

Firm- Specific Factors and Equity Valuation: Evidence from Nepalese banking Stocks

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Abstract

Stock prices in capital markets are highly dynamic and are influenced by various firm-specific financial indicators as well as market-related factors. In emerging economies like Nepal, where the stock market is still developing, investors largely rely on financial performance measures of companies to make investment decisions. Understanding the determinants of stock prices is therefore essential for investors, policymakers, and financial analysts. This study aims to analyze the factors determining stock prices of Nepalese commercial banks. The study has applied both descriptive and comparative causal designs to analyze the data gathered from secondary sources including audited annual reports, Nepal Rastra Bank sources, and other financial data sources. Two commercial banks listed on Nepal Stock Exchange have been chosen for the study. Sanima Bank Limited and Himalayan Bank Limited have been selected for the study purpose because of their presence and reputation in the market. The variables selected for analysis include Earning per Share (EPS), Dividend Payout Ratio (DPR), Price Earnings Ratio (PER), Cash Reserve Ratio (CRR), size of the bank and Market Price per Share (MPS). SPSS has been used for analysis purposes through descriptive statistics, correlation and stepwise regression methods. The major factors influencing stock prices include EPS and DPR whereas the influence of PER, size and CRR is not very prominent. The study concludes that the movement in stock prices in Nepalese commercial banks is highly influenced by financial performance measures of individual firms. The study implies that investors should give preference to information related to earnings and dividends, whereas banks need to improve their financial performance.

Keywords: *Stock Price Determinants; Commercial Banks; MPS; Equity Valuation; Firms Specific Factors*

1. Introduction

Education has been broadly acknowledged as a major contributor to human development, poverty. Indeed, equity investment is considered as an avenue through which wealth can be created. It has been viewed as a necessary source of finance for businesses; yet, there is a high level of uncertainty related to equity investment because the prices of shares fluctuate frequently due to various factors. The primary determinant of share prices in capital markets is the association between demand and supply of shares, but the movement in prices is also shaped by fundamental and technical variables as well as investor sentiment; thus, predicting stock prices becomes a complex task (Lama, 2016). However, effective capital markets contribute to economic development since they mobilize savings towards investment and promote capital formation and growth (Fischer & Merton, 1984). Efficient capital markets improve liquidity, reduce transaction costs, and enable firms to raise funds for expansion and innovation, ultimately contributing to national economic development (Levine & Zervos, 1998).

In developing economies such as Nepal, the capital market has gradually emerged as an important platform for mobilizing domestic savings into productive sectors of the economy. Despite its importance, equity investment is inherently associated with uncertainty and risk because stock prices fluctuate continuously in response to multiple economic, financial, political, and psychological factors. Commercial banks play an essential role in this process because they finance the critical sectors, including hydropower plants, agriculture, and infrastructure, and participate in both money and capital markets. Previous studies have indicated that financial variables such as EPS, DPR, and PER have considerable impacts on stock prices of listed companies in Nepal and other emerging economies (Lama, 2016; Enow & Brijlal, 2016). On the other hand, variables such as firm size and liquidity might be associated with mixed results and sometimes insignificance, owing to differences in market structure and investment patterns (Bhattarai, 2020). Literature by Wagle (2021); Gyawali (2022); Goet and Kharel (2022); Joshi et al., (2023); Giri (2024); and Khadka and Gaire (2024) emphasized EPS as one of the strongest determinants of MPS in Nepalese banking institutions. Even though macroeconomic indicators such as inflation, interest rates, and GDP growth have influenced the performance of stocks, it seems that their impacts are comparatively low when compared with those of financial measures at the firm level in the Nepalese commercial banks. Hence, from the basic principle of valuation, the study aims to analyze the effect of key firm-specific determinants such as EPS, DPR, PER, firm size, and liquidity on the MPS of Nepalese commercial banks. There is no doubt that in the case of Nepalese capital markets, and even in the case of Nepal Stock Exchange (NEPSE), stock pricing is a matter that is complicated by many firm-specific financial and macroeconomic aspects. Previously, it has been found that EPS, DPR, PER, and firm size have played vital roles in determining stock prices in the Nepalese capital markets (Bhattarai, 2020; Pradhan & Dahal, 2016; Lamsal, 2024).

Recent empirical evidence from Nepalese commercial banks further supports the significance of these financial variables in explaining stock price movements (Wagle, 2021; Gyawali, 2022; Giri, 2024). In addition to this, many other researchers have emphasized that various macroeconomic variables have contributed positively to stock performance in the Nepalese markets. However, it seems that unlike what is happening in developed countries, investors in Nepal pay more attention to their financial internal indicators than the macroeconomic ones (Shrestha & Subedi, 2014; Sapkota & Pradhan, 2016). In emerging markets in Nepal, where the capital market is still developing and characterized by limited information efficiency, stock price determination becomes more complicated. Nevertheless, most researchers have only focused on high-priced or broad market indices without considering low and mid-priced stocks. The focus on such stocks, mainly on those related to the banking sector, has been neglected to some extent since they play an important role in NEPSE. Therefore, understanding

the determinants of stock prices in Nepalese commercial banks is particularly important for investors, policymakers, regulators, and financial analysts.

