



## Effect of earnings and dividend payout on stock price of listed companies in Nepal

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DOI: <https://doi.org/10.66856/ijfc.2026.8.2.8037>

### Abstract

The research examined the effects of earnings and dividend payout on the stock prices of the listed companies on NEPSE. The data on the panel were based on 16 companies which were listed and included in the sample that represented various sectors, during the fiscal years 2071/72 to 2080/81. Convenience sampling method was used since very few companies pay out dividends on a regular basis. Thus, the sample consisted of the companies that made no less than eight years consecutive dividend payments.

Firm-specific variables (namely dividend yield, dividend payout ratio, market-to-book ratio, price-to-earnings ratio, and firm size) were considered the explanatory variables, and the dependent one was the price of stock. The association of the independent variables with stock price was analyzed based on panel regression analysis. Three diagnostic tests were carried out in order to establish the most appropriate model. The findings showed that the most appropriate model of analyzing the gathered data is fixed effects- model.

The correlation analysis showed that the only ratio that was positively correlated with the stock prices was the market-to-book ratio. The outcome of the fixed effects regression revealed a positive and significant impact on the price of stocks by the dividend yield, market-to-book ratio, and firm size. Conversely, dividend payout ratio influenced the stock prices in the negative although statistically not significant whereas the price to earnings ratio had a positive and statistically insignificant influence. The study results would enable investors to make sound investment decisions.

**Keywords:** Dividend yield, dividend payout ratio, market to book ratio, price to earnings ratio, firm size, stock prices, NEPSE, Panel data and fixed effect model

### Introduction

The capital market plays an important role in mobilizing savings and channeling financial resources toward productive investment activities that support economic growth and development. It facilitates capital formation by linking investors with companies seeking long-term funds for business expansion. Generally, the capital market is divided into primary and secondary markets. The primary market deals with the issuance of new securities, whereas the secondary market facilitates the trading of existing securities among investors. The stock market, as a major component of the secondary market, is widely considered an indicator of economic performance because it reflects the valuation and growth prospects of listed companies (Harshapriya, 2016) <sup>[11]</sup>.

The stock market provides investors with opportunities to earn returns through dividends, capital gains, liquidity, and portfolio diversification (Daniel & Titman, 1997) <sup>[8]</sup>. However, stock prices are influenced by various factors, including macroeconomic conditions, political environment, market sentiment, and firm-specific characteristics. These factors may directly or indirectly affect stock price movements and investment returns. Therefore, identifying the determinants of stock prices is essential for investors to make rational investment decisions (Maysami & Koh, 2000) <sup>[16]</sup>.

Among different determinants, firm-specific variables play a significant role in influencing stock prices because they reflect the internal financial performance and growth prospects of companies. Factors such as earnings performance, dividend policy, market valuation, profitability, and firm size are commonly considered by investors while evaluating investment opportunities. Strong

financial performance and positive growth expectations generally increase investor confidence and contribute to higher stock prices, whereas weak financial conditions and poor management decisions may negatively affect stock valuation (Kheradyar & Ibrahim, 2011) <sup>[14]</sup>.

Dividend policy remains one of the most debated issues in corporate finance. According to the dividend irrelevance theory proposed by Modigliani and Miller, dividend policy does not affect firm value under perfect market conditions. In contrast, signaling theory and bird-in-hand theory suggest that dividend payments convey positive information regarding future firm performance and influence investor behavior. Similarly, valuation indicators such as Price-to-Earnings Ratio (PER) and Market-to-Book Ratio (MBR) are widely used by investors to assess company performance and future growth potential.

Several empirical studies conducted in developed and emerging markets have examined the relationship between firm-specific variables and stock prices. However, the findings remain mixed and inconclusive. In the Nepalese context, most studies have primarily focused on the banking and financial sectors and have provided limited evidence regarding the influence of firm-specific variables across multiple sectors. Furthermore, stock price volatility in the Nepal Stock Exchange (NEPSE) has increased the need to better understand the factors affecting stock price behavior.

Therefore, this study examines the effect of Dividend Yield, Dividend Payout Ratio, Market-to-Book Ratio, Price-to-Earnings Ratio, and Firm Size on stock prices of selected companies listed on NEPSE. By incorporating companies from multiple sectors and applying panel data analysis, the study aims to provide broader evidence regarding the determinants of stock prices in the Nepalese capital market.

