

ASSESSING THE IMPACT OF KEY FINANCIAL INDICATORS ON THE MARKET PRICE OF COMMERCIAL BANKS IN THE EMERGING MARKET

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Abstract

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This research examines how the price-to-earnings ratio and other financial indicators affect Nepalese commercial bank market prices. It emphasizes the prominence of the market P_E ratio in Nepalese investors' investment decisions. This study aims to analyze the relationship between the P_E ratio, in addition to other financial indicators, with the market prices of Nepalese commercial banks. Multiple regression models were employed to analyze 209 yearly observations from the fiscal years 2012/2013 to 2022/2023 of all the commercial banks listed at the Nepal Stock Exchange (NEPSE). The data have been gathered from financial reports and stock market data provided by NEPSE. The study reveals that the price-to-earnings ratio exhibits strong predictive power in explaining the market price of commercial banks in Nepal. This finding highlights the significance of profitability measurement in influencing investor decision-making in the Nepalese banking sector. The findings of this study are expected to benefit investors, researchers, policymakers, and other stakeholders by enhancing financial literacy and informed policymaking. By understanding the impact of financial indicators on market prices, stakeholders can make more informed investment decisions, thereby contributing to a stronger financial system and economic stability.

Keywords: Book Value Per Share, Dividend Rate, Earnings Yield, Market Price, Price-to-Earnings Ratio, Market-to-Book Value

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1. INTRODUCTION

The dynamics of stock market pricing is one of the most prominent areas of interest in global finance. A range of essential financial indicators, along with internal and external forces, such as

the market price-to-earnings ratio, is widely recognized as instrumental in shaping investor perception and for its role in affecting stock prices. Ong et al. (2010) emphasized that, out of several relative valuation measures, professionals prefer the price-to-earnings ratio to evaluate the market

price of common stock when making their investment choices. Essentially, the price-to-earnings ratio supports assessing a company in proportion to its profits. The stock is more affordable when compared to its earnings if the price-to-earnings ratio is lower.

The commercial banking sector in Nepal plays a pivotal role in the nation's economic development. These banks facilitate financial intermediation by mobilizing savings and channelling them into productive investments, thereby stimulating economic growth. Characterized by significant capitalization, Nepalese commercial banks are often perceived as lower-risk sectors. Their stock prices exhibit more stability and are less vulnerable to unforeseen volatility than the higher volatility observed in other sectors. As of January 2024, the Nepal Stock Exchange (NEPSE), the only organized exchange centre in the nation, lists 271 firms, including 19 commercial banks. According to the most recent estimates, these commercial banks constitute around 29% of the total market value, highlighting their substantial presence and influence within the financial market.

The price-to-earnings ratio is generally acknowledged as a crucial measure in the Nepalese stock market for evaluating the relative worth of equities, including investments in commercial banks. ShareSansar (2023) reported that price-to-earnings ratios are fundamental to evaluating the risk associated with investments and are used as instruments for making investment selections among Nepalese investors. Typically, a high ratio of market price to earnings might not suggest that the price of a company is overpriced or reflects investors' anticipation of significant future growth. Still, they perceive it as a good reputation. Conversely, just because a company has a lower price-to-earnings ratio does not imply it is cheap; it could also signify potential concerns about its future performance or a lack of investor confidence in its operations.

The price-to-earnings ratio is a prominent financial figure often used to assess market sentiment and evaluate the worth of companies (Gurung et al., 2024). The complexity, however, stems from the influence of many other financial indicators, macroeconomic variables, and other forces that drive investors' sentiments, all of which together affect stock prices. Commercial banks play a pivotal role in Nepal's financial system. Understanding the variables that impact the price of stocks of Nepalese commercial banks is vital for investors, analysts, and policymakers due to the significant role these banks play in the country's financial system. Notably, the Nepal stock market, distinguished as an emerging market, has particular, unique dynamics and characteristics that set it apart from established markets. Researching growing markets like Nepal may be advantageous, providing valuable insights for investors in diverse market environments (Ghimire et al., 2024).