2. Literature Review

Conceptual Review

Common stock is a permanent form of financing, given that it does not have a maturity period and gives ownership rights to stockholders. Dividends can be received by investors depending on the performance of the company and its policy regarding the distribution of dividends as determined by the board of directors. In case of liquidation, the common shareholders become residual owners, would only benefit from the surplus after the obligations are met. Limited liability is one major benefit of common stocks. *Earnings Per Share (EPS)* is the most essential profit measurement that measure the proportion of net income that can be assigned to each share of the company's common stock outstanding. The metric is commonly utilized in valuing equities as an important market prospect ratio. A high EPS value usually reflects better firm performance and can help drive up the MPS (Pradhan & Dahal, 2016; Karki, 2018; Bhattarai, 2020).

Market Price Per Share (MPS) is an indication of the worth of the company, and is usually calculated through the midpoint of the highest and lowest prices that prevail in the stock market during the fiscal period. MPS is affected by constant variations in demand and supply and combines intrinsic and extrinsic factors. MPS is very important variable when analyzing stocks, especially because of its association with corporate performance and expectations (Malhotra & Tandon, 2013; Lama, 2016). *Dividend Payout Ratio (DPR)* represents the percentage of profits paid out to stockholders as dividends. This measure captures the dividend policy and financial strength to pay dividends. Dhanani (2005) explained that the dividend policy adds value to firms, and several studies reveal that DPR has a positive relationship with stock prices, especially in the banking industry (Islam et al., 2015; Sapkota & Pradhan, 2016; Dhodary, 2023).

The Cash Reserve Ratio (CRR) shows the percentage of bank deposits maintained as cash reserve for fulfilling short-term commitments. CRR is an important determinant of liquidity management and financial stability. Excessive liquidity can suggest low utilization of resources, which, according to the perceptions of the investors, can adversely or insignificantly impact the market value (Al Qaisi et al., 2016). *Price-Earnings Ratio (PER)* is a measure used to compare the market price with earnings per share. This ratio shows expectations of investors about future earnings and risks. It has been found that PER is a vital factor affecting stock prices in advanced and developing countries, even Nepal (Nirmala & Sanju, 2011; Almumani, 2014; Lamsal, 2024). The firm size (*S*), which is reflected through the amount of total paid-up capital, is the size and financial strength of the bank. Large companies are generally assumed to be stable, even though there are studies that indicate that their stock price performances have both positive and negative impacts (Sapkota & Pradhan, 2016; Al Qaisi et al., 2016).

Empirical Review

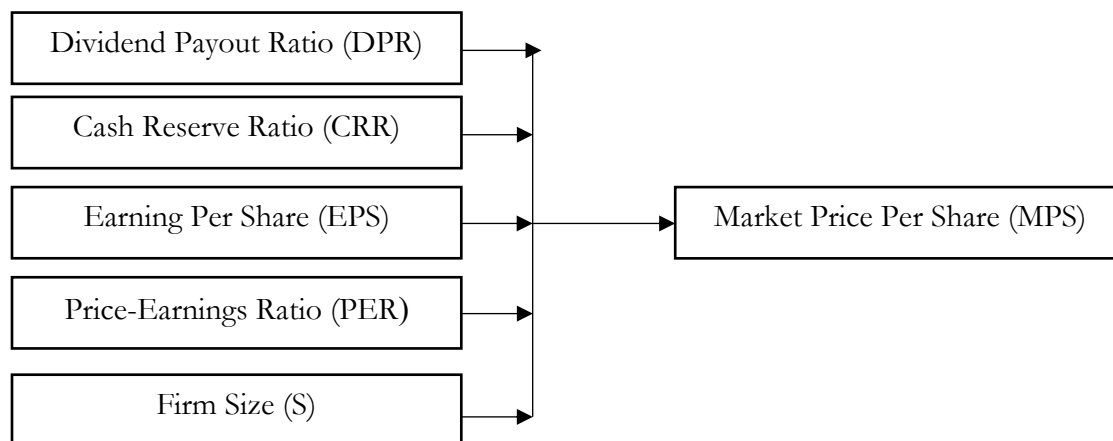
Empirical evidence presented that the firm-specific financial variables and macroeconomic variables have impact on equity valuation. However, the level and the nature of influence vary across markets and at times. Balkrishna (1984); and Mukherjee and Naka (1995) suggested that such variables as BVPS, DPS, money supply, and industrial production had played a critical role in determining equity valuation. The macroeconomic factors such as interest rates and inflation proved to have a conflicting impact on stock prices. The further studies in the context of emerging economies conducted by Irfan

