



Impact of Firm-Specific Factors on the Stock Prices: New Insight from Emerging Market of Asia

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ABSTRACT

Purpose: The purpose of this paper is to investigate the factors that can influence the share prices of listed firms.

Design/Methodology/Approach: The sample of 120 listed firms was selected from 2014–to 2020 was collected.

Findings: We documented a new insight that all the variables have a strong relationship between variables with the share prices except leverage. The ROA and Leverage show a negative relationship with the share price and EPS, dividend per share, firm size and price-earnings ratio show a positive relationship with the share prices.

Implications/Originality: This paper contributes to the existing literature and continuing debate about firm-specific determinants influencing share price in an emerging market, with a focus on manufacturing firms of Pakistan.



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Introduction

The stock price is a significant economic indicator that influences economic activity and plays a significant part in a country's economic development. The stock markets are supposed to stimulate economic growth by boosting the quality of investments, as well as rising domestic savings. The stock market's success is influenced by a variety of external and internal factors. Investors, managers, financial experts, and the government all regard stock market performance to be the most essential area of financial study. The stock market facilitates cash transfers between the government, investors, and other stakeholders (Uddin et al. 2013). Investing in stock is one of the key areas of investment that has the potential to provide significant returns to investors. The factors affecting share prices are always a matter of debate, and financial experts have different opinions about the stocks prices. The share prices would be ascertained in the efficient market by using different

fundamental variables such as EPS, payout ratios, dividend per share, firm size and dividend yield, etc. Future share prices are anticipated by calculating the current fair value of the stock and the forecasted value of the various ratios. If the current share price is not equivalent to the firm's fair worth, the stock is underpriced or overpriced. Consequently, the market price falls towards the fair value of the firm. Understanding different variables and their effects on stock prices are crucial for investors since it will aid them in making judgments about stock investments (Srinivasan, 2012). The returns on such investments depend on the performance and price variations in each stock (Bhattarai, 2014). Similarly, the share price has a significant impact on investors' stock investment decisions (Uddin et al. 2013).

The determinants of share price are frequently a source of discussion. The financial experts and investors in the stock market have different opinions regarding the pricing of an asset. Fundamental considerations such as earnings per share, dividend payment ratio, and company size, among others, would influence share prices in an efficient market. According to Raza et al., (2018), a movement in share price can only occur if information related to future earnings is dispersed. However, theories indicate that changes in the prices of shares are related to changes in fundamental financial variables. The efficient market hypothesis is a common theory that assumes that a rational market investor will make a purchase or sale choice based on accessible information such as business dynamics and other fundamental declarations from the company. If they believe that the information is positive, then they will hold the stocks if already purchased or buy the shares which were previously not bought and vice versa. The action of investors regarding the purchase and sale of shares is responsible for the change in the price of the shares. The efficient market hypothesis is divided into three categories such as strong, semi-strong, and weak. They differ in terms of the information provided to investors and the general public (Aveh & Awunyo-Vitor, 2017; Singh, 2018). Another "Random Walk" theory claims that stock values are unpredictable and impossible to predict. This hypothesis is scientifically examined numerous times and has been confirmed by the researchers. The efficient market hypothesis is consistent with random walk behavior because of the random flow information that allows the investors to assess the share price. For instance, even if the firm's fundamentals do not change, investors will invest in shares if the price rises (Singh, 2018).

Several factors relating to the firm have an impact on the share prices, i.e., industry, the general environment, and the overall economy. Although, various studies have been conducted by various scholars to explore the impact of various variables on stock price movement. A ground-breaking empirical study on the US stock exchange revealed that share prices respond to financial statement information content (Ball & Brown 1968). The prior studies in Pakistan have not found any current findings on the casual correlations between fundamental variables and share prices, indicating that more research is needed. This study varies from others and concentrates on non-financial firms, which has been overlooked in prior studies because the majority of research in Pakistan is centered on the banking sector. In addition, this study uses data from more recent years and bigger sample size than previous studies. The previous studies were conducted on dividend yield, dividend payout, and stock prices. This study further includes four variables in the analysis. Further, this study examines the impact of share price determinants in Pakistan over some time to give investors with comprehensive data from 2014 to 2020.