The primary goal of this study is to analyze the nexus between the ratio of price to earnings and other significant financial indicators to thoroughly understand the forces that impact market prices in Nepal's commercial banking sector, incorporate recent data to adapt to evolving financial conditions, and thus offer insightful analysis to enhance

investor decision-making. Moreover, it also explores the practical and social implications, thereby filling gaps in the existing literature. This study seeks to answer how the price-to-earnings ratio, book value, dividend rate, earnings yield, and market-to-book value ratio impact Nepalese commercial banks' market price per share. The study is grounded in financial and valuation theories that examine the relationships between stock prices and financial performance measures. It emphasizes the relevance of the price-to-earnings ratio, book value, and other financial indicators in evaluating stock market prices. Multiple regression models were employed to analyze data from five Nepalese banks listed on the NEPSE, covering 209 yearly observations from the fiscal years 2012/2013 to 2022/2023, to explore the relationships between the selected financial indicators and market prices. The study revealed a significant positive association between the market prices of commercial banks and the price-to-earnings ratio and book value.

The study is divided into the following sections: Section 2 contains the literature review. Section 3 describes the research methodology. Section 4 presents the research outcomes. Section 5 offers the discussion. Section 6 concludes the study.

2. LITERATURE REVIEW

As an industry, the analysis of individual banks and the assessment of stock prices in financial markets has been extensively researched and debated. Since information is widely available, stock market prices quickly and logically reflect all pertinent information, making it challenging to achieve above-average returns consistently. This is especially true of the traditional model that Eugene F. Fama proposed in 1970. Despite emphasizing market efficiency, the theory encounters substantial criticism, notably from behavioural economists, highlighting the inherent market imperfections. For instance, the delay in information dissemination inside markets might result in temporary inefficiencies, allowing traders to take advantage of these situations. Moreover, the effect of specific forces, such as financial indicators and other circumstances, on stock prices in a particular context is crucial when the market may exhibit different efficiency characteristics and efficiency levels compared to other countries' markets. The scholarly literature thoroughly explores the multiple factors that stimulate the stock price movement through empirical evidence. For instance, Ong et al. (2010) thoroughly studied how market efficiency, fundamental analysis, value investing, and the use of relative valuation methods like the price-to-earnings ratio are related to different theories of how stock prices are set. It acknowledged the complexity and varied evidence regarding market efficiency and the effectiveness of different investment strategies. The earnings multiplier model (or price-to-earnings ratio) is emphasized as a popular technique for evaluating companies in the context of various investing techniques.

Empirical research shows that the market price-to-earnings ratio significantly influences stock prices. Basu (1977) found that firms with a high ratio of earnings to market price or, conversely, low market price to earnings generated much greater yield than equities with low earnings to market price ratio.

Likewise, Almunani (2014) examined the quantifiable variables that impact market prices, which are enlisted at the organized exchange limited of Amman, and identified size, market price to earnings, book value, and profit per share as significant components that influence prices. Nirmala et al. (2011) investigated what drives market prices of a particular stock in India's stock market using the updated conventional regression method. They revealed that dividends, earnings to market price ratios, and debt ratios substantially influenced share prices in different industries. Moreover, Malhotra and Tandon (2013) conducted research using multiple regression analysis to determine what factors impact the stock prices of 100 businesses on the National Stock Exchange (NSE). They discovered a significant and favourable link between the company's stock price and variables such as the accounting value, the market earnings to market price ratio, and the profits per unit.