## Problem Statement

The dividend policy and its effects on the stock prices are one of the most controversial topics in corporate finance. Although there has been a lot of research, there has not been a universal agreement as there are disparities in the perceptions of the investors, the nature of the firm and country specific situations. Such differences pose the question of whether the established theories can be used in various markets. According to the Dividend Irrelevance Theory put forward by Modigliani and Miller, the dividend policy has no impact on the firm value in the perfect market. Conversely, the relevant theories like the signaling theory and the bird-in-hand theory indicate that the dividends are an important factor in the determination of the share value.

In the developed and emerging markets, several studies have been conducted overtime to investigate the determinants of stock prices. The share price movement can be caused by market sentiment, regulations, macroeconomic environment, and the company-related causes. Early studies on the United States reported by Collins (1957)<sup>[6]</sup> had found dividends, net income, operating earnings and book value to be major determinants of stock prices. Later research such as Sharma (2011) in India has highlighted firm level aspects such as earnings per share, and dividends per share in determining the share prices.

However, in Nepal, there is still limited research on this field even as the role of stock market continues to grow. Silwal and Napit (2019)<sup>[24]</sup> established that the book value per share, price-to-earnings ratio, and return on equity had a positive correlation with stock prices whereas the dividend yield had a small positive influence and firm size had a negative charge. According to Bhattacharai (2014), the amount of dividends did not have a significant effect on the market prices, but earnings per share had a significant effect. It has also been established in studies in other Asian countries like Pakistan and Malaysia that financial ratios including book to market ratio, earnings yield, and dividend yield can serve to predict stock returns (Daniel & Titman, 1997; Kheradyar & Ibrahim, 2011)<sup>[8, 14]</sup>.

In Nepal, most of the studies have been focusing on specific sectors like the banking sector, microfinance sector and development banks. The detailed study of several industries listed on NEPSE is limited. Most of the available literature is centered on the banking sector only and lacks comprehensiveness on how firm specific issues do affect the prices of stocks in different sectors. The present research aims to fill this gap by considering companies of different industries listed on NEPSE. The study will contribute greater insight into the determinants of stock price changes in the Nepalese capital market by examining the main specific funds of the company and how it influences the share prices.

In line with this, this paper tries to give answers to the following research questions:

- Is there a relationship between dividend yield, dividend payout ratio, market to book ratio, price-to-earnings ratio, firm size and share prices?
- Do dividend yield, dividend payout ratio, market-to-book ratio, price-to-earnings ratio, and firm size affect share prices?

## Objectives of the study

The main purpose of the proposed study is to test the relationship between market price and firm- specific

variables of the listed companies in Nepal. The specific objectives are:

- To measure the relationship between dividend yields, dividend payout ratio, price-to-earnings ratio, market to book ratio, firm size and share price.
- To analyze the effects of dividend yield, dividend payout ratio, market-to-book ratio, price-to-earnings ratio, and firm size on share price.

## Literature Review

Numerous studies have been conducted to examine the determinants of stock prices and the influence of dividend policy and earnings-related variables on market valuation. The findings, however, remain mixed across countries and market structures.

The early studies emphasized the importance of dividends and earnings in determining stock prices. Collins (1957)<sup>[6]</sup> found that dividends, net income, operating earnings, and book value were significant determinants of stock prices in the United States market. Similarly, Chawla and Srinivasan (1987)<sup>[5]</sup> reported that both dividend payments and retained earnings significantly affected stock prices in the Indian chemical industry, although dividend payments exerted a stronger influence than retained earnings.

Several researchers have supported the dividend signaling theory, which argues that dividend payments convey positive information regarding future firm performance. Suwanna (2012)<sup>[27]</sup> found that stock prices increased significantly after dividend announcements among companies listed on the Thailand Stock Exchange, suggesting that investors interpret dividend payments as positive signals about future profitability. Likewise, Iftikhar *et al.* (2017)<sup>[12]</sup> concluded that dividend payout ratio and dividend per share positively and significantly influenced stock prices, while retention ratio negatively affected stock prices.