A few researchers investigated factors that influence the share price of publicly traded firms. According to findings, the size of the firm has a significant impact on share prices (Yu, 2003). Larger organizations are going toward a more diversified strategy. In another study, the size of a company and the degree of its leverage have no bearing on the company's share price (Saquido 2003). He argued that the determinant of share price and company financing decisions strongly distinct from one another. Another earlier work indicated that the business production potential is

increasing as the firm size increases, resulting in high returns by having a high share price (Lawrence 2004). He observed a strong link between the firm size and profitability of firms. Azam & Shah (2010) investigated how internal and external financial restrictions affected firm share prices. Findings show that share price and firm size are strongly associated with each other. The paper has shown when the size of the firm is large it will make increase the share price if the size of the firm upsurges the share price will incline. The size of a corporation has a positive and considerable impact on its stock price. This suggests that when a company's size is large, its stock price is considerably large in comparison to small firms (Kadapakkm et al. 1998).

Mukhtar & Asad (2016) examined the influence of financial leverage and firm size to determine share price across Pakistan. A sample of 30 listed firm data was gathered from the annual reports from 2001-to 2013. It has been discovered that firm size has a positive and extremely significant relationship with the share price. Another researcher Ullah (2017) investigated the link between firm size with the share price. According to the findings, the price of a share rises in tandem with the firm's size. Firm size has a positive impact on valuation, which is consistent with the assumption that larger enterprises have lower necessary returns. As a result, the purpose of the research is to see how firm-specific factors affect the stock prices of firms listed in the Pakistan market. The reason for this is that Textiles, Cement, Sugar, Automobiles, and Food & beverages are Pakistan's most important manufacturing industries since they serve as the country's economic backbone. Furthermore, this research would provide useful instructions to financial managers, investors, and policymakers for them to make more informed judgments about future investments. As a result, the current research intends to quantify the impact of selected firm-specific dynamics on the share price of Pakistani non-financial firms belonging to the Textile, Sugar, Food & beverages, Automobile, and Cement sector.

A gap is found in the literature since much of the research on this topic has focused on dividend policy to comprehend how it affects stock prices, but little attention has been paid to the relationship between different parameters such as earnings and business size. Further, the banking industry receives the majority of research in the Pakistan stock market. The gap is filled by this study by conducting a comprehensive analysis of 120 non-financial firms listed belonging to cement, sugar, textile, food & beverage, and automobiles sectors to establish the extent of their influence on share prices.

Hamad et al. (2019) conducted research by using the empirical data from Pakistan's automobiles sector and the findings show a significant relationship between determinants and share prices. Arshad, et al. (2015) conducted a study and various determinants of share prices are explored in the context of Pakistan. Various studies have been carried out to investigate share prices with some variables by choosing different samples, but there is limited literature available on the share price determinants. Therefore, this study explores the determinants(factors) that influence share price, by which choosing 120 firms as a sample from different sectors from 2014 to 2020. No such study has been carried out in the country before., thus the following objectives are established:

- To investigate the impact of EPS on the share prices of listed firms in Pakistan.
- To investigate the impact of dividends per share-on-share prices of listed firms in Pakistan.
- To investigate the impact of the P/E ratio on the share prices of listed firms in Pakistan.
- To investigate the impact of Firm size on share prices of listed firms in Pakistan.
- To investigate the impact of Leverage on share prices of listed firms in Pakistan.
- To investigate the impact of Return on Assets on share prices of Pakistani listed firms.

The focus of the study is to examine the impact of factors such as EPS, dividend per share, price-earnings ratios, company size, leverage, and ROA on stock prices. This study helps to exist as well as prospective investors to observe investments in different securities or sell their stocks. The

research will also identify the elements that influence stock prices in Pakistan. This study will be helpful for firms to design strategies considering the variables affecting the stock prices. This study is extremely beneficial to investors and policymakers since it allows them to make informed investment decisions. It may be useful to portfolio managers and investors in terms of risk management. So, investors should consider these variables in investment decisions in Pakistan.