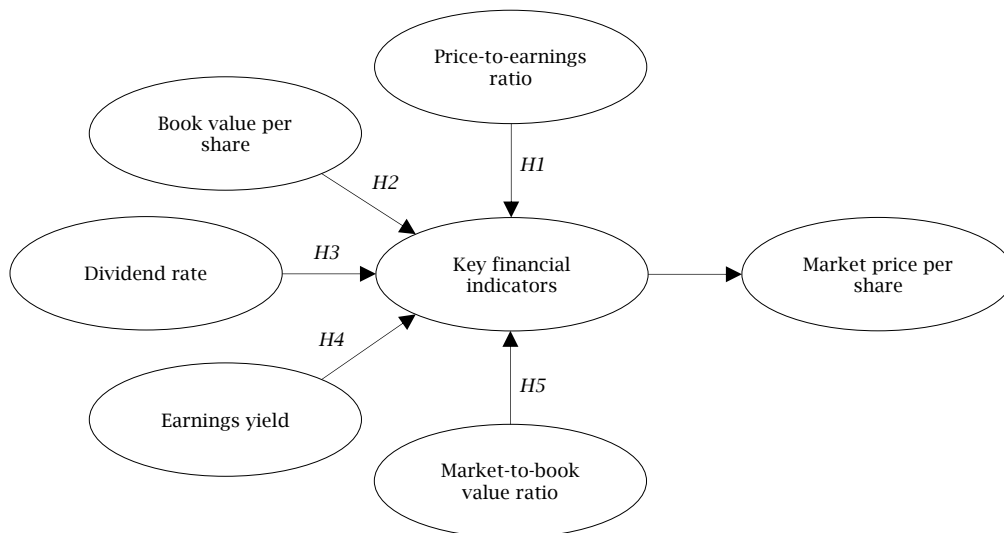
Several studies, including those by Bhattarai (2016), Chhetri (2023), Goet and Kharel (2022), Gurung et al. (2023), Karki et al. (2024), and Khadka (2018) have examined the influence on the prices of stocks of commercial banks of the variables, including the size of the bank, the price-to-earnings ratio, the dividend payment ratio, the book value per unit in addition to the macroeconomic factors, over various periods. Most of these studies agree that a robust positive association between the price-to-earnings ratio and other financial indicators on stock prices indicates these factors' vital role in shaping stock prices in the Nepalese banking industry. Despite a few similar studies, this research employs multiple regression analysis to better understand the predictive power of specific financial indicators, particularly the price-

to-earnings ratio. This study, which uses the most recent data, addresses changes in the financial environment that may necessitate new analysis, offering subtle insights that can better inform investor decision-making. It also explores practical and social implications, enhancing financial literacy and informed policymaking. This study fills gaps in the existing literature by offering a holistic view of how these indicators interact to influence stock prices. It emphasizes the necessity and value of conducting this research despite earlier studies.

2.1. Research framework and variable definitions

Financial economics and valuation theories, which provide frameworks for understanding the determinants of stock prices in commercial banks, form the theoretical foundation of this study. According to financial theory, stock prices reflect the present value of expected future cash flows discounted at an appropriate risk-adjusted rate (Damodaran, 2012). Key financial indicators such as the price-to-earnings (P/E) ratio, book value (BV), dividend rate (DR), earnings yield (EY), and market-to-book value (MV_BV) ratio are widely recognized as critical factors influencing investor perceptions and market valuations (Penman, 2013). Figure 1 presents the outline of the research framework. It provides dependent and independent forces to explain Nepalese banking sector stock price dynamics by establishing links among different financial indicators. It also offers a detailed definition of the variables employed in the study to explore the influence of the P/E ratio and other metrics on commercial banks' stock prices in Nepal.

Figure 1. Research framework



2.1.1. Market price per share

The closing price per unit is this study's primary response variable of interest. It is a crucial indicator in the financial world because it reflects investors' current perceptions of a company's performance (Dahal, 2021). Though the constant interaction of supply and demand forces in the financial markets

determines market prices, Cheney and Moses (1992) argued that market trends, economic indicators, and global events are just a few factors that can impact them. In this study, key financial indicators like the P/E ratio and other relevant financial metrics are expected to influence the market value of companies.

2.1.2. Price-to-earnings ratio

The price-earnings multiples (or market price to earnings of the banks) is a measure employed to examine the relative value of stocks in publicly listed companies. This ratio reflects investors' expectations for the earning strength of the companies. This quantifies the amount the investor is willing to spend for each unit of earnings the companies generate from their everyday operations.

Academics, including Karki et al. (2023) and Khan and Amanullah (2012), among others, have argued that a high P_E ratio typically points towards investors' readiness to bear a higher price for a company generating higher earnings, signifying that the price of the stock is overpriced. Hence, the higher price-earnings multiple affects the company's market price positively.