A number of studies have examined the relationship between profitability indicators and stock price. Masum (2014)<sup>[15]</sup> revealed that earnings per share and return on equity positively and significantly affected stock prices, whereas dividend yield and profit after tax negatively influenced stock prices. Similarly, Adesina *et al.* (2017)<sup>[1]</sup> reported that earnings per share had a positive and significant effect on stock price, while dividend yield and retention ratio negatively affected stock price performance. Singh and Tandon (2019)<sup>[25]</sup> also found that earnings per share positively influenced stock prices, whereas dividend yield, return on equity, and profit after tax had negative effects.

Studies focusing on valuation ratios have also produced important findings. Suriany (2017)<sup>[26]</sup> found that the price-to-book ratio significantly affected stock prices, whereas the price-to-earnings ratio remained statistically insignificant. Likewise, Indrayono (2019)<sup>[13]</sup> reported a positive and significant relationship between market-to-book ratio and stock prices, while price-to-earnings ratio showed insignificant influence. Harshapriya (2016)<sup>[11]</sup> further observed that dividend payout ratio negatively and significantly affected stock price volatility, indicating that firms with higher payout ratios experience lower fluctuations in stock prices.

In the Nepalese context, several studies have explored the determinants of stock prices, particularly within the banking and financial sectors. Bhattarai (2014)<sup>[2]</sup> found that earnings

per share and price-to-earnings ratio positively and significantly influenced stock prices, whereas dividend yield negatively affected stock price. Similarly, Pradhan and Dahal (2016) [21] concluded that earnings per share, dividend per share, return on assets, and firm size positively and significantly affected stock prices. Nepal (2018) [18], however, observed that firm size, return on assets, and interest rate negatively affected stock price, while earnings per share and dividend per share showed positive relationships.

Likewise, Ghimire and Mishra (2018) [10] found that market-to-book ratio and price-to-earnings ratio significantly affected stock prices, although earnings per share demonstrated a negative relationship. Silwal and Napit (2019) [24] reported that price-to-earnings ratio, return on equity, book value per share, and dividend yield positively and significantly influenced stock prices, while firm size showed an insignificant negative relationship. Shrestha (2020) [23] further revealed that stock dividend per share and earnings per share positively affected stock prices, whereas cash dividend per share, return on assets, and return on equity negatively influenced stock prices.

Recent studies have continued to emphasize the role of dividend policy and firm-specific variables in stock price determination. Budhathoki and Khadka (2024) [4] found that dividend yield and dividend payout ratio negatively and significantly affected stock prices of microfinance institutions, while retention ratio positively influenced stock prices. Similarly, Thapa (2025) [28] concluded that dividend per share and dividend payout ratio positively and significantly affected stock prices, whereas dividend yield negatively influenced stock prices.

### Theoretical Framework and Definitions of variables

This is a systematic plan or guidance that gives theories of the study. The theoretical framework was developed as follows with reference to the literature review. The mentioned literature contributes a lot to the model.

### Research Framework

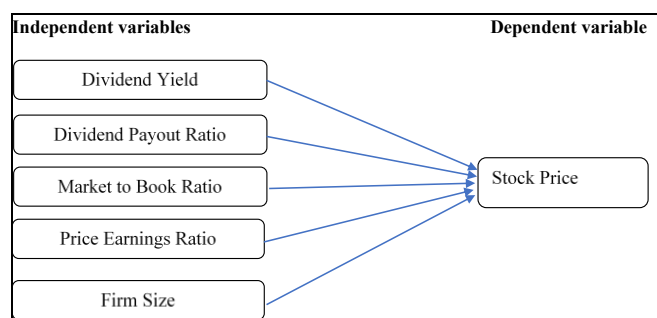


Fig 1

### Definitions of Variables

#### Stock Price

Stock price is the price at which the share of the company has been last traded in the stock exchange market. It is a measure of what the investors are ready to spend to own a firm (Collins, 1957) [6]. In this analysis, the stock price will be through the annual closing price of each sample company.

#### Dividend Yield

The yield of dividend represents the amount that is received by the investor in form of dividend in respect to the market

price of the stock. It is calculated by dividing dividend per share paid out on a yearly basis divided by market price per share. This ratio indicates the ratio between the investment returns obtained as cash dividends (Brealey, Myers, & Allen, 2020) [3].

