Factors affecting share prices of banking sector of Pakistan

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Abstract

It is very important to understand the value of share prices as it will be beneficial for both investor as well as the company. By understanding those determinants that can affect the share price, the investor will be in a position to make various profitable investment decisions. Whereas, from the company’s point of view it helps to know about the Intrinsic value of company’s shares. The purpose of this research was to find out the impact of share price on Banking sector in Pakistan, as it shows the positive correlation of leverage on share price of Banking sector registered in Pakistan Stock Exchange. The data was extracted from the State bank of Pakistan official Website and from companies’ financial data starting from 2010 till 2017 of 20 companies in Banking sectors registered in Pakistan Stock Exchange (PSX). While share price have 4 control variables (Earning per Share, Dividend Yield, Return on Assets and Assets Growth) all the results shows low variation of share price on Banking sector in Pakistan. We used Simple regression analysis and the results shows the positive impact of earning per share variable that shows impact on share price while dividend yield has positive impact on share price, assets growth has positive impact on share price, and return on assets has positive impact on share price.

Keywords: Share Price, Earning per Share, Dividend Yield, Return on Assets and Assets Growth

Introduction

The Banking sector acts as the life blood of modern trade and commerce to provide them with a major source of finance. This increasing phenomenon of globalization has made the concept of efficiency more important both for the non-financial and financial institutions and banks are the part of them. Banks largely depends on competitive marketing strategy that determines their success and growth. The modalities of the banking business have changed a lot in the new millennium compared to the way they used to be in the years bygone (Hussain and Bhatti, 2010). The financial system of Pakistan is dominated by the commercial banks. The financial history of the country significantly altered in early 1970s with nationalization of domestic banks and growth of public sector development finance institutions. By the end of 1980s, it became quite clear that the national socio-economic objectives could not be achieved by nationalization. The public sector in banking and non-bank financial institutions was liable for financial inefficiency, deteriorating quality of assets and growing threats of downfall of financial institutions. By the end of 1990, public sector’s share in the banking industry was almost 90 percent in total assets, while the rest belonged to foreign banks, as domestic private banks did not exist at that time. Besides this high shares existed for deposits, advances and investments. The structure of banking system in Pakistan underwent significant changes after 1997 when the banking supervision process was aligned with international best practices. Privatization of public sector banks and the ongoing process of merger/consolidation brought visible changes in the ownership, structure, and concentration in the banking sector (State Bank of Pakistan, 2009). The Pakistani banking system since it has a completely diversified banking structure presents an interesting case. A quick look at net income before tax over total assets of all banks (operating throughout the time period under study) yield very low profitability levels (Ramlall, 2009).

This investigation portrays a chronicled foundation of Pakistani managing an account segment since its freedom on August 14, 1947 from British run the show. It shows the adventure of Pakistani managing an account area from the foundation of SBP on July 1, 1948 as national bank to help and screen the saving money part. Amid 1960s saving money division got expansion because of advancement ventures and a dynamic investment of private segment. In 1974, banks working in Pakistan got nationalized and went under the immediate control of the Govt. of Pakistan. Nationalized banks have indicated poor execution because of Govt. assurance and absence of rivalry. The Govt. of Pakistan is required to dispose of intrigue based exchanges from the nation as per every constitution (first constitution 1956, second constitution 1962 and the third constitution 1973). Thus, in 1992 the Supreme Court of Pakistan additionally requested to prevent intrigue based exchanges from the economy.

The Govt. of Pakistan has begun budgetary progression process by privatization and deregulation of the budgetary area particularly keeping money segment in 1992. The initiation of 21st century accompanied Islamic managing an account rehearses over the globe to encourage the distinctive sections of the economy. SBP created nitty gritty criteria in 2001 and enrolled Meezan Bank as the main Islamic bank in 2002. The commencement of Islamic saving money hones in Pakistan accompanied mixing of chances and difficulties in the presence of traditional banks to receive the long haul rewards. At long last, Islamic saving money hones in Pakistan demonstrated a fruitful ordeal because of development and development of the saving money part. This investigation mirrors a refreshed picture of Pakistani managing an account area since its creation. It empowers the per users, academician and investors to observe about keeping money
advancements in Pakistan as the adventure from traditional saving money to Islamic managing an account to upgrade their comprehension.