and Nishat (2002); and Sen and Ray (2003) emphasized the importance of fundamental economic indicators like dividend payments on the determination of equity valuation, whereas, in some cases, the influence of EPS proven to be rather insignificant due to the inefficient stock markets. Dimitrios and Tsoukalas (2003); Hartono (2004); and Corwin (2003) emphasized the influence of both macroeconomic and firm-specific indicators; furthermore, the study raised the issue of the weak form of market efficiency. In the banking and financial sector context, Baral et al., (2006); and Rahman et al., (2009) had highlighted market inefficiencies and weak predictive power of traditional risk measures, while Wong et al., (2009); and Somoye et al., (2009) had shown mixed evidence on the significance of macroeconomic and accounting variables. Nasif (2010); Sharma and Kumar (2010); Nirmala and Sanju (2011); and Sharma (2011) had demonstrated that EPS, dividend measures, PER, book value and firm size had significant impact on stock prices, thus confirmed the leading position of the fundamentals. Bhattarai (2014); Shrestha and Subedi (2014); Pradhan and Dahal (2016); Sapkota and Pradhan (2016); and Bam et al., (2018) had found EPS, DPR, PER, ROA and firm size to be the major determinants of stock prices, while other macroeconomic variables; inflation rate and interest rate had demonstrated diverse impacts. Karki (2018); Pandey et al., (2020); Gautam (2021); Dhodary (2023); Lamsal (2024); and Pandey et al., (2024) had confirmed the significance of EPS, dividend policy, PER, and firm size as drivers of MPS within Nepalese commercial banks. Mustoffa et al., (2025) revealed that the firm size had a positive and significant effect on stock prices. Thus, overall, the reviewed empirical findings had provided evidence for the hypothesis that the main determinants of stock prices consisted in a number of financial indicators specific to each business entity including earnings, dividend policy, valuation ratios, and firm size, along with some macroeconomic factors.

Conceptual Framework

In general, EPS, DPR, PER, CRR, and size of the company are established firm-specific indicators of stock valuation (Sharma & Kumar, 2010; Bhattarai, 2020; Dhodary, 2023). The theory of DDM holds that the value of the stock is equal to the intrinsic value of future dividends, indicating that DPR, earnings stability, and growth perspectives impact the MPS.

Figure 1: *Theoretical Framework*



According to Modigliani–Miller Theory (MM Theory), despite the theoretical neutrality of the firm value to its capital structure in the perfect world, real-world complications such as taxes, cost of bankruptcy, and information imperfections make profitability, risks, and leverage significant factors in stock valuation. Arbitrage Pricing Theory (APT) explains that return on stock is affected by several risk factors, including firm-specific risks like liquidity and efficiency. Moreover, Efficient Market Hypothesis EMH proposes that in the semi-strong form of efficiency, all public information such as

EPS, ROA, and book value would be included in the stock price immediately; hence, the financial indicators become an essential component of valuing stocks. Fundamental Valuation Theory (FVT) supports this notion by claiming that stock prices are determined by fundamental financial factors, that include earnings, profitability, dividends, firm size, and growth potential, while Signaling Theory (ST) stated that corporations employ financial actions, such as dividends and earnings announcement, to send information to investors regarding their financial position and prospects. On this basis, the theoretical frameworks of the study indicate that EPS, DPR, PER, firm size, and liquidity affect MPS in both individual and integrated ways, wherein profitability and dividends signify intrinsic value, valuation ratio represents investor expectations, and firm size and liquidity stand for financial stability and risk.

Based on the research model (see Figure 1), the following hypotheses were formulated;

H1: Cash Reserve Ratio (CRR) has a negative relationship with Market Price Per Share (MPS).

H3: Earnings Per Share (EPS) has a positive relationship with Market Price Per Share (MPS).

H4: Price-Earnings Ratio (PER) has a positive relationship with Market Price Per Share (MPS).

H5: Bank's Size (S) has a negative relationship with Market Price Per Share (MPS).

3. Research Methods

The study had adopted descriptive and causal comparative research design. The descriptive design was used to systematically describe the financial characteristics of the selected banks through key financial indicators such as EPS, DPR, PER, CRR, firm size, and MPS, without manipulating any variables. This design is appropriate because it helps to present a clear picture of existing financial conditions and stock price behavior over the study period (Dewasiri et al., 2018). The causal comparative design was applied to examine the cause-and-effect relationship between firm-specific financial variables and market price per share (Jaishi & Poudel, 2021) as the study aims to identify how changes in financial performance indicators influence stock prices without experimental manipulation.