Based on it, this study develops the following hypothesis:

**H1:** Dividend Yield has significant effect on stock price.

#### Dividend Payout Ratio

The dividend payout ratio is a ratio that is used to determine the amount of the income generated by a company and given out as dividends. This is computed by taking dividend per share (DPS)/ earnings per share (EPS) or alternatively total dividends/ net income. This ratio demonstrates the shareholders to whom a certain percentage of the firm profits is distributed instead of being kept to be reinvested (Ross, Westerfield, & Jordan, 2019) [22]. Based on it, this study develops the following hypothesis:

**H2:** Dividend Payout Ratio has significant effect on stock price.

#### Price-to-Earnings Ratio

Price/earnings (P/E) ratio is calculated by (current market price/share)/earnings/share (EPS). It is also known as the earnings multiple and represents the amount that the investors are willing to pay per share of the company earnings. A ratio at the higher end of P/E could be an indication of high growth forecast or overpricing but a low ratio can be an indication of underpricing or poor growth outlook (Penman, 2012) [20].

Based on it, this study develops the following hypothesis:

**H3:** Price-to-Earnings (P/E) has significant effect on stock price.

#### Market-to-Book Ratio

Market to book ratio is used to compare the market value of a share with the book value per share. It is determined through the division of market price per share with book value per share. This ratio shows the maximum amount that investors are ready to pay per unit of net assets that are reported in the balance sheet of the company (Damodaran, 2012) [7].

Based on it, this study develops the following hypothesis:

**H4:** Market-to-Book ratio has significant effect on stock price.

#### Firm Size

The firm size is the general size of company operation and can be determined by the indicators (total assets, or market capitalization). The larger company is usually regarded as more steady and resourceful, which can reflect on the attitude of investors and the market price. The firm size in this study is quantified in terms of the natural logarithm of the total assets (Fama, 1970) [9].

Based on it, this study develops the following hypothesis:

**H5:** Firm size has significant effect on stock price.

### Research Methodology

This study employed descriptive and causal-comparative research designs to examine the effect of firm-specific variables on stock prices of companies listed on the Nepal Stock Exchange (NEPSE). The study was based on secondary quantitative data collected from annual reports of

sample companies, company websites, NEPSE publications, and the ShareSansar database.

The population of the study consisted of all companies listed on NEPSE. Out of the total listed companies, 16 firms from different sectors including commercial banks, development banks, insurance companies, manufacturing companies, microfinance institutions, and other sectors were selected as sample companies. The study adopted convenience (purposive) sampling technique because only limited

companies had maintained regular dividend payments throughout the study period. Only companies distributing dividends continuously for at least eight consecutive years were included in the sample.

The study covered the fiscal years from 2071/72 to 2080/81, resulting in balanced panel data observations. A thorough overview of the sampled companies, the study period, and the observations is given in Table 1.

**Table 1: Sample Companies**

S. No	Company	Sector
1	Nabil Bank	Commercial Bank
2	Everest Bank	Commercial Bank
3	Agriculture development Bank	Commercial Bank
4	Nepal life Insurance	Insurance
5	Shikhar Insurance	Insurance
6	Neco Insurance	Insurance
7	Unilever Nepal	Manufacturing
8	Bottler Nepal (Terai)	Manufacturing
9	Muktinath Bikas Bank	Development Bank
10	Kamana Sewa Bikas Bank	Development Bank
11	Shine Resunga Development Bank	Development Bank
12	Chhimek laghubitta bittiya sanstha	Microfinance
13	Forward Microfinance	Microfinance
14	Nirdhan utthan laghubitta	Microfinance
15	Nepal Telecom	Other
16	Soaltee Hotel	Other

**Note:** Mentioned Observation period

The collected data were analyzed using EViews software. Descriptive statistics, correlation analysis, and panel regression analysis were employed to analyze the data. To identify the most appropriate panel data estimation model, Redundant Fixed Effects Test, Breusch–Pagan Lagrange Multiplier (LM) Test, and Hausman Test were conducted.

### Model Specification

The study used stock price (STP) as the dependent variable, whereas Dividend Yield (DVD), Dividend Payout Ratio (DPR), Market-to-Book Ratio (MBR), Price-to-Earnings Ratio (PER), and Firm Size (LNFRM) were used as independent variables. Firm size was measured using the natural logarithm of total assets.