After various investigations there is as yet a hole about the connection between the profit approach and offer costs, but then this subject is open for exchange. As indicated by Modigliani and Miller firms share cost changes on its profit, company's esteem is inconsequential with profit arrangement. John and Williams announced that the above explanation of MM turned out to be truth when administrators pass all the data including positive and negative to their organization partners. For the most part, supervisors uncover simply positive data and not the negative. They don't unveil any negative data until any control drives them.

In 21st century the challenges for Pakistani keeping money industry are comprehensively of interior and outer nature. Inward difficulties are the one that originate from inside the managing an account industry and convey a significant impact on the long run power of the saving money industry. Outside difficulties are to some degree exogenous, being created from the outer condition of the keeping money industry, and require smart administration for versatility.

The purpose of this research is to identify the relationship between Share prices and factor which affecting the share price. Many researchers have tried to identify the relationship between share prices and other factor. The purpose of this study was to check the impact of dividend yield, earning per share, assets growth and return on assets Banking sector of Pakistan.

Understanding the share price is very important as it will be beneficial for both investor as well as the company. By understanding the determinants that effect’s the share price the investor will be on a position to make various profitable investment decisions whereas talking from the company point of view the company can get to know about the Intrinsic value of their share and can analyze about being “over-valued” or “under-valued”. Issues of profit strategy run as of confuse by Black (1976) immateriality by Millerand Modigliani (1961) at that point importance by DeAngelo (1996). Different incorporate hypotheses and profit installment, such as, the partner’s hypothesis, request hypothesis, office cost, declining hypothesis, flying creature close by error and customer base impact. The data asymmetry amongst directors and investors, beside the detachment of tenure and manage, surrounded the base for another elucidation for why benefit course of action has been for the most part standard. Also in line with this branch of learning, Al-Malkawi (2007), Al-Nijjar and Hussainey (2009) set up the negative connection between benefit payout and outside directorship.

Guo (2002).Examined that Speculators are by nature hazard loath, unpredictability speculations of significance toward them since it is a measure of the level of risk acquainted with the United kingdom stockpile Market, that can't named a rising one, show the highlights of a developed market, with generally direct controls than those of developing markets of the Africa. Organizations acknowledge, additionally, that speculators give careful consideration toward their profits, and that the peril of ventures can influence the valuation of the affiliation's offers as time goes on. That impacts unconventionality stock expenses since basic to firms as it is to money related authorities.

David Renelt (1992) demonstrate that past researchers have notably distinguished experimental connections amongst development and macroeconomic indicators that are strong to little changes in the molding data set, we check the affectability of the outcomes to changes in a huge molding data set.

Walter Bagehot (1873) and Joseph A. Schumpeter (1912) underscored a significant saving money structure of financial growth along with feature conditions at the point when banks can adequately drive progression and future advancement by recognizing and sponsoring virtuoso bendable wander.

Robert G. King and Levine (1993) exhibit that the level of budgetary between intercessions is an average pointer of long-run rates of money related advancement, capital collection, and effectiveness upgrades. A few models underline that business sectors alleviate the wasteful imposing business model power practiced by banks and stress that the focused idea of business sectors supports creative, development improving exercises rather than the unnecessarily preservationist approach taken by banks (Allen and Gale, 2000).

Hussain and Ali (2009) considered the quarterly information of numerous monetary factors including remote transformation scale, outside exchange spares, industry creation document, and whole arrangement esteem rundown, and gross settled capital game plan, data for these variables was picked up for the period from 1986 to 2008 period. The outcomes exhibit that after the impulses in 1991, the control of remote swapping scale and hold impacts determinedly to securities trade while distinctive elements like industry creation document and gross settled capital advancement has not embellishments to stock expenses. This outcome additionally demonstrates that local components of firms like increment creation and capital arrangement not impacts fundamentally while outer variables like swapping scale and saves impact essentially on the share price.

