

Full Length Research Paper

The impact of internal factors on share price: Reference to hotel industry in Colombo stock exchange

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Abstract

The Share market is one of primary indicator of a country's economic strength and development. In the share market, share price plays a vital role, since the nature of share price is random. Therefore the number of studies has been investigated several factors influencing on share price. However Sri Lankan context, attempt to find this there were few studies associations. In this study selected the most influencing factors and to the fluctuations in the share price of Colombo Stock Exchange (CSE), and investigate the impact of those factors on share price. The selected sample of this study was 20 hotels in Colombo Stock Exchange (CSE) over 2011 – 2015. The independent variables are, Earnings per share (EPS), Dividend per Share (DPS) and Return on equity (ROE). The dependent variable is Share Price (SP). This study analysis has done through Descriptive analysis, Correlation analysis and Regression analysis. Consequentially, this study was found; there is a significant impact between Share price (SP) with Earning per Share (EPS), Dividend per Share (DPS) and Return on Equity (ROE) respectively further strong positive relationship between Earning per Share (EPS) and Share Price (SP) as well as Dividend per Share (DPS) has strong positive relationship between Share Price.

Key Words: Share price, Earning per Share, Dividend per Share, Return on Equity

Introduction

From early historical times, Sri Lanka has attracted foreign visitors. Many books, particularly by British administrators, have been written based on the different attraction of the island. Sri Lanka's primary location on the world sea lanes attracted many cruise ships, freighters and other vessels. Passengers that entered the port of Colombo disembarked and enjoyed sightseeing in Colombo, Kandy and their surroundings. Colombo, the capital of Sri Lanka, is the world's fourth fastest-growing destination for international visitors, according to the 2016 MasterCard Global Destinations. Released on September 22, the Index, which projects the number of tourists staying in 132 of the most popular cities worldwide, says that Colombo will see a 19.57% increase in foreign arrivals this year. The stock exchange has been perceived by many as the backbone for most contemporary economies, serving a critical need of raising capital funds for companies at a reasonably low cost as compared to other sources of finance such as borrowing. However, when corporations need long term financing they may sell their ownership interests in the company to the public, or borrow from the public by selling bonds. Stocks exist to enable companies in need of long term financing to sell pieces of their business as stock (equity securities) in exchange

for cash. This is the principal method for raising capital other than issuing bonds. These publicly held shares could be traded to other investors on the share market. The Share market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional financial capital for expansion by selling shares of ownership of the company.

Firms share price is based upon its earnings, Return on equity, and firm's value is unrelated with dividend policy. Several factors are effecting on changes in share price. Such factors may be internal as well as external. This study is an attempt to identify the internal factors influencing the change of share prices and examine the impact of explanatory variables with those of stock price. Share prices are determined in the marketplace, where seller supply meets buyer demand. But unfortunately, there is no clean equation, but how a stock price will behave. There are few things about the forces that move a share price up or down. External factors such as world events, political changes and societal influences can also affect a share price. This relates to market conditions as the market can often change due to, for example - disasters, discoveries, wars, and other major world events. These external factors can both affect actual company earnings. Market share prices would be

determined primarily by fundamentals which at the basic level, refer to a combination of two things,

- i. An earnings base - Earnings Per Share, Return On Equity and Dividend Per Share.
- ii. A valuation base - Book Value Per Share, Market value per share.

Investors who believe strongly in fundamentals can reconcile themselves to technical forces with the following popular argument, Technical factors and market sentiment often overwhelm the short run, but the fundamentals will set the stock price in the long-run. In the meantime, we can expect more exciting developments in the area of behavioral finance since traditional financial theories cannot seem to explain everything that happens in the market. Dividend per share, Dividend cover, Dividend yield, Earning per share, P/E Ratio, Return of equity and book value per share as the factors influencing share prices. There have been various attempts to identify the determinants of share prices for different markets. According to stock valuation models, the current price of an equity share is equal to the present value of all future cash flows to that share. In this research consider only internal factors which effects to share prices. Identification of internal factors which effects to the share prices is very important to the companies. A Lot of work has been done on this topic, but almost all the authors have taken just Dividend policy as an independent variable to find how it affects the share prices, but the study on the impact of different variables such as Return on equity and Earning per share is not so much taken into consideration.