Literature Review

In the finance literature, several types of research have been done the investigation the driver of share prices in different stock markets. However, still, the consensus does not exist on the factors that influence share prices. Existing literature revealed that many factors contribute to share prices variations (Almumani, 2014; Sharma, 201; Bhattarai, 2014; Enow & Brijlal, 2016). Researchers discovered a relationship between factors that affect stock prices in developing markets, the level of significance varies over time (In'airat, 2018). Empirical research based on Ohlson (1995) model disclosed a nexus between accounting information and share price, but levels of explanation varied (Pirie & Smith 2008; Khanagha 201; Sharma & Singh 2012). As a result, determining share price is a difficult task. Shiller (1983) discovered that share prices are not stable and move disproportionately in reaction to fundamental news because of market irrationality. According to Adebisi & Lawal (2015), the share price is a virtuous measure that depicts the firm's value and performance to stockholders in a well-organized market (Adebisi & Lawal (2015)).

The prospective stockholders need to acknowledge those factors that can affect the share price. The focus of this study is on microeconomics factors that determine the equity share prices (EPS, DPS, BV, PE ratio, dividend payout ratio). Literature showed a positive link between BV and EPS with the stock price, whereas PE ratios, size, and DPS were also found to have a substantial impact on the stock price. In another study conducted by Chowdhury et al. (2019), they found that the following determinants (Earning price share, Firm size, net asset per value, and dividend payout) affect the share prices. A study conducted by Robbette & Harmse (2017), and found a strong link between EPS and share prices. The research conducted on developed markets stated a significant relationship between firm-specific factors and stock returns (Cooper et al. 2003; Malhotra & Tandon, 2013). The above-mentioned studies identified firm-specific variables such as EPS, DPS, BV, FS, dividend yield, etc. as influencing factors for the share price.

M & Menaje (2012) found that EPS has a high positive relationship with stock prices, but ROA has a weak negative relationship with stock prices. In addition, Khan (2012) revealed that ROA, cash dividend, and retention ratios had a significant association with share prices. Khan et al. (2011) found dividend yield, ROE, and profits per share have a positive relationship with share prices; Sharma (2011) also investigates the nexus of share prices with the following factors (DPS, BV per share, EPS, dividend payout ratio, PE ratio, size). Findings revealed a significant impact of DPS, and EPS on share prices. Similarly, Malakar & Gupta (2002) investigated the nexus between share prices and determinants. Findings show a strong correlation of EPS with stock prices and are considered a key determinant of share prices. Thus, the following hypothesis is proposed:

H1: There is a positive association between Earning per share and share prices.

Irfan & Nishat (2002) examined the key determinants that influence the prices of stock. Findings showed that dividend yield, dividend payout ratio, and firm size are the major causes of changes in share prices. As Sharif & Pillai (2015) documented that firm size, P/E ratio, EPS, ROE, and DPS are key factors that influence share prices on the Bahrain Stock Exchange. Similar studies in developed markets also identified that EPS, DPS, and book-to-market value had a significant influence on share price (Cooper et al. 2003; Jiang & Lee 2007; Morelli 2007). Khoury & Maladjian (2014) documented that policies related to dividend payout positively affected risk, size, and dividends paid, but were negatively influenced by profitability and the firm's expansion.

Another study by Anita & Yadav (2014) indicated a favorable correlation between the price of the stock and EPS, BV per share, price to book value, and market capitalization except for dividend yield. Similarly, Akbar & Baig (2010) suggested an affirmative relationship between dividends and stock prices. Further, Azhagaiah & Priya (2008) indicated that share prices were significantly influenced by the dividends in firms. Singhania (2008) results also showed that DY, BV per share, PE ratio, dividends, and EPS were key determinants that significantly influenced share prices. Hence, the following hypothesis is proposed:

H2: There is a positive association between Dividend per share and share prices.

In a study conducted by Sukhija (2014), the following factors dividend per share, cover, profits per share, growth, and return on capital employed were identified as the primary predictors of equity prices in the Bombay stock exchange. Arsalan & Zaman (2014) showed a significant impact of firm size and the price-earnings ratio on stock prices. Whereas a negative relationship between dividend yield was found with share prices. The findings of Malhotra & Tandon (2013) also demonstrated a positive relationship between EPS, BV, and PE ratio with the firm's share price, however dividend yield was found as having a negative relationship with stock's share price. Another study examined and found that (DPS, Profits per share, BV per share, DPO ratio, firm size, and PE ratio) were the most significant determinants determining share prices (Sharma and Singh 2006). In contrast, Amidu & Abor (2006) discovered a significant relationship between earnings, dividends, and share prices in Ghana. Further, book value per share and earnings per share play a role in share price changes (Al-Omar and Al-Mutairi 2008).