To examine the relationship and effect of independent variables on stock price, the following panel regression model was estimated:

$$STP_{it} = \beta_0 + \beta_1 DVD_{it} + \beta_2 DPR_{it} + \beta_3 MBR_{it} + \beta_4 PER_{it} + \beta_5 LNFRM_{it} + \epsilon \quad (1)$$

Where,

$\beta_0$ : Intercept

$STP_{it}$ : Stock Price

$DVD_{it}$ : Dividend Yield

$DPR_{it}$ : Dividend Payout Ratio

$MBR_{it}$ : Market to Book Ratio

$PER_{it}$ : Price to Earnings Ratio

$LNFRM_{it}$ : Firm Size

$\epsilon$ : Error or residual

### Results and Conclusion

#### Correlation Analysis

The correlation in panel data analysis has to be done in a manner that represents data structure. The mere pooled correlation can ignore unobserved variation within individual entities, e.g. firm-specific features, which do not change between times. These effects can be ignored and give false outcomes. To solve this problem, the variables are converted then the correlation is computed. In particular, the series are demeaned to be able to control the fixed effects. Demeaning is the process through which the average value of each variable of a given entity is subtracted on the observed values of the entity. It is done so that it eliminates time-invariant individual effects and that the correlation depicts changes within entities across time as opposed to differences between entities.

**Table 2: Correlation**

	DMLNSTP	DMDVD	DMDVD	DMMBR	DMPER	DMLNFRM
DMLNSTP	1					
DMDVD	0.088124 (0.2678)	1				
DMDVD	0.092406 (0.2452)	0.527068 (0.000)	1			
DMMBR	0.505149 (0.000)	-0.03886 (0.625)	0.087913 (0.269)	1		
DMPER	0.082705 (0.2965)	-0.04309 (0.585)	0.562471 (0.0000)	-0.01739 (0.8273)	1	
DMLNFRM	0.13957 (0.0784)	-0.16858 (0.033)	-0.07164 (0.368)	-0.22457 (0.0043)	0.108731 (0.1711)	1

**Note:** Author's own calculation by using EViews-12

According to Table 2, market to book ratio is positively and statistically significant with stock price. This is an indication that companies that are more highly valued in the market than on their book valuation will be associated with higher

share prices. The rest of the explanatory variables are positively correlated with both stock price though they are not significant.

**Table 3:** Panel Data Model Selection Tests

Test	Purpose	Statistic	p-value	Decision
Redundant Fixed Effects Test	OLS VS FEM	F = 12.7601	0.0000	FEM preferred
Breusch-Pagan LM Test	OLS VS REM	Chi-Sq. = 138.638	0.0000	REM preferred
Hausman Test	FEM VS REM	Chi-Sq. = 11.8408	0.0370	FEM preferred

Based on the results of the Redundant Fixed Effects Test, Breusch-Pagan LM Test, and Hausman Test, the Fixed Effect Model (FEM) is identified as the most appropriate model for the study.

**Fixed effect Model**

The fixed effects model permits each entity to have an intercept, which represents firm specific attributes that do not change across the time. This method acknowledges that other factors of differences between firms as size, dividend policy, or other structural factors could determine the dependent variable. The model removes these individual effects, which provides control over any unobserved heterogeneity amongst entities.

**Table 4:** Fixed effect Model

Variables	Coefficient	Std. Error	t-Statistic	p-value	Decision
C	-2.7678	1.2828	-2.1577	0.0327	Significant
DVD	0.0464	0.0168	2.7564	0.0064	Significant
DPR	-0.0070	0.0047	-1.5062	0.1343	Insignificant
MBR	0.0892	0.0106	8.4197	0.0000	Significant
PER	0.0008	0.0004	1.7683	0.0792	Insignificant
LNfirm	0.4908	0.1218	4.0302	0.0001	Significant

Note: Author’s own calculation by using EViews-12

**Table 5:** Model Summary

Statistics	Value
R-squared	0.7178
Adjusted R-squared	0.6772
S.E. of Regression	0.4199
Sum Squared Residual	24.5301
Log Likelihood	-76.9225
F-statistic	17.6801
Prob(F-statistic)	0.0000

Note: Author’s own calculation by using EViews-12

$$STP_{it} = -2.767 + 0.0464DVD_{it} - 0.000702DPR_{it} + 0.08918MBR_{it} + 0.000787PER_{it} + 0.49LNfirm_{it} + \epsilon$$

The Fixed Effect Model results reveal that the independent variables jointly have a significant influence on the Stock price. The model produced an R-squared value of 0.7178, indicating that approximately 71.78% of the variation in the Stock price is explained by Dividend Yield (DVD), Dividend Payout Ratio (DPR), Market-to-Book Ratio (MBR), Price Earnings Ratio (PER), and Firm Size (LNfirm). Similarly, the adjusted R-squared value of 0.6772 suggests that after adjusting for the number of predictors, the model explains 67.72% of the variation in the Stock price. The F-statistic value of 17.6801 with a probability value of 0.0000 confirms that the overall regression model is statistically significant.