The population of the study comprised all NEPSE listed commercial banks in Nepal. The sample units for the study were Sanima Bank Limited (SBL) and Himalayan Bank Limited (HBL) selected purposively. The purposive sampling technique was adopted because these banks were among the most stable, consistently active, and highly traded commercial banks in the Nepalese stock market, making them suitable for meaningful comparison and analysis (Risal, 2024). The study period consisted of the fiscal year 2008/09 to 2017/18 AD. This time frame was selected based on the availability of audited published annual reports, ensuring data reliability and consistency. A ten-year period was considered adequate to capture long-term trends and fluctuations in stock prices and financial performance, thereby improving the robustness of the empirical analysis. Both banks had published regular and accessible annual reports. Both banks had a strong presence in the Nepalese banking sector and were actively traded in the stock market. Their shares were widely held by investors, and their stock prices frequently fluctuated based on financial performance, investor expectations, and market conditions. The historical data was collected, verified, and synthesized from different sources such as annual reports, publications of Nepal Rastra Bank (NRB), banking and finance statistics, and other relevant studies. Data analysis was done using SPSS to compute descriptive statistics, correlation, and step-wise regression analysis to identify the relationship and impact of selected variables on stock price of the sampled banks. SPSS was used due to its efficiency in handling financial datasets and performing advanced statistical analysis in a systematic manner. Descriptive statistics were used to summarize data characteristics, correlation analysis was employed to examine the direction and

strength of relationships between variables, and regression analysis was used to determine the magnitude and significance of impact.

Table 1: *Constructs with Measures*

Variables	Notion	Measure
Market Price per Share	MPS	Closing Price
Dividend Payout Ratio	DPR	Dividend Per Share/Earnings Per Share
Price Earnings Ratio	PER	Market Price/Earnings Per Share
Liquidity (Cash Reserve Ratio)	CRR	(Cash + Accounts Receivables + Marketable Securities)/Total Current Liabilities
Earnings Per Share	EPS	Net Income/Total Number of Outstanding Shares
Firm Size	S	Total Assets in Percentage

Model Specifications:

$$MPS_{it} = \alpha_0 + \beta_1 DPR_{it} + \beta_2 CRR_{it} + \beta_3 EPS_{it} + \beta_4 PER_{it} + \beta_5 S_{it} + e_{it}$$

Where,

α_0 =Constant Value; β_n =Coefficient of Independent Variables; MPS_{it} =Market Price Per Share during the period 't'; DPR_{it} =Dividend Payout Ratio during the period 't'; CRR_{it} =Cash Reserve Ratio (Liquidity) during the period 't'; EPS_{it} =Earnings Per Share during the period 't'; PER_{it} =Price Earnings Ratio during the period 't'; S_{it} =Size of Firm during the period 't'; e_{it} = Error Terms during the period 't'.

4. Result of the Study

This section presents the analysis and interpretation of the study findings based on the collected data. The results are organized according to the study variables and are supported by appropriate tables and statistical measures.

Table 2: *Pattern of Price Earnings Ratio (PER)*

Fiscal Year	HBL (PER)	SBL (PER)
2008/09	28.43	103.94
2009/10	25.66	46.74
2010/11	12.88	64.55
2011/12	16.35	37.25
2012/13	20.47	17.18
2013/14	28.43	33.09
2014/15	23.36	22.68
2015/16	34.86	23.04
2016/17	25.21	16.38
2017/18	23.84	15.27
Mean	23.95	38.01
S.D.	5.97	26.51
C.V.	24.93	69.74

Source: Annual Reports

Table 2 presented the differences between the PER of HBL and SBL banks. PER of HBL was found to be consistent throughout, with the lowest ratio of 12.88 being observed in 2010/11 and the highest ratio of 34.86 occurring in 2015/16. This had shown that EPS of HBL were always consistent with its

price, which was quite stable in the market. The average value for the PER of HBL was found to be 23.95 with a standard deviation of 5.97. However, the PER of SBL Bank varied widely during the period. The highest ratio of 103.94 was found in 2008/09, while the lowest ratio of 15.27 was recorded in 2017/18. This had indicated that there were frequent fluctuations in the MPS of the shares of SBL Bank. The average PER of SBL Bank was also found to be higher than that of HBL (38.01), with a large standard deviation of 26.51.

Table 3 shown that there was a significant difference in the behavior of dividend payouts by HBL and SBL banks. HBL had a relatively higher and stable DPR varying from 43.56% to 15% with an average DPR of 29.75%, while SBL bank had maintained relatively lower dividends at 5% to 21.05%, an average of 12.02%. The value of standard deviation for HBL and SBL was 9.74% and 5.08% respectively, which was an indication of the moderate volatility of dividends. However, the coefficient of variation showed more relative volatility in dividend payout behavior of SBL than HBL.