As, Uddin (2009) discovered a strong correlation between dividends, per-share net asset value, price-earnings ratio, and stock price. While Al-Tamimi and Rahman (2011) discovered that EPS has a positive relationship with the share price. Chowdhury et al. (2019) documented that EPS, price-earnings, size, and dividend payout are the major determinants that influence share prices. Large firms are more likely than small firms to have low growth potential because it is assumed that large firms have already discovered and exploited all of their potentials. Paying a low dividend could imperil a large firm's future investments if it allows managers to demand more perquisites by making poor investments. Further, due to ownership dispersion, agency problems are more prevalent in larger firms than in smaller enterprises (Jensen & Meckling, 1976). Higher dividends may be one answer to this agency problem, as they reduce retained earnings and push management to rely more on external finance. Large firms have less asymmetric information than smaller firms because they tend to offer more information to outside investors (Fama & Jensen, 1983).

As Sharif, Purohit, & Pillai (2015) identified the factors that have an impact on stock prices in the stock exchange of Bahrain. Findings showed a significant and positive association between price-earnings ratio, ROE, BV per share, DPS, and firm size. While they found a negative association between the share prices and dividend yield. Further, Arsalan & Zaman (2014) investigated the impact of dividend yield, business size, and price to earnings ratio on stock prices of listed firms on the Pakistan stock exchange. Results indicate a considerable positive relationship between size and price-earnings ratio with share prices. While Bapat & Raithatha (2009) demonstrated that volatility, size, and profitability were the significant factors of the stock prices.

H3: A significant association exists between the price-earnings ratio and share prices.

In the existing literature, firm size had been extensively explored and findings indicated that the size of a firm has a significant impact on the share price. AS Yu (2003) documented that firm size has a significant effect on share prices. He argued that larger firms are moving towards diversified strategies. According to Saquido (2003), the size of the firm and the degree of its leverage has no bearing on the company's share price. He argued that the determinant of share price and company financing decisions strongly distinct from one another (Saquido 2003; Lawrence, 2004).

Sharma & Sing (2006) investigated the influence of essential factors on equity share prices of manufacturing companies listed on the Bombay Stock Exchange. According to the study's findings earnings ratio, book value, and price to earnings ratio were the key determinants of share prices in the engineering industry. The size of the firm and book value ratio showed a significant relationship with share price in the cotton textile industry. PE ratio and dividends were identified as favorable determinants of share prices in the electrical industry. The author also observed a strong correlation between the size and profitability of the firm.

In another study conducted by Azam & Shah (2011), and results confirm that share price and firm size are strongly linked with each other. In addition, Mukhtar & Asad (2016) examined the influence of financial leverage and firm size to determine share price. Firm size has been found to have an important relation to share price. As Ullah (2017) discovered that dividends paid by large firms tend to be higher than those paid by smaller and newer enterprises. According to Lloyd et al. (1985) viewpoint, the size of a firm has an impact on its stock price. Large firms had records of easy access to varied external funds, profitability, and stability. The critical theory highlights the importance of the owner's control over the firm's resources, such as assets, technology, and intellectual property, as determinants of business size. With the availability of vast corporate resources, the company can meet the demand for products that will gain market share, hence increasing revenue and allowing the corporation to cover the costs of process manufacturing (Rajan and Zingales 2001). According to Sharma (2011), the firm size is linked to a firm's diverse capacities in settling various payments, and this factor affects the share prices movement. Thus, we predict the following hypothesis:

H4: There is a significant association between firm size and share prices.

Nirmala & Ramachandran (2011) in their research looked at the factors that influence share prices from 2000 to 2009. Findings revealed that the price-to-earnings ratio has a positive association with the share price while the debt-to-equity ratio is also a significant factor but has a negative nexus with the stock price. The results also revealed dividend, leverage, and price-to-earnings ratio as significant factors for all the selected three sectors. return on equity was found as having a positive association with the share price for the auto sector only while return on the asset was found as having negative relation with the share price for the remaining two sectors.

