

# Chapter 11

## Impact of Financial Performance on Stock Price of Non- Bank Financial Institutions (NBFI) in Bangladesh: Dynamic Panel Approach

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### ABSTRACT

*Share price determination is a central question which the academicians and researchers in the field of Capital markets are trying to address through different angles. This study is about to find impact of financial performance on stock prices of a listed Non-Bank Financial Institutions (NBFI) in stock exchanges of Bangladesh. The main objective of the study is to investigate the impact of financial performance on stock prices of listed NBFI in Bangladesh. The research thus analyzes the impact of total earnings (NIAT), EPS announce, yearly dividend declaration, and NAV of the company on stock prices of NBFI in DSE by using recent tools such as static model and dynamic models such as GMM for the period of 2009 to 2013. This study reveals EPS has a strong positive correlation with stock price and NIAT & DPS came out with weak positive correlation with stock price however NAV and stock price has medium positive correlation.*

### INTRODUCTION

A strong and well-structured secondary market is the hub of capital market, which bears paramount importance in the economic development of a country. As a financial instrument, stocks hold a significant role in a country's economy. The stocks can be used to generate cash, by the issuers, investors, or third parties (Dahmmas, 2012). Stock markets not only a place to trade primary and secondary securities but

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also they operate as a launch pad between investors and users of capital by means of pooling of funds, sharing risk, and transferring wealth. In essence, a large number of economic variables like gross domestic product, interest rates, current account, monthly supply, employment, and their information etc. have an impact on daily stock prices (Kurihara, 2006). Previous studies support that there are some determinants such as EPS, DPS, NIAT, NAV, ROE and ROA which have direct impact on the share prices in secondary market (Anwar, 2016; Saleh, 2015; Başarir, and Ulker, 2015).

There is a basic notion that the stock price actually reflect a company more specifically its financial performance. Every year companies have to report their financial performance to all its stakeholders in the form of annual report. This annual report summarizes all the financial and non-financial activities of the company so that users can make informed decision. In annual report a company has to disclose certain qualitative figures about its performance, like revenue, expenses, net profit, total asset, liabilities, equity value, earning per share, amount of dividend etc.

The impact of an (these) announcement of financial performance and dividend declaration on stock prices had often been the center of interest to researchers, shareholders and investors. This is because; EPS announcement, dividend declaration in the form of cash, bonus share, and right share is one of the investment tools to evaluate a company's performance either in the short or long term, the estimated earnings can be used to measure the financial health and prospect of a company. However, instead of investigating all type of companies, this research paper only focus on Non-Bank Financial Companies (NBFI) and their financial performance. NBFI is a financial institution that does not have a full banking license and cannot accept deposits from the public. However, NBFI facilities alternative financial services such as investment risk pooling, financial consulting, brokering, and money transmission and check cashing. This type of institution includes saving institutions, credit unions, finance companies, mutual funds, insurance companies and pension funds etc. Therefore, in this research paper, an investigation and evaluation has been performed to indicate the impact of EPS, NIAT, NAV, and dividend declaration on the stock prices of listed NBFI in Bangladesh.

The aim of the study is to investigate whether there is any correlation between NBFI's EPS announcement and dividend declaration on a stock price for a relatively short time period of 5 years. In addition, a statistical study was conducted, using Statistical Package for Social Sciences (SPSS) software to evaluate if there is a significant level of impact on the bank's EPS on its stock prices during the quarterly earnings announced since, year 2009. The outcome of the study indicated existence of predictable relationship between some economic lead indicators and EPS numbers. Past research efforts have produced a striking correlation to current research findings. Murphy (1966) examined the correlation between growth in earnings per share in one period and the growth in earnings per share in the succeeding period. Joseph stated that if the correlation is positive, companies which record the highest growth rate of earnings per share in one period would also tend to record the highest rates of growth of earnings per share in the next period. Foster (1973) examined the stock market reaction to estimates of annual earnings per share. These estimates were made after the end of the financial year, but before the release of audited figure. His study examined the stock price adjustment to the EPS estimate.

In a similar vein, the International Accounting Standards Board (IASB) in its International Financial Reporting Standard (IFRS) 14 defines EPS to reflect the company's net after-tax earnings that belong to equity shareholders divided by the number of outstanding shares. It measures the company's performance during the year and indicates the progress of the company in the near future. In other words, EPS is a measurement of business performance as the net income figure takes into account both the results of the company's operations and the effects of financing. Thus the company's stock prices would be

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