2.1.3. Book value per share

In theory, BV refers to the sum of the value of common stock the company acquired in case all of the assets owned by the company are sold out after deducting outstanding obligations, if any. The computation process involves dividing aggregated monetary inflows and outflows from the initial value with the total units of common stocks of a company.

Investors frequently use the BV to assess whether a stock is below or above the market price by contrasting it with the company's market value. Sharma and Singh (2006) have documented a considerable influence on the market price of a stock of the value recorded at the company, suggesting a positive association between the two variables, i.e., as the BV rises, the market price also tends to rise.

2.1.4. Dividend rate

The DR is a fraction of the company's total earnings distributed to its current owners. The computation

process includes dividing the total amount of earnings distributed as dividends by several units of shares outstanding.

Since shareholders invest in the hopes of receiving a portion of their earnings, paying dividends to them is crucial (Bhattarai, 2020; Dahal et al., 2020). The primary goal of shareholders is to realize a return on their investment, and they are particularly gratified when the company is profitable. Higher profitability often translates into more substantial dividend payouts and a perceived rise in market price.

2.1.5. Earnings yield

EY is a financial measure that calculates the earnings generated by a company relative to its market price, given as a percentage. The EY is a useful measure of value, with a lower ratio potentially indicating an overpriced corporation and a larger ratio suggesting an undervalued company. When assessing the EY, it is crucial to consider a firm's potential for growth. Stocks with significant growth potential often attract higher market valuations, perhaps leading to a reduced profit return despite the positive growth outlook. This suggests a hypothetical negative association of the EY with the market price of a company, indicating a rising market price with a decline in EY and vice versa. This suggests a theoretical inverse relationship between the EY and a company's market price.

2.1.6. Market-to-book value ratio

MV_BV is the ratio of the current market price of a company in comparison to its accounting or BV. It is believed that the ratio of market price to book is a predictive measure of a company's future cash flows. Value investors often consider price-to-book ratios below 1.0 to be favourable investment opportunities.

Table 1. Variables and measurements

Variables	Notation	Type	Measurement
Market price per share	MPS	Dependent	Provided by NEPSE
Price-to-earnings ratio	P_E ratio	Independent	Market price per share/Earnings per share
Book value per share	BV	Independent	Total value of equity/Number of outstanding shares
Dividend rate	DR	Independent	Total dividend paid/Number of outstanding shares
Earnings yield	EY	Independent	Earning per share/Market price per share
Market-to-book value ratio	MV_BV	Independent	Market price per share/Book value per share

Below the research hypotheses are provided:

H1: The market price-to-earnings ratio has a significantly positive relation with the market price of a bank.

H2: Book value per unit has a significantly positive relation with the market price of a bank.

H3: Dividend rate has a significantly positive relation with the market price of a bank.

H4: Earning yield has a significantly negative relation with the market price of a bank.

H5: Market-to-book value ratio has a significantly positive relation with the market price of a bank.

3. RESEARCH METHODOLOGY

This research employs a detailed explanatory approach to extensively examine the influence of the market P_E ratio, in addition to other key financial indicators, on the market prices of selected commercial banks recorded at the organized exchange centre of the country. Out of 20 commercial banks currently recorded at the exchange, it includes only 19 commercial banks, as Nepal Raastriya Banijya Bank Limited is fully owned by the government. In all, 209 yearly observations covering 11 fiscal years for each sample bank, from 2012/2013 to 2022/2023, make up the study's data set to capture the cross-sectional movements amongst the variables of interest, reflecting the dynamic and ever-changing Nepalese banking industry.

This study employs a multiple regression model (eq. (1)) to assess the influence of key explanatory variables on the market price of the chosen commercial banks.

$$MPS_{it} = \beta_0 + \beta_1 P_E\ ratio_{it} + \beta_2 BV_{it} + \beta_3 DR_{it} + \beta_4 EY_{it} + \beta_5 MV_BV_{it} + \varepsilon_{it} \quad (1)$$

where, *MPS*, *P_E ratio*, *BV*, *DR*, *EY*, and *MV_BV* are dependent variables. The model includes a constant term (β_0) and coefficients (β_1 to β_5) for each independent variable, quantifying their effects on *MPS*. The term ε_i stands for the residual component,

which includes the remaining *MPS* variability the model does not consider.

