relevant groups. SEBON should regulate inside information leakage, while NEPSE needs to analyze controversial factors affecting share prices to meet international standards. Investors are advised to conduct a detailed study of financial indicators such as EPS, DPS, BVPS, and price appreciation before investing or trading stocks of any banks, avoiding hasty decisions based on rumors. Further research is recommended to explore the impact of macro-economic variables on stock prices for firms listed in the NEPSE. The article findings offer valuable insights for investors, financial analysts, and policymakers operating in the Nepalese banking sector. Recognizing the significance of P/E ratio and EPS is crucial for making informed investment decisions. The limited impact of BVPS and DPS suggests that investors may need to focus more on factors such as earnings and price-earnings ratio when evaluating the market dynamics and investment potential of commercial banks in Nepal.

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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