Samitas and Kenourgios (2007), uncovered noteworthy revelations about the four European countries, particularly Hungary, Czech Republic, Poland, and Slovakia. Revelations consolidated that the private financing cost has less impact on securities trade record when appeared differently in relation to family unit age. Second, finding was that US credit cost has more impact on the offer exchanging framework than the US present day age. In European countries, German factor has more criticalness than the US overall factor.

Shabaz (2008) examine the exists connection involving financial growth and stock exchange advancement. It is if there ought to be an event of less made countries. Revelations of this paper suggested that there exists a long run connection between securities trade improvement and financial headway. This examination endeavored to find impact of macroeconomic factors on stock expenses in Lahore stock exchange.

Levine and Zervos (1998), experimentally survey the connection amongst development and both securities exchanges and banks, however their examination experiences a collection of econometric shortcomings.

Rousseau and Wachtel (2000),make a critical commitment to the writing by utilizing board systems with yearly information to survey the connection between securities exchanges, banks, and development.

Vijaykumar (2010) investigated data from CMIE from 1996-2008 and concluded that variables like Book value, Growth rate. Dividend cover, Earning per share and Dividend yield had a positively effect on share price whereas variables like Dividend per share and Price ratio had a negatively effect on the share price of the selected companies. Hui et al. (2014) considered the information of Singapore Strait era from 2001-2012 furthermore, reasoned that elements like Interest rate, Money supply and GDP positively affected offer cost whereas factors like Exchange rate and Consumer value record demonstrates a negative connection with the offer cost. The strategy utilized by them was Ordinary slightest squares.

Other than current regard mold of stock esteem, the Lintner (1956) benefits by Sung and Urrutia (1995) get model as stock expenses to benefits a different ways. They express that, as indicated by the
Lintner's model, present benefit directed by present target benefit and precedent benefits, indicated by current model, current and precedent stock expenses controlled by present target benefit and past benefits. The United Kingdom Stock Market, which can't be delegated a rising one, show the highlights of a developed market, with generally direct controls than those of developing markets of the Africa. Organizations acknowledge, additionally, that financial specialists give careful consideration to profit returns, and peril of ventures might influence of association's offers over haul. This makes the insecurity of stock expenses as fundamental to firms as it is to monetary authorities.

The Markowitz portfolio theory (Markowitz 1952, 1991),can be utilized to clarify why portfolios that give significant yields should be rethought when trade rates increment or decline. Conversion scale developments influence the rates of return of outside speculators in the residential securities exchange, and in addition the rates of household financial specialists who have broadened their portfolios universally. Deterioration prompts a portfolio change from local resources, for example, stocks, to outside resources, since devaluation decreases returns for remote financial specialists when these assets are meant the home money.

It is normal to surmise that stock returns respond to the condition of the economy. Current stock costs are decidedly identified with the future level of genuine movement, as measured by the total national output (GDP) or modern creation. This finding appears to be natural since returns are a component without bounds income stream, which is profoundly reliant upon future financial conditions (Bilson et al. 2001).

Looking at the effect of sudden shocks in some major U.S. macroeconomic pointers on the securities exchanges in whatever remains of the created world, Lucey et al. (2008) found that among all the large scale pointers, just mechanical creation influences stock returns decidedly and fundamentally in all nations.

Share issue privatizations outflanked the comparing market lists since they could accomplish more noteworthy effectiveness picks up than the market expected, or the administrative administrations were more remiss than the market foreseen. There has been significant civil argument in the writing concerning whether firm proficiency and profitability depends more on direction and rivalry in the item showcase or on possession (Vining and Boardman, 1992).

The market demonstrates, which is a variation of the capital resource valuing model (CAPM), is frequently used to appraise expected market returns. Be that as it may, late observational examinations on advertise irregularities have tested the CAPM as a balance detail of the arrival age process (Ball, 1992; Fama and French, 1992, 1993). Perotti (1995) proposes that for Share issue privatizations, where the market is questionable about the administration's aim to interfere therefore, an administration resolved to not meddle can flag this by holding some possession. As per this flagging hypothesis, there ought to be a positive connection between held government proprietorship and stock value execution. On the basis of this literature review, following hypothesis were proposed.