4. RESEARCH RESULTS

4.1. Descriptive statistics

The descriptive statistics provide a comprehensive analysis of the data set by explaining key statistical measures such as mean, standard deviation, minimum, maximum, mean, and standard deviation of key variables: *MPS*, *P_E ratio*, *BV*, *EY*, *DR*, and *MV_BV* under consideration.

Table 2. Descriptive statistics

Variables	Minimum	Maximum	Mean	Std. dev.	Observations
<i>MPS</i>	137.00	3600.00	589.33	550.42	209
<i>P_E ratio</i>	-3.41	134.42	21.56	13.62	209
<i>BV</i>	56.70	370.84	176.62	54.22	209
<i>DR</i>	0.00	110.00	22.02	17.54	209
<i>EY</i>	-0.29	1.16	0.06	0.09	209
<i>MV_BV</i>	0.87	13.46	3.18	2.03	209

MPS exhibits a mean of approximately 589.33 with a standard deviation of 550.42, indicating a broad range from a low of 137.00 to a maximum of 3600.00. This suggests that market pricing varies significantly among the examined banks, reflecting both extremely low and noticeably high share values. The *P_E ratio* exhibits significant fluctuations, as indicated by a mean (21.56) and standard deviation (13.62). This suggests that investors highly value some commercial banks, and a negative ratio also implies that a few banks result in negative earnings per share.

With respect to *BV*, there is a wide range of values among the banks, indicating that some of the banks have their *BVs* close to average while others differ significantly. The average *DR* suggests that banks tend to pay out dividends around 22.02%; however, the actual *DR* tends to vary because of higher variability indicated by the standard deviation. Moreover, dividend-paying diversity largely varies among the banks. *EY* exhibits a negative to maximum value (1.16), which indicates that some banks have significantly high earnings relative to their share prices, while others reveal losses. *MV_BV* reports a relatively higher standard deviation than its average value (3.18), and the value ranges from a minimum of 0.87 to a maximum of

13.46. It suggests that market values vary considerably from *BVs*, indicating the undervalued and overvalued banks considered in the study.

4.2. Correlation analysis

Table 3 is a thorough correlation matrix that uses Pearson's correlation coefficient to show the correlations between a collection of explanatory variables with dependent variables, as this analysis has demonstrated. The results revealed a promising correlation between *MPS* and *P_E ratio* and *BV*, *DR*, and *MV_BV* variables. This suggests that these variables have a supportive impact on the unit market price, indicating that a rise in these variables is often linked to an increase in *MPS*. *MPS* and *EY*, however, show a negative association, indicating that *MPS* tends to decrease as *EY* rises.

The correlation between the independent variables ranges from -0.015 (between *EY* and *BV*) to 0.576 (between *MV_BV* and *DR*), indicating minimal multicollinearity among the variables. Additionally, the variance inflation factor (VIF) statistics reported in Table 4 confirm that the variables are free from multicollinearity issues.

Table 3. Correlation matrix

Variables	<i>MPS</i>	<i>P_E ratio</i>	<i>BV</i>	<i>DR</i>	<i>EY</i>	<i>MV_BV</i>
<i>MPS</i>	1					
<i>P_E ratio</i>	0.471* (0.000)	1				
<i>BV</i>	0.561* (0.000)	0.113 (0.105)	1			
<i>DR</i>	0.693* (0.000)	0.1927* (0.005)	0.529* (0.000)	1		
<i>EY</i>	-0.164* (0.018)	-0.259* (0.000)	-0.015 (0.831)	-0.110 (0.112)	1	
<i>MV_BV</i>	0.909* (0.000)	0.497* (0.000)	0.245* (0.000)	0.576* (0.000)	-0.209* (0.002)	1

Note: * significant at 1% level.

4.3. Multiple regression

Using multiple regression analysis, it investigated the impact of crucial financial indicators — *P_E ratio*, *BV*, *DR*, *EY*, and *MV_BV* ratio — on the commercial

bank's *MPS*. It estimated five models for the study, progressively adding variables to the *P_E ratio* to examine their individual and combined effects. The results are summarized in Table 4.