Dividend Yield (DVD) has a positive and statistically significant effect on the Stock price with a coefficient value of 0.0464 and a p-value of 0.0064. This indicates that an increase in dividend per share leads to an increase in the

Stock price. Dividend Payout Ratio (DPR) shows a negative coefficient of -0.0070; however, the DPR is statistically insignificant since its p-value (0.1343) exceeds the 5% significance level. This suggests that DPR does not significantly affect the Stock price.

Market-to-Book Ratio (MBR) demonstrates a positive and highly significant relationship with the Stock price. The coefficient value of 0.0892 and p-value of 0.0000 indicate that firms with higher market-to-book ratios tend to experience a significant increase in the Stock price. Similarly, Firm Size (LNfirm) has a positive and statistically significant impact, with a coefficient value of 0.4908 and a p-value of 0.0001, implying that larger firms contribute positively to the Stock price.

Price Earnings Ratio (PER) also exhibits a positive relationship with the Stock price, having a coefficient value of 0.0008. However, the variable is insignificant as its p-value is 0.0792, indicating a weak positive influence.

**Discussion**

This study examined the effects of earnings and dividend payout on the stock prices of listed companies on the Nepal Stock Exchange (NEPSE). The results show that Dividend per Share (DVD) has a positive and statistically significant effect on stock price, indicating that higher dividend payments are associated with higher stock prices. This finding is consistent with Nguyen *et al.* (2020) and Silwal and Napit (2019), but inconsistent with Masum (2014) [15, 19, 24].

Market-to-Book Ratio (MBR) also exhibits a positive and highly significant relationship with stock price, suggesting that firms with stronger market valuation tend to have higher stock prices. This result aligns with Indrayono (2019) and Suriyano (2017) [13, 26].

Firm size (LNfirm) has a positive and significant effect on stock price, implying that larger firms tend to attract higher stock prices due to greater stability and investor confidence. This finding is consistent with Pradhan and Dahal (2016), but contradicts Nepal (2018) and Nguyen *et al.* (2020) [18, 19, 21].

In contrast, Dividend Payout Ratio (DPR) shows a negative and statistically insignificant relationship with stock price, indicating no meaningful effect on stock valuation. This result is consistent with Harshapriya (2016) and Nguyen *et al.* (2020) [11, 19], but differs from Iftikhar *et al.* (2017) [12]. Similarly, Price Earnings Ratio (PER) has a positive but insignificant effect, suggesting limited influence on stock price despite reflecting earnings expectations.

**Conclusion**

This study examined the determinants of stock price using the Fixed Effect Model, focusing on Dividend Yield (DVD),

Dividend Payout Ratio (DPR), Market-to-Book Ratio (MBR), Price Earnings Ratio (PER), and Firm Size (LNFIRM). Based on the panel data model selection tests (Redundant Fixed Effects test, Breusch–Pagan LM test, and Hausman test), the Fixed Effect Model was identified as the most appropriate model for the analysis. The empirical results reveal that Dividend Yield (DVD), Market-to-Book Ratio (MBR), and Firm Size (LNFIRM) have a positive and statistically significant impact on stock price. This indicates that higher dividend payments, stronger market valuation, and larger firm size contribute to an increase in stock price, reflecting positive investor perception and market confidence. Among these, MBR and firm size show strong and highly significant effects, suggesting that market expectations and firm stability play a crucial role in determining stock price movements. In contrast, Dividend Payout Ratio (DPR) shows a negative but statistically insignificant relationship with stock price, implying that payout structure does not significantly influence investor valuation decisions. Similarly, Price Earnings Ratio (PER) exhibits a weak positive relationship and is only significant at the 10% level, indicating limited influence on stock price determination. The findings provide useful insights for investors, company management, and policymakers in understanding the factors influencing stock price behavior in the Nepalese capital market. The study also contributes to the existing literature by providing evidence from multiple sectors listed on NEPSE using panel data methodology.

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