

# **THE RELATIONSHIP BETWEEN EARNING PER SHARE AND MARKET PRICE PER SHARE OF THE BANKING AND FINANCE COMPANIES LISTED ON COLOMBO STOCK EXCHANGE**

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## **Abstract**

The banking and finance sector is one of the most important sectors of the Sri Lankan economy. There are around 78 institutions Island wide both foreign and local ones. From those institutions, 54 institutions are listed institutions in CSE and it consists with 13 banks and 41 finance companies. They can be categorized as commercial banks, licensed specialized banks, savings banks and development banks and licensed finance companies. This categories offer different benefits, but people's attraction will be mostly with commercial banks, of which there are 27 institutions in these days. The demand and supply for a specific share will determine the market price of such share. There may be many factors which will influence the share price of a specific share, such as dividend announcements, speculation, political factors etc. If most of peoples start to buy then the prices would move up and vice versa would happen.

The objective of this study is set as to determine the existing relationship between earnings per share and market price per share of banking and finance companies listed on CSE. This study will used both primary and secondly data, but secondly data will be the main data collection method and data will be collected from published financial data sources. In order to determine the strength of relationship between the variables and multiple regression analysis will be used to measure the relationship between EPS and market price per share of banking and finance companies listed on CSE also R-square will be used to demonstrate the changing in market price per share by changes of EPS.

However the accuracy of the findings of this study will be highly subjective to the accuracy of financial information presented in published financial statements. When come in to the conclusion we expect to arrange few interviews with selected companies in the sample to confirm our conclusion and to determine possible reasons for complying with the conclusion or not complying with the conclusion

## **Introduction**

The relationship between earnings and its share price can be complicated. Big Profit does not necessarily mean a high stock price; the big damage is not always at a lower share price. Indeed, companies cannot stay in business for long periods, without any hesitation. Looking at the earnings per share, the first step in understanding the relation between stock and its earnings is the first step.

It is generally agreed that the company's financial target would maximize the wealth of shareholders, reflecting the market value of the company shares. There are two types of fund in a company: stock (stock) and borrowed funds (as debt). A stock is sold to acquire share capital. It represents the rights of shareholders. Share buyers are known as shareholders and are their legitimate owners. They invest in equities of the invested company in anticipation of return. Shareholders' returns are dividends and capital gain. Shareholders take capital gains through selling their shares. Payment of dividends to shareholders Legal documents (not required by a company by a law); It depends on the board of directors at the company's discretion. Benefits of capital gains can be achieved by increasing the market value of shareholders. If the market value of an equity stake is to earn equity, maximizing the earnings per share is the highest price for the company's shares. In such cases, the shareholders will inevitably benefit. If they have more money, they can get cash at once as a capital gain. Moreover, by maximizing the profit, it is not necessarily to maximize the earnings per share. The company can increase the profit after tax by selling additional shares. In such a case, the amount of earnings per share can be reduced. Having identified the importance of earning a stock, Sri Lanka has sought to identify the relationship between the relationship and the cause between the performance and earnings of the listed banks in Sri Lanka.

## **Significance of the Study**

Growth, diversification, investment and shareholders' wealth are very important in the life of the company. Shareholders and other stakeholders provide the necessary resources to invest in equity and other investment. At one time of the common stock value, it can reflect the performance and management efficiency of those who manage companies.

Earnings per share is one of the managerial efficiency and performance measures. There is no doubt in the financial publications that an argument about whether EPS has any bucket of money