1) There is a positive relationship between Dividend Yield and Share Price.
2) There is a positive relationship between Assets Growth and Share Price.
3) There is a positive relationship between Dividend Yield and Share Price.
4) There is a positive relationship between Earning per Share and Share Price.

**Research Framework**

Fig. 1. shows the research framework for the current study.

**Research methodology**

The relationship between Share price, Return on Assets, Earning per Share, Dividend Yield and Assets Growth had been previously analyzed several times before, but the result of those studies were inconsistent and ambiguous, furthermore most of them were conducted in developed countries which create the need to analyze the factor affecting share prices have on the choice of EPS, ROA, Div. Yield and Assets Growth, therefore the approach of conducting this research will be explanatory as we will try to explain the relation between Share Price and other factors in Pakistan.

This research study aims to identify the factor affecting share price of banking sector in Pakistan; therefore this research will be the causal research.

The aim of performing this research study is to find-out the factor affecting share price, therefore we have collected data of 20 Banks from commercial bank groups over the period of 8 years starting from 2010 till 2017 which makes a total of 800 observations with 160 observations of each variable. The sample contains data from 20 different Banks to make this analysis valid to all the Banks operating in Pakistan; however the Banks were selected on a random basis.

The data collected to test the hypothesis is a panel data as it covers 20 firms over a specific period of 8 years starting from (2010-2017). In a very uncomplicated case where there are no corporate-specific and period-specific effect than we can use “Pooled OLS” which would be the most appropriate technique for that type of data, however simple panel least square technique is the most appropriate technique in our case. The target population of this research is Banking Sector that is listed in Pakistan stock exchange (PSX) to investigate the aim of this study.

The sample data for this analysis is a secondary data which was collected from two reliable sources, the official website of State Bank of Pakistan and the official website of each commercial bank, therefore no instrument of data collection was required for this research however internet access was required.

The data has been collected from two sources. Most of the data have been gathered from the State Bank of Pakistan’s official website under the title of “Financial statement analysis of Joint stock Companies Listed on PSX” however all the data were not available on the official website of State bank of Pakistan (SBP), therefore we have to visit official website of each selected non-financial firms to take out the data from annual report of each company to find out the impact of Share Price and other supported independent variables such as (Return on Assets (ROA), Earning per Share (EPS), Assets Growth, Dividend Yield). The final Sample however contains data of 20 Banks from all commercial banks over the period of 8 years starting from 2010 till 2017 which makes a total of 800 observations with 160 observations of each variable.

**Findings and interpretation of results**

The sample to analyze the impact of Share Price and other supported variables on contains data of 20 banks for the period of 8 years which makes the sample a panel data, therefore we have used simple panel least square technique which would be the most appropriate technique for such type of data.
As we have already discussed that we used four measures of Share Price that are Return on Assets, Earning per Share, Assets Growth and Dividend Yield, hence the test was run two times with one different dependent variable mentioned above each time.

In the outputs the probability less than 0.05 represent significant relationship between dependent and independent variables and probability more than 0.05 represents insignificant relationship between dependent and independent variables, furthermore the value of Adjusted R square will represent the percentage variation explained by all significant independent variables only in dependent variable, and the value of R square will represent the percentage variation explained by all independent variables in dependent variable.

The output reflect that Earning per Share (EPS) has an impact on Share Price which means EPS are significant variables to measure Share Price, furthermore by observing coefficients of this variable we can say that EPS has a positive relation with Share Price and rest of the variables like Return on Assets, Dividend Yield and Assets Growth does not have any impact on Share Price which means they are insignificant variables in relation to Share Price, furthermore by observing the value of Adjusted R square, we can conclude that 81.94% variation in Share Price is explained by significant independent variable (that Share Price). In addition to it according to the value of R-square all the independent variables are explaining 82.40 % variation in dependent variable (that is Share Price).