Research Problem

This study investigates the impact of internal factors on share prices of the companies with reference to the Tourism Sector of Sri Lanka.

Research Questions

- i. Is there any significant impact of Earning per share on share prices?
- ii. Is there any significant impact of Dividend per share on share prices?
- iii. Is there any significant impact of Return on equity on share prices?

Research Objectives

Key objectives

- To determine whether there is an impact between internal factors and share price in Hotel industry.

Related Objectives

- i. To identify whether there is an impact of earning per share on share prices.
- ii. To identify whether there is impact of dividend per share on share price.

- iii. To identify whether there is an impact of return of equity on share prices

Significance of the Study

This study may be helpful for several parties like tourism sector, investors and academics. Investors can invest more profitable organization within the Tourism sector. This study will play critical role to identifying best performer in the industry. Academics who are interested in enhancing their knowledge on Stock Market, Share price and internal factors while enabling them to successfully meet the challenges when they become future managers through giving them an in depth knowledge. To tourism Sector provide competitive advantage than other assets in the context of Tourism sector. As well as can expand their market growth rate and market size. Moreover share price tends to play a significant role in high involvement industry like Tourism. As a result of that, The Researcher findings will contribute to increase the knowledge base regarding the impact of internal factors on share price in the Tourism industry

Literature Review

Local Review

According to Perera and Thrikawala (2010) showed that there is a relationship between Accounting Information such as Earning per Share (EPS), Return on Equity (ROE) and Earning Yield (EY) and Market Price per Share. Further EPS, DPS, NAVPS are significantly correlate with stock price. Menike (2006) found that the inflation rate, Treasury bill rate and exchange rate react negatively to stock prices while money supply positively influence on stock prices in the Colombo Stock Exchange.

Foreign Review

According to Mondal & Imran (2002), Conducted studies on Determinants of Stock Price: A Case Study on Dhaka Stock Exchange. The findings of this research were that price earnings ratio; stock price rumor; demand for the share; changes in government policies; economic conditions are the most influential internal; external; economic; political; and environmental factors respectively regarding stock price. Sharma (2011) revealed that earning per share, dividend per share and book value per share has significant impact on the market price of share. Further, results of study indicated results of the present study supports liberal dividend policy and suggest companies to pay regular dividends. Malhotra (2013), Conducted study on the determinants of Stock Prices for NSE 100 Companies over the period from 2007-2012. The findings of this research revealed that firms' book value, earning per share and price-earnings ratio are having a significant positive association with firm's having a significant positive association with firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock. Together these four variables explain 51.6% of the dependent variable. The remaining

variables namely dividend cover and dividend per share are not significantly impacting movement of stock prices listed on NSE 100.

According to Uddin & Rahman (2013), found that Earning per Share (EPS), Net Asset Value (NAV), Net Profit After Tax (NPAT) and Price Earnings Ratio (P/E) are strongly related with stock price of companies in individual years. It can be concluded that EPS, NAV, NPAT and P/E ratio are strong determining factors for price of shares in stock market. Comparatively, it is also found that the effect of DPS greater than REPS on the impact of market price per share. Salem (2013) found that dividend announcement have significant impact on stock price. Announcement of increase in dividend payments results into rise in stock price and announcement of decrease in dividend payments accounts for decline in stock price around the time of the dividend announcement.

Research Methodology

Hypotheses

H1: There is a positive relationship between earning per share and share price.

H2: There is a Positive relationship between dividend per share and share price.

H3: There is a Positive relationship between return on equity and share price.