Table 3: *Pattern of Dividend Payout Ratio (DPR)*

Fiscal Year	HBL (DPR)	SBL (DPR)
2008/09	43.56	5.00
2009/10	36.84	10.00
2010/11	36.84	6.50
2011/12	28.42	5.50
2012/13	15.00	10.53
2013/14	21.05	15.79
2014/15	42.11	21.05
2015/16	31.58	15.79
2016/17	26.32	16.00
2017/18	15.79	14.00
Mean	29.75	12.02
S.D.	9.74	5.08
C.V.	32.74	42.26

Source: Annual Reports

Table 4 shown that HBL had consistent EPS, higher than those of SBL bank throughout the study period. The EPS in HBL varied from a maximum value of rupees 61.90 attained in 2008/09 to a minimum of rupees 23.11 increased in 2017/18, with an average of rupees 38.03, as opposed to the EPS of SBL which was minimum in 2011/12 at rupees 6.04 and maximum in 2015/16 at rupees 32.55, having an average of Rs. 17.09. This implied that HBL performed better in terms of profitability than SBL. From the standard deviation, there was moderate consistency in earnings of the banks; however, coefficient of variation indicated that HBL had experienced relatively lower proportionate volatility (25.93%) than SBL (50.61%).

Table 4: *Pattern of Earnings Per Share (EPS)*

Fiscal Year	HBL (EPS)	SBL (EPS)
2008/09	64.90	7.53
2009/10	31.80	10.63
2010/11	44.66	7.70
2011/12	39.94	6.04
2012/13	34.19	15.13
2013/14	33.10	19.28

2014/15	33.37	24.47
2015/16	43.03	32.55
2016/17	35.15	26.31
2017/18	23.11	21.22
Mean	38.03	17.09
S.D.	9.86	8.65
C.V.	25.93	50.61

Source: Annual Reports

Table 5 presented the liquidity, which was estimated using CRR measure, was substantially different for both HBL and SBL banks during the analysis period. For HBL, the CRR varied significantly, from 5.75% in 2010/11 to 37.52% in 2013/14, with an average of 18.03%. Thus, there were fluctuations in liquidity management, which could be considered moderate. As for SBL, the CRR showed a higher value on average (25.20%), ranging between 11.97% and 30.96%. Therefore, SBL had demonstrated more consistent liquidity management, although the values fluctuated significantly. The results showed that the absolute variation for HBL was higher than for SBL, as demonstrated by their respective standard deviations. However, the coefficient of variation for HBL was much higher than that for SBL, suggesting the proportionality of fluctuations was higher for HBL.

Table 5: Pattern of Liquidity (CRR)

Fiscal Year	HBL (CRR)	SBL (CRR)
2008/09	6.76	11.97
2009/10	6.76	28.19
2010/11	5.75	26.57
2011/12	8.72	30.24
2012/13	6.08	30.96
2013/14	37.52	26.68
2014/15	30.32	22.32
2015/16	28.74	24.24
2016/17	26.64	26.08
2017/18	23.05	24.72
Mean	18.03	25.20
S.D.	11.74	5.07
C.V.	65.11	20.12

Source: Annual Reports

Table 6 presented that both HBL and SBL had a growth in firm size during the study period; however, this growth varied in nature for each bank. As such, it could be noted that the size of HBL grew gradually from 5.49% in 2008/09 to 16.23% in 2017/18, registering an average firm size of Rs. 72928743, which was quite larger than that of the other bank. On the contrary, the increase in the size of SBL was more significant; the firm size increased from 1.70% to 26.65%, with a comparatively low average value of rupees 34460108, suggesting a later stage of growth. While the standard deviation values had indicated the greater variability in SBL's firm size (8.15) as compared to HBL (3.55), the coefficient of variation had indicated a relatively larger consistency in HBL's firm size variations as compared to SBL.

Table 6: Pattern of Firm Size (S) (Rs. in '000')

HBL	SBL
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Fiscal Year	Firm Size (S)		Firm Size (S)	
	Total Assets (Rs.)	Percentage	Total Assets (Rs.)	Percentage
2008/09	40,046,686	5.49	5,845,136	1.70
2009/10	43,860,251	6.01	7,238,558	2.10
2010/11	48,137,497	6.60	9,363,380	2.72
2011/12	55,367,467	7.59	12,822,466	3.72
2012/13	62,486,557	8.57	21,976,539	6.38
2013/14	74,718,816	10.25	29,377,000	8.52
2014/15	84,753,328	11.62	40,301,000	11.69
2015/16	101,217,918	13.88	55,891,000	16.22
2016/17	100,309,970	13.75	69,955,000	20.30
2017/18	118,388,936	16.23	91,831,000	26.65
Mean	72,928,743	10	34,460,108	10
S.D.	25918938.59	3.55	28078899.47	8.15
C.V.	35.54	35.50	81.51	81.50

Source: Annual Reports

Table 7 shown the notable differences in terms of MPS of HBL and SBL banks during the study period. HBL had a relatively high average MPS of rupees 919.50 for the period from rupees 1760 in 2008/09 to rupees 551 in 2017/18 despite a downward trend in the long run. On the other hand, SBL had a lower average MPS of rupees 496.00 with MPS moving from rupees 783 in 2008/09 to rupees 225 in 2011/12. It was evident that HBL had enjoyed relatively higher absolute MPS (379.57) compared to SBL's (182.61). In relation to the coefficient of variation, HBL market price per share showed higher proportional variability (41.28%) than SBL (36.82%). It meant HBL's MPS was relatively more volatile and less consistent than SBL's.