Table 1: Variables and measures

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS_GROWTH</td>
<td>1.426958</td>
<td>7.738834</td>
<td>0.184369</td>
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<tr>
<td>DIVIDEND_YIELD</td>
<td>-1.076993</td>
<td>0.799495</td>
<td>-1.347092</td>
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<tr>
<td>EPS</td>
<td>8.213309</td>
<td>0.306909</td>
<td>26.76142</td>
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<tr>
<td>ROA</td>
<td>-39.68561</td>
<td>21.57462</td>
<td>-1.839458</td>
</tr>
<tr>
<td>C</td>
<td>1.603196</td>
<td>3.338748</td>
<td>0.480179</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.823998</td>
<td>Mean dependent var</td>
<td>43.75610</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.819427</td>
<td>S.D. dependent var</td>
<td>62.86118</td>
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<tr>
<td>S.E. of regression</td>
<td>26.71213</td>
<td>Akaike info criterion</td>
<td>9.439054</td>
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<tr>
<td>Sum squared resid</td>
<td>109884.8</td>
<td>Schwarz criterion</td>
<td>9.535560</td>
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<tr>
<td>Log likelihood</td>
<td>-745.4048</td>
<td>Hannan-Quinn criterion</td>
<td>9.478244</td>
</tr>
<tr>
<td>F-statistic</td>
<td>180.2486</td>
<td>Durbin-Watson stat</td>
<td>0.975261</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: SHARE_PRICE  
Method: Panel Least Squares  
Sample: 2010 - 2017  
Periods included: 8  
Cross-sections included: 20  
Total panel (unbalanced) observations: 159  

Hypotheses assessment summary

Table 2: Hypotheses assessment summary

<table>
<thead>
<tr>
<th>Hypotheses Statement</th>
<th>Probability</th>
<th>Empirical Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: There is significant relationship between earnings per share (EPS) on Share Price</td>
<td>0.0000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2: There is insignificant relationship between Dividend yield (D.Y) on Share Price</td>
<td>0.1799</td>
<td>Rejected</td>
</tr>
<tr>
<td>H3: There is insignificant relationship between Asset Growth on Share Price</td>
<td>0.8540</td>
<td>Rejected</td>
</tr>
<tr>
<td>H4: There is insignificant relationship between Return on Assets (ROA) on Share Price</td>
<td>0.0678</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Conclusion

The target of this research study was to find out the effect of Share Price on choice all commercial banks listed on Pakistan stock exchange (PSX).

In this research we used to measures of Share Price with Earning per Share, Return on Assets, Assets Growth and Dividend Yield. We used Earning per Share, return on Assets, Earning per Share and Dividend Yield as an independent variables, we used Share Price as a dependent variable.

The data was gathered from the State bank of Pakistan’s official website and company’s official website.

For the purpose of this research we have collected cross sectional data of 20 banks from all commercial banks groups for the period of 8 years starting from 2010-2017.

We used panel least square technique to analyze the data by inserting different measure of capital structure each time as a dependent variable.

The result shows that earning per share is significant variable to determine Share Price, the result further reflects that earning per share is positively related to share price.

The objective of this study was to investigate the impact of share price on banking sector in Pakistan.

In this research we used three measure of share price which were Dividend Yield (D.Y), Earning per share (EPS), Return on Assets (ROA), Asset Growth (AG).

The data was collected from the official website of State bank of Pakistan, company official website and from Pakistan Stock Exchange closing prices of 100 indexes.

For the purpose of this research we have collected panel data of 19 firms of banking sector of Pakistan for the period of 8 years starting from 2010-2017.

We used panel least square technique to analyze the result by inserting different measure of share price each time.

To conclude, the findings of this research study suggest that theories about factor affecting the share price can offer valuable assistance to understand the shareholder behavior in Pakistan, moreover this research will not only fill up the space in literature.

The sample data used in this analysis was secondary data, since the relevant data for this study was only available for the last eight years on the official website of State bank of Pakistan and the website of each individual company, therefore the analysis to find out the factor affecting share price banking sector of Pakistan can only be done on the data of last 8 years.

Recommendations

It is recommended to the management of the banking sector that they should not consider earning per share during the determination of the share price, however they can consider variables like return on assets, assets growth and Dividend Yield. In addition to it there is also a need to study more about the factors of share price of banking sector and potential researchers should work on different country specific and firm specific variables, so that they can introduce more variables which can affect the capital structure of non-financial firms.

References