A similar study was conducted by Nirmala et al. (2011), results explained that the PE ratio and dividends have a positive relationship with the stock prices. The findings also suggested an upsurge in stock prices by growth in the price-to-earnings ratio and dividends. Consequently, the financial managers can increase the stockholder's wealth by growing dividends. Another study conducted by Nazir & Ahmed (2010) and findings revealed a negative relationship between dividend yield, payout ratio, and price volatility. It means that for firms whose dividend-paying ratio is higher, price instability will be lower. Thus, the following hypothesis is established;

H5: There is a negative association between leverage and share prices.

A study by Idawati & Wahyudi (2015) examined the relationship and impact of return on asset and earnings per share on the share prices of the firms listed. Findings showed that ROA and EPS have a favorable significant association with the stock prices. Another research by Gunadi & Kesuma (2015) demonstrated a positive relationship between stock return with ROA, DER, and EPS, while the debt-to-equity ratio showed a significantly negative impact on stock return. Munyua (2014) conducted a relationship and findings revealed that share prices are influenced by the dividends paid to shareholders. Findings also explained a strong association among all variables except the debt-to-equity ratio which shows an unfavorable relationship with share prices. M & Menaje (2012) disclosed a strong favorable relationship of EPS with share prices whereas weak unfavorable

association of ROA with the stock prices. Thus, we predict the following:

H6: There is a negative association between ROA and share prices

Research Method

This study is quantitative, and secondary data gathered from non-financial listed firms on the Pakistan stock exchange from 2014 to 2020. A random sampling method has been used to draw the sample of current research. The participant in the research consists of non-financial listed firms, and data was gathered from the website of the stock exchange, as well as the annual reports of the firms. There were 367 non-financial firms registered at the PSX as of 2018, but after excluding all those non-financial firms for which data was not available continuous basis or those with zero sales for at least two consecutive years during the analysis period, and due to the lack of time the sample size was reduced to 120 firms (Textile, Sugar, Automobiles, food & beverages and Cement sector) which are listed at Pakistan stock exchange. Data associated with the stock prices, EPS, ROA, PE ratio, DPS, LEV, and firm size were obtained from the stock exchange website and annual reports of various firms.

Measurement of the Variables

In this research, the share price is considered as a dependent variable whereas earnings per share, price to earnings ratio, dividend per share, leverage, return on asset and firm size are considered independent variables. The variables are measured as follows;

Earnings er share (EPS) ratio is computed as” $EPS = \frac{Net\ Profit}{No.of\ Shares\ Outstandings}$

Dividend per Share (DPS): Dividend per share is the sum of declared dividends issued by a company for every ordinary share outstanding. Dividend per share is amount of dividend paid on a single share by the firm to its shareholders.” It is calculated as: $DPS = \frac{Annual\ Dividend\ Paid}{No.of\ Shares\ Outstanding}$

Price to Earnings Ratio (P/E): Price Earnings ratio tells how the stock is valued either it is overvalued or undervalued.” It is calculated as: $P/E = \frac{Market\ Value\ per\ Share}{Earnings\ per\ Share}$

Firm Size(FS): Firm size means the scale or volume of operation turned out by a single firm. The study of the size of a business is important because it significantly affects the efficiency and profitability of firm.” Firm Size= Log of Total Assets

Leverage Ratio ratio illustrates the “level of debt acquired by firm or portion of firm’s assets financed by debt instead of shareholder’s equity”; Calculated as; $LEV = \frac{Total\ Liabilities}{Shareholders\ Equity}$

Return on Asset (ROA) indicates that “how efficiently a firm utilizes its assets to earn profit.” It is calculated as: $ROA = \frac{Net\ Income}{Total\ Assets} * 100$

Econometric Model

In the study, to empirically observe the share price determinants by using a simple linear regression model, widely used in previous literature. The below specific equation was developed.

$$SP_{it} = \alpha + \beta_1 EPS_{it} + \beta_2 DPS_{it} + \beta_3 PER_{it} + \beta_4 FS_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \epsilon_{it}$$

Where: SP= Share Price; EPS= Earnings per Share; DPS = Dividend per Share; PER= Price to Earnings Ratio; FS = Firm Size; LEV = Leverage; ROA= Return on Asset; μ = error term

Results and Discussion

The descriptive statistics are provided in table 1. It illustrates the six independent variables and their impact on the share prices of the 120 firms listed on the stock exchange in Pakistan. The descriptive results indicate that the mean price of the share is 64.895 and its standard deviation is 73.797. The average value of ROA is 1.215 and the standard deviation is 0.9494. The average PE ratio is 7.619 and the standard deviation is 27.095. The mean value of leverage is 12.743 with a deviation of

7.8708 and mean value of EPS is 7.214 and the firm size is 32.706.

