A Study on Determinants of Stock Price

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Abstract- *Stock price is more important in the corporate finance. The stock price is important from both the industry point of view as well as investor point of view. This study reviews the determinant factors of stock price and also describes the factors how the way it influence the stock price are explained. The determinant factors are Market price, Dividend per share, Earnings per share, Book value, Dividend payout ratio and price earnings ratio. This paper explained thus the factors are how the way it influence the stock price and its impacts.*

Keywords- Market price, Dividend per share, Earnings per share, Book value, Stock price

I. INTRODUCTION

A share price is the price of a single share a number of saleable stocks of a company, derivative or other financial asset. In a layman terms, the stock price is highest amount someone is willing to pay for the stock, the lowest amount that it can be bought. The cost of purchasing a security on exchange. Stock prices can be affected a number of things including volatility in the market, the current economic conditions, and popularity of the company.

This literature review is initially done on stock price, earnings per share, dividend per share, book value, dividend payout ratio and price earnings ratio in terms of their features and relationship. The focus will be given on how stock price being related to the other six variable. The definition of the variables, their connections and topic related information.

According to Lawrence j. G., 2005, stock is ownership in a company, each share of stock representing a tiny piece of ownership. The shares you own, and the more of the company, the more dividends you earn when the company makes a determinants of stock price influence factors affect. They choose depends on what you want from a stock. Preferred stock typically pays regular dividend, and investor's income foremost from their stocks favor it common stock represents ownership of a company and more rights privileges than preferred stocks.

II. LITERATURE REVIEW

Dr. Sanjeet Sharma (2011), this study was explores the empirical relationship between the equity share price due to book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sales and also net worth for the period 1993-94 to 2008-09. These variables are explanatory variables. The result was to support the dividend policy and recommended for the companies to pay regular dividends because the dividend per share and earning per share has significant impact of market price of share.

Ejuvbekpokpo A. Stephen and Edesiri G. Okoro (2014), the term as stock price is basis assessment of the firms are whether achieve the breakeven point or not. This result was recommended to the government and the policy makers are should implement more strengthen rules, are backed up by the legislations are that will enhance the information to reported in the financial statements.

Faris Nasif AL- Shubiri (Corresponding author) (2010), this paper was said that the financial firms are make a substantial fraction of the domestic equity market. Some studies are subsequently used conceptual and the methodological approaches to model equity return of financial services firms. The stock price movement is very consequence of movement based the micro and the macroeconomic factors.

Dr. Mohammad Abdelkarim Almumani (2014), this study was explores that the positive relationship between some independent variables are earnings per share, book value, price earning due to one dependent variable market price. Inverse relationship between the final variable of stock/share due to the market price. Another aspect of dividend per share have insignificant impact on the market price.

Samuel Tabot ENOW, Pradeep BRIJLAL (2016), this results of fourteen companies' stock exchange reveals that earning per share, dividend per share and the price earnings ratio accounts for 57.8% of share movements. This study I found and implies that, the managers can create the value for their shareholders by increasing dividend per share, earnings per share and the finally price-earnings.

Md. Reaz Uddin S.M. Zahidur Rahman Md. Rajib Hossain (2013), this study was proved in earnings per share, net asset value, net profit after tax and price earnings ratio are strong relationship between the stock prices. These are the pertinent variables. The term of stock price is mainly focused exclusively on the financial institutions.

III. DETERMINANTS OF STOCK PRICE

The determinants of stock price are given below;

- Market price
- Dividend per share
- Earnings per share
- Book value
- Dividend payout ratio
- Price earnings ratio

Market price

The market price the share is mainly determined by the forces of demand and supply of a particular security in market. The price a share at particular moment represent the balance struck between the buyer and seller. Daily price fluctuations arise because of change in buying and selling pressure. These fluctuations it becomes difficult to decide as to which market price should be regressed as a measured of depend variables.

$$P= PH - PL/2$$

Where,

PH- is the greatest market price

PL- is the lowest price during the year

Dividend per share (DPS)

Dividend per share is a part of net income distributed in cash to shareholder of the company. it is the portion of corporate profits paid out of stockholders depends upon the dividend policy pursued a company. The dividend rate of a company has a significant influence on market price of a share.

$$DPS = (1 – B) (EPS)$$

Earnings per share (EPS)

The determinants of stock price shareholder are the net earnings of the corporation after making payment of dividend to preference shareholder. Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves an indicator of a company's profitability.

EPS= Net income - Dividend on preferred stock/ Average outstanding shares

Book value (BV)

'Book value per share common share' is the measure used by owners of common share in a firms to determine the level of safety associated with each individual share after all debts are paid accordingly.

BV = Total shareholder Equity- Preferred Equity/ Total outstanding shares

Book value of an asset is the value at which the asset is carried on a balance sheet calculated by taking the cost of an asset minus the accumulated depreciation. Book value also net asset value of a company, calculated as total asset minus intangible assets (goodwill) and liabilities. The initial outlay of an investment, book value may be net or gross of expenses such as trading costs, sales taxes, service charge.

Dividend payout ratio (DP)

The dividend payout ratio is the amount of dividend paid to stockholders relative to the amount of total net income a company. Dividend payout shows the percentage share of the net profit after tax and preference dividend paid out dividend stockholders. The amount that is kept by the company is called retained earnings.

$$DP= DPS / EPS*100$$

Price earnings ratio (P/E)

The commonly used P/E multiplier is defined as the closing price of the stock, dividend by the reported earnings the most recent twelve months. This receives some support from historical evidence that very high price earnings ratios have usually been followed by poor stock market performance. Such as the present when high price earnings ratios have reduced the earnings yield on stock relative to interest rates, stock prices have also tended to grow slowly in the short run.

$$P/E= MP \text{ of share} / EPS$$

IV. INFLUENCES THE DETERMINANTS OF STOCK PRICE

Influences the determinants of stock price many factors can cause the price of a stock to rise or fall- from specific news about a company's earnings to a change in how investors feel about the stock market.

- News releases on earnings and profits, and future estimated earnings.
- Announcement of dividend
- Anticipated takeover or merger
- Accounting errors or scandals

A dividend per share affecting in a firm's dividend policy is influenced by the large numbers of factors. Some factor affecting the amount of dividend and type of factor affect of dividend. The following are the some major factors which influences the dividend policy of the firms.

- Legal requirement
- Firm's liquidity position
- Repayment need
- Expected rate of return
- Shareholder individual tax situation

The earnings per Share Company annual report can create a false impression, as increasing earnings per share does not always equate to increasing profitability. Way to grow EPS companies can increase.

- Doing a better job
- Buying other companies
- Undertaken a share buyback

A book value is affected by its term, face value, coupon is the interest rate that the business must pay on the bounds. In practical terms, the discount rate generally equals the coupon rate interest rate associated.

The factors affecting dividend payout a third argument in favor of low dividends is the high cost a firms of issuing new stock. In other word, to avoid the need to raise money through the issuance of new stock, which is expensive a firms should retained most or all of their earnings and pay little on dividend to investors.

The price to earnings ratio of market price per share to annual earnings per share for a company's stock. It measure the payback period for your investment in year. The PE ratio is not particularly relevant as a standalone number of exit points in stocks.

V. CONCLUSION

This paper examine the determinants factors of stock price. From various literature review, the determinants of stock price are very much conflicting area of corporate finance. The determinant factors are Market price, Dividend per share, Earnings per share, Book value, Dividend payout ratio and price earnings ratio. Thus the determinants factors are identified and how the way it influence the stock price are explained clearly in this study.

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