Table 7: Pattern of Market Price Per Share (MPS)

Fiscal Year	HBL (MPS)	SBL (MPS)
2008/09	1760	783
2009/10	816	497
2010/11	575	497
2011/12	653	225
2012/13	700	260
2013/14	941	638
2014/15	813	555
2015/16	1500	750
2016/17	886	431
2017/18	551	324
Mean	919.50	496.00
S.D.	379.57	182.61
C.V.	41.28	36.82

Source: Annual Reports

Table 8 shown that there was high variability within the variables throughout the study period. MPS ranged between rupees 225 and rupees 1760 with an average of rupees 707.75, a standard deviation of 374.94, and a variance of 140577.57. There was considerable variability within the value of the independent variables as well. For instance, the average firm size (S) was ten with a minimum and

maximum of 1.70 and 26.65, respectively. In addition, PER showed an average of 30.98 with a minimum of 12.88 and a maximum of 103.94. The dispersion level was also moderate for DPR with an average of 20.88 and a minimum and maximum of five and 43.56, respectively. Similarly, there was high dispersion for EPS with a minimum and maximum of 6.04 and 64.90, respectively. There was moderate dispersion within the value of liquidity ratio (CRR) as well with an average of 21.62 and a minimum and maximum of 5.75 and 37.52, respectively.

Table 8: *Descriptive Analysis (N=20)*

Variables	Min.	Max.	Range	Mean	SE	SD	Variance
MPS	225	1760	1535	707.75	83.84	374.94	140577.57
S	1.70	26.65	24.95	10.00	1.44	6.45	41.59
PER	12.88	103.94	91.06	30.98	4.69	21.00	440.81
DPR	5.00	43.56	38.56	20.88	2.70	12.10	146.31
EPS	6.04	64.90	58.86	27.56	3.21	14.35	205.93
CRR	5.75	37.52	31.77	21.62	2.23	9.98	99.61

Table 9 shown that MPS had positive associations with PER, DPR, and EPS, meaning that better valuation ratios, dividends policies, and earnings performances would contribute to the higher stock prices of Nepalese commercial banks. Conversely, MPS had negative correlations with ‘S’ and CRR, meaning that larger companies and higher liquidity reserves were not always related to higher market values of stocks. Size had negative correlations with PER, and positive correlations with DPR, EPS, and CRR, demonstrating different behavioral patterns in financial performance measures. PER had negative associations with DPR and EPS and no significant correlations with CRR, indicating that there were different expectations from investors for valuations and profits. DPR had positive correlations with EPS, meaning that higher profits had resulted in higher dividends payments. However, DPR had negative correlations with CRR. Similarly, EPS and CRR had positive correlations, implied that earnings performances had increased with liquidity reserves.

Table 9: *Bivariate Pearson's' Correlation Analysis*

Variables	MPS	S	PER	DPR	EPS	CRR
MPS	1					
S	-0.08	1				
PER	0.07	-0.53	1			
DPR	0.65	0.07	-0.45	1		
EPS	0.74	0.20	-0.52	0.86	1	
CRR	-0.25	0.26	0.00	-0.37	-0.44	1

Table 10: *Impact analysis of S, PER, DPR, EPS and CRR on MPS.*

M	Intercept	Regression Coefficients					R ²	F-Value	P-Value
		S	PER	DPR	EPS	CRR			
1	791.96 (4.66)	-4.42 (-0.32)					0.01	0.10	0.75
2	667.45 (4.28)		1.30 (0.31)				0.01	0.10	0.76
3	287.69 (2.16)			20.11 (3.62)			0.42	13.09	0.00**

4	172.20 (1.35)				19.44 (4.72)		0.55	22.30	0.00**
5	909.28 (4.47)					-9.32 (01.09)	0.06	1.18	0.29
6	-256.29 (-0.92)	8.90 (0.43)	9.79 (2.58)	27.37 (4.88)			0.60	8.05	0.00**
7	171.33 (1.31)			0.98 (0.10)	18.72 (2.25)		0.55	10.54	0.00**
8	59.43 (0.24)			0.87 (0.09)	19.95 (0.04)	3.72 (0.54)	0.56	6.83	0.00**
9	59.82 (0.25)				20.58 (4.40)	3.74 (0.56)	0.56	10.88	0.00**
10	-813.67 (-4.38)	-1.80 (-0.29)	12.51 (6.19)	0.44 (0.08)	32.30 (6.67)	11.68 (3.08)	0.91	26.70	0.00**

Figures in parentheses were 't'- values; ** indicates 1 percentage level of significance; * indicated the 5% level of significance.