Table 1: Descriptive Statistics and Correlation Analysis:

	Mean	Std. Dev.	SP	ROA	PER	LEV	EPS	DPS	FS
SP	64.89	73.79	1.000						
ROA	0.216	0.946	0.396	1.000					
PER	7.614	27.09	0.155	0.156	1.000				
LEV	12.740	7.82	-0.277	-0.740	0.071	1.000			
EPS	7.217	7.63	0.791	0.577	0.102	-0.484	1.000		
DPS	3.016	3.68	0.686	0.367	0.081	-0.347	0.736	1.000	
FS	32.701	0.206	0.195	0.259	0.123	-0.285	0.253	0.542	1.00

The above findings indicate that ROA, EPS, PER, DPS, and firm size have a positive association with share prices. While there is a negative correlation between SP and LEV. Table 2 shows estimation results for all variables. The value of R² shows that when there is a change in an independent variable, out of the total change in share price, 87% change is due to change in all independent variables while the remaining 13% change in share price is due to other variables which have been not included in the estimated model. The experiential results from the regression analysis indicate that EPS has a positive and significant relationship with the share price of listed companies. It means that the increase in one unit of EPS will bring a significant increase in the share price of listed firms. The statement is supported by the previous researchers saying that EPS is a key determinant of share prices (Gunadi & Kesuma 2015). So that H1 is accepted. Further, empirical results illustrate a positive and significant relationship between DPS and the share prices of listed firms. This outcome basically means that increase or change in dividend per share will increase the market price of the share. This outcome is supported by the previous author's findings by arguing that DPS will cause an increase in share prices (Adebisi & Lawal 2015). With the help findings, the H2 is accepted.

Table 2: Fixed Effect Model (Dependent Variable: Share Price)

Variable	Coefficient	Prob.
Constant	0.1054	0.0013
ROA	-0.2419	0.0633
PER	0.0837	0.0088
LEV	-0.5931	0.1382
EPS	0.7175	0.000
DPS	0.5679	0.0005
FS	0.1518	0.1477
R squared	0.8771	

The PE ratio shows a positively significant relationship with the share price. It signifies that an increase or modification in the PE ratio will result in a 0.084 increase in the share price of corporations. This result supported the result of (Malhotra & Tandon 2013); hence H3 is accepted. The empirical outcomes from the regression analysis indicate that there is a positive relationship between firm size and share prices. The findings of the present study are supported by the previous researchers. As a result of the study's findings, H4 is accepted.

Further, empirical results show a negative and insignificant relationship between Leverage and share price. It means that Leverage has no influence on the share price. According to Gutu (2015) point of view, that leverage has a negative relationship with the share price of listed firms. Hence the H5 is accepted. The ROA is showing a strong negative and significant association with the price of the stock. It means that a change in ROA has a significant impact, it will bring a change in share

price. The current result contends the results of earlier that ROA has a positive relationship with the share prices (Gunadi & Kesuma 2015; Idawati & Wahyudi, 2015), hence H6 is rejected.

Discussion & Recommendations

The purpose of the study was to determine the nexus between selected variables of listed firms' share prices in Pakistan. To identify the factors (EPS, dividends per share, price earnings ratio, ROA) and their link with the share prices of firms, the data of 120 listed firms from 2014 to 2020 were collected. Based on the findings of the study, it can be stated that all variables, except leverage, have a considerable impact on the share prices of companies. Findings also show that ROA has a negative relationship with share prices, while all other factors such as earnings per share, dividend per share, price earning ratio, and firm size have a positive relationship with share prices in Pakistan. Findings show that the majority of the conclusions are consistent with those of earlier researchers. This study is extremely beneficial to investors and policymakers since it allows them to make informed investment decisions. Further, to identify crucial elements that cause share price volatility, the study's conclusions may be useful to portfolio managers and investors in terms of risk management.

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