Population and sample

Current study population consists with 38 hotels which are registered in Colombo share market in Sri Lanka. Among that 20 companies selected as the sample and used secondary sources like company annual reports and Colombo stock market data library to collect data for the period 2011/2012 to 2015/2016.

Conceptualization

In the literature, share price, which is typically measured by using Market price end of the year, considers as the dependent variables, Earning per share{(Net Profit after Tax – Preference Dividend)/Number of outstanding Shares}, Dividend per share (Dividend/No. of outstanding shares) and Return on equity {(Net income after tax - Preference Dividend)/Shareholder's equity} considered as the independent variables (Figure 1).

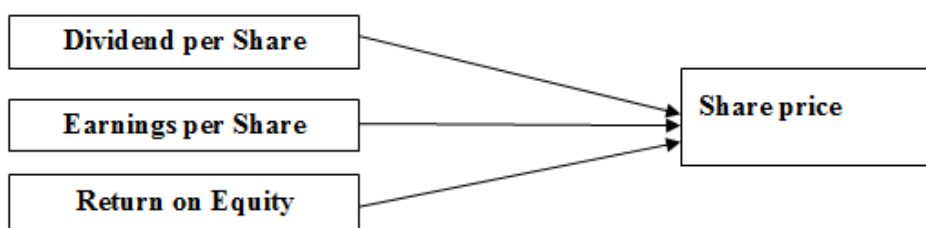


Figure 1: Conceptual Framework

Source: Develop by researcher

Regression analysis model

$$SP = \beta_0 + \beta_1 EPS + \beta_2 DPS + \beta_3 ROE + \epsilon$$

Where;

- SP = Share Price
- β_0 = Constant
- β_1 = Earnings per share
- β_2 = Dividend per share
- β_3 = Return on equity
- ϵ = Error Term

Data Analysis and Discussion

Descriptive Analysis

Table 1, presents the Descriptive Statistic (minimum, maximum, mean, standard deviation and variance) of EPS, DPS, ROE (Independent Variables) and Share Price (Dependent Variable).

Table 1: Descriptive analysis

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
SP	100	6.80	1452.40	1.2384	283.42973	8.033
EPS	100	-4.02	146.58	11.7762	29.33702	860.661
DPS	100	.00	30.00	2.5086	4.81475	23.182
ROE	100	-8.69	28.70	8.5577	5.49371	30.181
Valid N (list wise)	100	-	-	-	-	-

Source: Researcher developed

Closing price of share values range from the minimum of 6.80. Maximum value of market per share is 1452.40 with mean value of dependent variable is showed as

1.238 from out of 100 elements. standard deviation measuring 283.42973 indicating highly variations among

the hotel listed in the Colombo Stock Exchange in terms of closing prices of their stocks.

Correlation Analysis

This table finds the relationship between two variables at a time.

Table 2: Correlation analysis

	SP	EPS	DPS	ROE
SP	1			
EPS	.947**	1		
DPS	.919**	.935**	1	
ROE	.055	.137	.184*	1

** . Correlation is significant at the 0.01 level (1-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

Source: Developed by Researcher

According to the table 2, there is a significant strong positive relationship between earning per share (EPS) and share price (SP) at 0.01 levels. When considering the relationship between share price (SP) and dividend per share (DPS) it indicates significant strong positive relationship at 0.01 levels. When considering the relationship between share price (SP) and return on equity (ROE) is the correlation value is 0.055. It indicates positive relationship between return on equity (ROE) and share price (SP).

Regression Analysis

The quantitative analysis is made by using the result of the pool regression technique. Regressions analysis has been used to measure the impact of independent variables (Earning per share, Dividend per share & Return on equity) on the dependent variable (Share price).