on stock prices. (Umar and Musa, 2013). Therefore, it is important to analyze fair principles that the stock price verifies whether the stock price is part of its earnings (EPS: The company's future profit is the main factor influencing share prices: important for the relationship between earnings and share prices Discussion contains all the information contained in the information, while all the obvious information is available Cambell and Shiller (1988), Cambridge and Shiller (1988), the appreciation of the basic principles of the movement for the purpose of helping investors and the public to appreciate basic principles, deregulated adherence to government policies and the fluctuations in other variables. Demand and supply market factors and market forces as a consequence of the consequences (Iniama and Ousli, 2014). The people who are willing to invest in the changing times and the willingness to invest in the company decide that shares in the stock market reflect the public attitudes of the stock at all times and is worth the company Umar and Musa 2013, Ianma and Osouli And Oslo 2014), effective decision-making efficiency and efficiency with regard to company stock prices It can be appreciated. They pointed out that the performance of management efficiency is one of the company's performance features, Expo (EPS). Gordon, 1999) and investing in investment in Investing in Investors (Gordon, 1999), have found significant returns on investment opportunities, corporate finance principles and investment behavior. Acquisition of stock of stock and activation of the stock market only if investors have fulfilled their needs (Abraham and Chadagani, 2011).In the opinion of Beaver (Beaver, 1989), he stated that earnings per share is the only figure in the financial statements that receives the greatest attention by the investors. Mlonzi, and Nthoesane (Mlonzi, and Nthoesane, 2011) while citing Aharony and Swary (Aharony and Swary, 1980) opined that earnings, per se, are an interesting phenomenon to observe, because they carry inside information about the company's future prospects. The researcher intends to critically examine the nature and magnitude of the relationship between earnings per share and market price of ordinary shares,

with emphasis on banking and finance companies listed on Colombo stock exchange. The study also considers the extent of influence which earnings per share exert on market price of ordinary shares of banking and finance companies listed on Colombo stock exchange.

## **Research Objectives**

The main goal of the study particular research study of extent of influence which earnings per share exert on market price of ordinary shares of banking and finance companies listed on Colombo stock exchange is to identify the relationship between particular firm's earnings per share and stock price. The sub objectives are as follows,

- Identify whether there is any relationship between Basic EPS and market price per share of banking and finance companies listed on Colombo stock exchange.
- Identify whether there is any relationship is between Cash EPS and market price per share of banking and finance companies listed on Colombo stock exchange.
- Identify the level of the relationship between Basic EPS and market price per share is significant or not.
- Identify the level of the relationship between Cash EPS and market price per share is significant or not.
- Identify the factors that influence to the relationship between EPS and market price per share of banking and finance companies listed on CSE.
- Identify the potential reasons for having or not having a relationship between Basic EPS and market price per share of selected companies.
- Identify the potential reasons for having or not a relationship between Cash EPS and market price per share of selected companies.

## **Problem Statement**

Earnings per share is generally considered to be an important factor in determining the stock value and the fixed value. Literature points out that most of the individual investors are an individual investment based approach based on the EPS. This article seeks to provide guilty evidence of how EPS's stock impacts will affect share prices

The market shares of EPS's stock companies often affect market prices, and the connection rarely reverses. EPS's is the distribution of earnings of a company. The price of each stock is important.

According to the literature, a stock market has a strong relationship with earnings per share. The scope of this report deals mainly with the capital market. In fact, EPS is what we can see in literature and has positive and negative ties in the share price movement. If the result is inversed,

what are the factors involved? The scope of the report is a company's microcosm. The Sri Lankan banking and financial services industry is stable, efficient and competitive, and therefore, you are a beneficial customer. There are about 80 factories located island wide, including commercial banks, licensed specialized banks (savings banks and development banks) and licensed finance companies, and these companies are an important contributor to the economy. The problem with this scenario can be summarized as follows.

What level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange (CSE)?

### **Scope of the Study**

The banking sector in the banking industry, including the Sri Lanka commercial banking companies and licensed finance companies. By the end of June 2009, 56.3% of total financial assets of the financial system had been accounted by finance sector. They play a key role in the financial system. The ability to provide liquid to the entire economy. The banks are also responsible for providing payment services, enabling all entities to conduct their financial transactions. On the other hand, due to the maturity mismatches of the banks' assets and liabilities, the weaknesses of the systematic nature can be created. Therefore, the robustness of the banks is important for the financial system to be trustworthy, and can have some impact on the activities of other failed and other financial institutions. Depending on the size of the asset base and the size of the services provided, commercial banks are the most important category of a financial institution in the banking sector. By the end of June 2009, the licensed commercial banks dominated the financial sector from the market share of 47 per cent of the entire financial system assets and 84 per cent of the banking sector assets. Therefore, the financial systems of health, financial institutions, especially the strengths of the licensed commercial banks largely depend.