Table 4. Regression results

Model	Intercept	<i>P_E ratio</i>	<i>BV</i>	<i>DR</i>	<i>EY</i>	<i>MV_BV</i>	<i>R</i> ²	<i>F</i> -statistic	<i>Sig.</i>
1	178.742* (63.126) {2.832}	19.046* (2.477) {7.689} [1.000]	-	-	-	-	0.222	59.114*	0.000
2	-692.496* (99.817) {-6.938}	16.709* (2.037) {8.201} [1.013]	5.218* (0.512) {10.196} [1.013]	-	-	-	0.483	96.231*	0.000
3	-523.536* (84.199) {-6.218}	14.079* (1.704) {8.264} [1.038]	2.680* (0.495) {5.413} [1.389]	15.263* (1.549) {9.851} [1.424]	-	-	0.649	126.41*	0.000
4	-513.756* (87.640) {-5.862}	13.901* (1.761) {7.895} [1.105]	2.691* (0.497) {5.417} [1.394]	15.209 (1.558) {9.762} [1.434]	-144.236 (277.024) {-0.412} [1.080]	-	0.649	94.468*	0.000
5	-763.074* (33.679) {-22.657}	1.718** (0.746) {2.302} [1.106]	3.369* (0.188) {17.952} [1.408]	2.079* (0.694) {2.996} [2.015]	130.534* (101.315) {1.251} [1.085]	209.372* (5.941) {35.244} [1.981]	0.951	783.78	0.000

Note: * significant at 1% level and ** significant at 5% level. Figures in parenthesis are standard error, in curly brackets are *t*-statistics, and in square brackets are *VIF*.

As an independent variable, the *P_E ratio* is the only component of Model 1. The coefficient of 19.046 ($p < 0.01$) in the data indicates a statistically significant positive correlation with *MPS*. Despite this significant relationship, Model 1 accounts for only 22.2% variability in *MPS*. The *F*-statistic is highly significant (59.114, $p < 0.001$), confirming that the overall regression model effectively predicts the market price of commercial banks. While incorporating *BV*, Model 2 reveals substantial impacts of *BV* and the *P_E ratio* on *MPS*. Specifically, the coefficient for the *P_E ratio* is 16.709 ($p < 0.01$), while the coefficient for *BV* is 5.218 ($p < 0.01$). Notably, the enhanced *R*² value of 0.483 indicates that these variables collectively account for 48.3% of the variance in *MPS*. Furthermore, the significant *F*-statistic (96.231, $p < 0.001$) emphasizes the overall fitness of the model in explaining market prices.

With the inclusion of *DR* in Model 3, the coefficients of all the variables considered in the model were significant at the 1% level. The explanatory power of the model has improved, as evidenced by the increased *R*² value of 0.649. A highly significant *F*-statistics value indicates that the overall regression model is statistically significant in predicting *MPS*. In Model 4, incorporating *EY* into the previous model, the *P_E ratio* remains statistically significant ($p < 0.01$), with the *R*² value improving to 0.649. The *F*-statistic value (94.468, $p < 0.001$) is highly significant in exhibiting the overall regression model in predicting *MPS*.

Model 5 comprehensively incorporates all relevant independent variables, including *MV_BV* from the previous model. Notably, the coefficient of the *P_E ratio* (1.718, $p < 0.05$) remains statistically significant. The *R*² value indicates that this model explains 95.1% of the variation in *MPS*, highlighting its strong explanatory power. Additionally, the *F*-statistic (783.78, $p < 0.001$) exhibits the overall robustness of the model.

5. DISCUSSION

The primary objective of this study is to analyze the factors influencing the stock prices of Nepalese commercial banks. Specifically, we focus on the *P_E ratio*, considering other crucial financial indicators such as *BV*, *DR*, earning yield, and *MV_BV* ratio. The findings provide insight into bank stock price dynamics by revealing important relationships among these factors. The regression models demonstrate a remarkable influence of the *P_E ratio* and *BV* on the *MPS* and suggest that investors give considerable importance to both profitability and the value of the bank when assessing its stock price. A higher *P_E ratio* typically indicates investors' willingness to pay a premium for a bank's equity in anticipation of future profits. The positive correlation between the *P_E ratio* and *MPS* supports the notion that investors adopt a forward-looking approach; valuing stocks based on projected earnings.