Table 3: Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	43.294	15.872	-	2.728	.008
	EPS	6.487	.824	.671	7.877	.000
	DPS	18.132	5.057	.308	3.585	.001
	ROE	4.830	1.583	.094	3.051	.003
R ²		.914				
F Value		338.156				
Sig		.000 ^a				

Source: Researcher developed

R Square value is 0.914. This means that 9.14% of the total variation in dependent variables is explained by independent variables used in this study. Significant value is 0.000 and is less the 0.05, so there is significant relationship between SP and EPS, DPS, ROE. The F value of 338.156 which reflects that EPS, DPS, ROE have significantly affected when explained the variance in SP.

This study analyzes the impact of independent variables on dependent variables. According to the result of the

analysis, EPS positively and significantly effect on SP (0.000) at 1% significant level. The table shows DPS positively as well as significantly effect on SP (0.001) at 1% significant level. ROE has significant positive impact on SP (0.003) at 1% significant level.

Testing Hypothesis

According to the results it can be summarized the results of the hypothesis testing as table 4.

Table 4: Summary of Testing Hypotheses

Hypotheses	Result	Tools
H1: There is a positive relationship between earning per share and share price.	Accepted	Regression
H2: There is a Positive relationship between dividend per share and share price.	Accepted	Regression
H3: There is a Positive relationship between return on equity and share price.	Accepted	Regression

Conclusion

This research evaluates the internal factors influencing to the share prices of listed hotel firms in CSE. The intension of this study was to find impact of earning per share, dividend per share and return on equity (independent variables) on Firm market share value (dependent variable) in Sri Lankan hotel industry companies listed in CSE. Researcher has obtained vast knowledge about EPS, DPS, ROE and Firm market value of share. To obtain this objective researcher has developed conceptual framework then collected secondary data under the conceptual framework. Share price was the dependent variable while EPS, DPS and ROE were the independent variable. Population was consisted with 38 listed hotels in the Colombo Stock Exchange. Sample size comprises of 20 listed hotels and considers about 5 year annual report (2011/2012 to 2015/2016). Data were analyzed by using SPSS software and Excel software. Also regression analysis, descriptive analysis and correlation analysis tools and techniques were used to interpreted data.

Equation Estimated Equation:

$$SP = 43.2 + 6.4EPS + 18.1DPS + 4.8ROE + 15.8$$

The empirical findings showed that, there was a positive correlation between the independent variables and dependent variable. Therefore, Earnings per share have significant positive influence on share prices of listed firms in Colombo Stock Exchange. The Dividend per share and share price also has significant positive relationship. The Return on equity and share price also has positive significant relationship. According to the data analysis and results we can accept to the all hypothesis.

Limitations of the Study

Researcher has identified Followings limitations when undertaking the research. The share price is not only depends on internal factors. There are various other factors which affect to the share price but this study concern only the internal factors which affect to the share price. The share price is changing every time but in this study researcher consider only the share price what mention on the financial statement end of the year. Researcher considers only five year details for analyzing the impact but that may not be sufficient to take a this kind of decision.

Recommendations

This study would guide the potential investors in Sri Lanka to focus on the factors discussed above before making investment decisions. It is recommended that investors should monitor the earnings per share, dividend per share and return on equity before they expand their portfolio. The present study confirms that the internal factors impact and possess strong explanatory power and hence, can be used to make accurate future forecasts of stock prices. Therefore, investors are suggested to use internal variables of

company before investing. Listed hotels of Sri Lanka should take correct measurement for the increase of its stock prices like try to improve earnings per share. In considering the CSE data and above study, researcher recommended the investors to use DPS and EPS as the first variables and also ROE then after to take investment decision. The majority of the research studies which were carried out on the assessment of valuable notes have emphasized on the EPS and DPS as the main variables of the value of shares and have paid less attention to ROE. As a result it's recommended that the investors and shareholders take into consideration this recent variability in their decisions. If financial statements are to be used in the research, the yearly data should be used instead of quarterly or monthly data but for a longer period of time. One advantage of yearly data is that financial statement errors are very much minimized in annual financial statements because they are subject to audit.

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