Model 1

$$\text{MPS} = \alpha + \beta_1 S + e$$

From the regression between MPS and firm size (S), only 1% variation in MPS could be attributed to firm size, suggesting poor predictive ability of this variable in isolation. The negative beta coefficient had indicated an inverse relationship, meaning that any increase in firm size would lead to a reduction in MPS, though it was insignificant ($P > 0.000$). The implication of this was that firm size did not have any substantial effect on MPS. Generally, the results had indicated that the variation in MPS could be best predicted by other economic and financial variables.

Model 2

$$\text{MPS} = \alpha + \beta_1 \text{PER} + e$$

From the regression of PER on MPS, it was clear that only 1% of the variation in MPS was explained by PER. This meant that PER explained MPS insignificantly, since PER explained only 1% of MPS. On the other hand, the sign of the beta coefficient had shown a positive relationship between PER and MPS. This implied that an increase in PER would lead to an increase in MPS, though it was insignificant ($P > 0.000$). Thus, PER did not explain MPS, because PER had no effect on MPS.

Model 3

$$\text{MPS} = \alpha + \beta_1 \text{DPR} + e$$

Regression analysis between DPS and DPR revealed that 42% of variability in MPS was determined by DPR. It implied that the explanatory power of the variable was relatively high in comparison to other variables under consideration. The positive sign of the beta coefficient indicated that there was a direct relationship, which meant that the increased in DPR would lead to increase in MPS. The connection was statistically significant ($P < 0.000$). Thus, the analysis showed that the DPR was a significant determinant of MPS.

Model 4

$$\text{MPS} = \alpha + \beta_1 \text{EPS} + e$$

The regression analysis showed that 55% of variance in MPS was accounted by EPS that signified the high degree of explanation of EPS among all other factors in the model. the positive beta coefficient had suggested a positive relationship that was whenever EPS increased, MPS would also increase. It had indicated the statistical significance of the relationship ($P < 0.000$). It had implied that EPS was a major determinant of stock prices.

Model 5

$$\text{MPS} = \alpha + \beta_1 \text{CRR} + e$$

For regression analysis for the relationship between MPS and CRR, only 6% of variation in MPS was caused by CRR. This meant that there was weak relationship between the variables. Since the sign of the beta coefficient was negative, the relation could be inferred to be inversely proportional. It had implied that higher CRR would cause lower MPS. Though, the analysis had implied that CRR alone could not affect stock prices effectively ($P > 0.000$).

Model 6

$$\text{MPS} = \alpha + \beta_1 S + \beta_2 \text{PER} + \beta_3 \text{DPR} + e$$

The regression analysis on MPS and firm size (S), PER, and DPR accounted for 60% of the changes in MPS, that had shown high explanatory power. The combined effect of these variables on stock price behavior was highly significant ($P < 0.000$). This meant that dividend policies, valuation ratios, and firm size had a great influence on the valuation process, though there was still a large number of factors that determine the changes in MPS.

Model 7

$$\text{MPS} = \alpha + \beta_1 \text{DPR} + \beta_2 \text{EPS} + e$$

This regression model incorporating MPS in terms of DPR and EPS accounted for 55% of variance in MPS. This had signified that the explanatory power of two most important financial indicators was strong to moderate in this model. The importance of DPR and EPS in impacting the price of stocks was explained by significant p-value (0.000). This implied that both dividend policy and profitability had an effect on MPS among Nepalese commercial banks despite the presence of unexplained variance.

Model 8

$$\text{MPS} = \alpha + \beta_1 \text{DPS} + \beta_2 \text{EPS} + \beta_3 \text{CRR} + e$$

The regression model combining MPS with DPS, EPS, and CRR had explained 55% of the variation in MPS, indicating a moderate explanatory power of these financial variables. The joint effect of DPS, EPS, and liquidity had significant impact on MPS ($P < 0.000$). This implied that profitability and dividend distribution, along with liquidity position were significant determinants of market valuation

in Nepalese commercial banks, although the remaining variation in MPS was still driven by other firm-specific and macroeconomic factors not included in the model.

Model 9

$$\text{MPS} = \alpha + \beta_1 \text{EPS} + \beta_2 \text{CRR} + e$$

The regression analysis incorporating both MPS, EPS, and CRR had the ability to explain up to 56 percent of the variability in MPS, suggesting a relatively strong influence of MPS and EPS on MPS. The combination of EPS and liquidity had a significant impact on the MPS ($P < 0.000$). However, the variance left unexplained by this model might be attributed to other relevant factors.