Consistent with prior research (Bhattarai, 2016; Oyama, 1997; Malhotra & Tandon, 2013; Pant et al., 2022), this study confirms a positive relationship between the *P_E ratio* and a company's market price. According to their findings, investors perceive companies with higher *P_E ratios* as having greater potential for future profits. Furthermore, as investors seek to capitalize on both present and future gains, an increasing *P_E ratio* drives higher demand for these shares, raising their prices. The analysis demonstrates that *BV* positively impacts the market price of bank stocks, consistent with the findings of Dahal and Puri (2021), Bhattarai (2020), and Silwal and Napit (2019). This supports the notion that investors anticipate receiving at least the *BV* in the event of liquidation and are cautious about investing in equity priced below its *BV*.

The study revealed a positive relationship between *DRs* and market prices, indicating

the influence of dividend distribution practices on stock prices, even though lack of presence of statistical significance in Model 4. These findings align with prior research by Ali and Chowdhury (2010) and support Gordon's (1962) dividend relevancy theory that emphasizes the company's fundamental value and future prospects. The study also offers new insights into the relationship between *EY* and market price, which resonates with the previous studies (Abraham et al., 2017; Basu, 1983; Rogers, 1988) that suggest that, in general, equities with high *EY* tend to deliver better risk-adjusted returns compared to low-yielding firms. The market value to *BV* ratio revealed a notable influence on stock prices within the Nepalese banking sector, serving as a critical indicator to assess whether a company's market price accurately reflects its intrinsic value. Earlier studies by Antonios et al. (2012), Fatoki and Nasieku (2017), and Shittu et al. (2016) highlighted the significance of this ratio in stock valuation, emphasizing its critical role in investment decision-making.

In conclusion, the *P_E ratio* emerges as a crucial determinant of market prices for Nepalese banks. Alongside this pivotal factor, other variables such as *BV*, *EYs*, and the *MV_BV* ratio also exhibit significant associations. The findings emphasize the importance of these variables in influencing stock prices, providing valuable insights for investors and financial experts in making well-informed decisions about investments in the Nepalese banking sector.

6. CONCLUSION

The study set out to investigate the impact of crucial financial indicators — *P_E ratio*, *BV*, *DR*, *EY*, and *MV_BV* ratio — on the *MPS* of commercial banks. Grounded in established financial and valuation theories, this research provides a strong foundation for analyzing how these selected financial indicators influence the *MPS* of commercial banks. A multiple regression analysis assessed the relationships between the financial indicators and *MPS*, offering

valuable insights into their predictive power. The *P_E ratio* exhibits strong predictive power in explaining the market price of commercial banks in Nepal. The positive correlation between a stock's market price and its *P_E ratio* stresses the significance of profitability measurement in investor decision-making.

The research offers practical and social insight into the role of the price-earnings ratio in determining the market price of stocks in banking sectors. From a practical standpoint, it is a crucial tool for financial analysts, investors, and other stakeholders to understand the important financial indicators that influence stock prices and make well-informed decisions. The social implications extend to better financial literacy and informed policymaking, strengthening the financial system and economic stability.

The exclusion of government-owned banks limits the comprehensiveness of the findings, and the limited time frame of 11 years has not captured the longer-term trends. The study relied on a few firm-level financial indicators, including macroeconomic and other bank-specific factors that could influence stock prices. The results from a multiple regression model might not fully account for dynamic or non-linear relationships. Furthermore, the absence of qualitative data, such as insights into market forces and policy changes, could overlook the potential consequences of unforeseen occurrences. Such limitations suggest areas for further research to enhance the robustness and generalizability of the findings.

Future research can further explore the dynamics influencing stock market prices in the commercial banking sector by incorporating additional factors, such as bank-specific factors beyond those considered, as well as macroeconomic and event factors. Alternative econometric models can further enhance the reliability of the research findings. Moreover, an opinion survey can be useful to understand the stakeholders' perspectives on policy recommendations.

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