Model 10

$$\text{MPS} = \alpha + \beta_1 S + \beta_2 \text{PER} + \beta_3 \text{DPR} + \beta_4 \text{EPS} + \beta_5 \text{CRR} + e$$

The regression model involving MPS along with firm size (S), PER, DPR, EPS, and CRR was able to explain 91% of the variations in MPS, suggesting a very strong level of explanation of selected financial variables. These financial firm-specific parameters had significant effect on stock prices in aggregate ($P < 0.000$). Thus, it could be implied that profitability, dividends, valuation, liquidity, and firm size were of prime importance in explaining the determination of market value for commercial banks of Nepal. Though, there were other market-related and firm-specific determinants as well, explaining the 9% of total variations left behind.

Table 11: *Test of Hypothesis*

Statement	P-Value	Decisions
H1: Dividend payout ratio (DPR) has a positive relationship with market share price (MPS).	0.000	Accepted
H2: Liquidity (Cash Reserve Ratio, CRR) has a negative relationship with market share price (MPS).	0.290	Rejected
H3: Earnings per share (EPS) has a positive relationship with market share price (MPS).	0.000	Accepted
H4: Price-earnings ratio (PER) has a positive relationship with market share price (MPS).	0.760	Rejected
H5: Bank's size (S) has a negative relationship with market share price (MPS).	0.750	Rejected

5. Discussion

The findings from the study regarding HBL and SBL banks provide compelling evidence for the importance of financial variables at a firm-specific level in the determination of stock prices in the context of Nepalese banks, along with empirical support to existing theories and studies in this domain. First, the positive and significant effect of EPS and DPR on MPS supports both Dividend Discount Models (Graham & Dodd, 1934) and Fundamental Valuation Theory, which consider future expected earnings and dividends as key contributors to intrinsic stock values. This finding is in line with empirical studies conducted in Nepal and other developing economies (Bhattarai, 2014; Shrestha and Subedi, (2014); Pradhan & Dahal, 2016; Thapa, 2017; Dhodary, 2023), where EPS and dividend policy emerge as major drivers of stock prices. Second, the positive and significant impact of PER in

the study can be considered an indicator of investor expectation and forecasting, which aligns with the Efficient Market Hypothesis (Malkiel & Fama, 1970) under its semi-strong form, wherein public information is speedily reflected in stock prices, as evidenced by Malhotra and Tandon (2013) and Nirmala and Sanju (2011). However, the fluctuations in the PER and MPS values in the case of SBL are not entirely consistent with perfect efficiency and introduce some aspects of the Behavioral Finance Theory (Shiller, 2003), in which the sentiments and psychological factors affect the stock prices, which is also the case for emerging markets where information flows are incomplete (Dangol, 2010; Bam et al., 2018). The negative but statistically insignificant relationship between liquidity (CRR) and MPS validates the Agency Theory (Jensen & Meckling, 1976) in terms of inefficient allocation of capital or excessive caution in managers' operations leading to lack of investor trust, partially confirmed by Al Qaisi et al., (2016). The inverse relationship between the bank size and MPS partially supports the Size Effect Theory as the growth in market value of larger banks would be lower when compared to the growth of smaller companies due to their agility, validating the conclusions presented by Sapkota and Pradhan (2016) and Lamsal (2024). In general, the strong explanatory power of the regression model (91%) supports the fact that the best approach to understanding the stock valuation in Nepalese commercial banks includes the integration of Fundamental Analysis, EMH, APT, Signaling Theory, and Agency Theory. The synthesis is well grounded from past research in Nepal and abroad (Sharma & Kumar, 2010; Almumani, 2014; Adekunle et al., 2015; Aveh & Awunyo-Vitor, 2017). Collectively, such studies reveal that share price movements are determined by an interplay of several variables, including profitability, dividends, valuation ratios, company size, liquidity, and economic factors. Nonetheless, the current results provide valuable insights into the issue by proving that in the context of the Nepalese banking industry, investors' valuation behavior responds more favorably to indicators based on earnings and dividends than those involving liquidity and bank size.

6. Conclusion

MPS of HBL and SBL banks are influenced by a number of financial indicators of banks where EPS and DPR have been found as the significant determinants. PER and firm size influence stock valuation both positively and negatively, but liquidity (CRR) does not exert any significant effect on MPS. The individual financial variables have not determined much variation in stock prices; however, when taken together, the contribution of all these factors in stock valuation is significantly explained. This implies that financial performance variables are interconnected in determining stock prices. From the results obtained from the study, it can be concluded that stock prices of commercial banks in Nepal are determined mainly by financial performance of firms and dividends paid to shareholders.

Based on the analysis, the use of EPS and DPR is critical when choosing stocks for investors. The results obtained indicate that earnings performance and dividend distribution play a vital role in increasing the market value of a business. Thus, banks' management needs to pay their due attention to this domain. It can be assumed that efficient market performance is possible only under proper financial disclosure and transparent corporate governance practices. Finally, market analysts should be informed that the efficiency of the chosen financial model for stock price valuation is high. It means that stock price assessment must be carried out using several factors.

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