By the end of June 2015, the banking sector had 13 licensed commercial banks and 41 licensed finance institutes. There are a lot of licensed banks in the country, but the stability of the financial system is largely dependent on the performance and financial strength of the largest private bank licensors consisting of the two state banks and the largest local private bank. These six banks, known as the Systemically Important Banks (SIBs), represent the LB. 76.6% of the total assets and 64% of the banking sector assets. So bank and finance sector is very vital for

Sri Lankan economy and the next part is to identify the relationship between EPS and stock prices of bank and finance sector

"Earnings" means the amount receivable for a company's net income for any financial year. Indeed, the words "earnings" and "profits" have been used to direct practitioners and practitioners to the same point and may be the basic and primary objectives of any business. Of course, the average value of the value of the shareholders' value in the period of earnings is a change in the value of the company. So that in any economy it is important to identify the relationship of earnings and stock prices in order to have a better idea of finance sector.

## **Literature Review**

### **Introduction**

Earnings per share are generally considered to be an important factor in determining the stock value and the fixed value. Literature points out that most of the individual investors are an individual investment based approach based on the EPS. This article seeks to provide guilty evidence of how EPS's stock market affects its business. We will analyze 13 commercial banks and 41 listed finance companies. Literary Review and Behavioral Review is provided on the specific problem statement.

EPS is simply the revenue is divided by number of shares. (Mirza, Holt and Orwell, 2010). EPS is also a better indicator of net returns in analyzing corporate performance. Net income does not take into account for comparing purpose if both companies are different size of companies. Therefore, there may be two different companies with the same income, and it is not necessary for both to be perfectly successful. The general formula for EPS is equation-adjusted and the report is further developed.

The digit represents a key component of EPS. It should be emphasized that ordinary shareholders should pay net profit or earnings and profits payable to dividends compared to net profit. In the case of ordinary shareholders, the right to share the earnings of companies that exceed their dividends is generally omitted. The second component of EPS is the stock released by the company. This nominee grants permission to measure the entitlement of a common shareholder

by income per unit. In order to compute in the EPS, stock market shares are divisible and the total weight of the unpaid stock must be used since it can fluctuate the share price over time to buy back shares.

Investors are concerned about earnings and ultimately share prices are calculated. Strong earnings are usually the equity price rises (and vice versa). If a company with a higher price does not have a large amount of money, the rising cost is that investors expect that profits will be made in the future. Indeed, there is no guarantee that the investor will meet the present expectations. .

When the company earns money, it has two options. First, its products can be improved and modernized. Secondly, shareholders can repay dividends or stock withdrawals to shareholders. It's really simple! In the first instance, you believe in investing more in the hope of more profitable ventures. In the second case, you should get your money. Generally, small corporations are trying to create profit-making profits by making profits. More mature companies pay dividends. The methodology is definitely not good. But both depend on the same idea:

### **Cash Earnings per Share**

Compared to earnings per share of the company, there are many other factors that directly or indirectly affect the overall cash flow. Therefore, all monetary earnings are taken into account for all the additional factors. Provides different EPS values.

Convenience, depreciation, sympathetic ambient and other obscure and intangibility factors have a lasting impact on the current and future performance of companies. In fact, cash flow is normal. Therefore, it is a good thing to consider 'earning money for a share' to get more accurate statistics from CEPS. This is to see its future growth rate, irrespective of its past performance.

### **Empirical Review of EPS and stock prices**

Walfampee Tea and Pratapkken, from 2006 to 2010, the Colombo Stock Exchange (CSE) had an impact on EPS and prices of the Colombo Stock Exchange. In this study, 70% of the Milanka companies have a positive link between earnings and price movements. Dr Pushpa and Sumangala J. K. A study was conducted to find out the earnings effects of a share on the stock equity stock. A practical study of the Indian Capital Market. Five years have been studied for 50

companies. Based on their research, EPS concludes that the stock market value of stock capital affects the Indian context.

Olsen (1995) discusses the role and significance of the defense assessment. Olsen (1995), discusses the importance of book value and dividends. Collins (1999) discusses the negative impact of fair valuation. In previous studies, Aahrony and Stearry (Aahrony and Stearry, 1980) document that stock prices have fallen in unanticinal dividends for one month, and increase in unexpected dividends in a month. Other studies with similar results are Pettit (Pettit, 1972) Kowan (Kowan, 1981) and Edees (Edees, 1982), Bajaj and Vishri (Bajaj and Vishri, 1990) have speculative evidence. A positive trade rejection is a signal of a higher position as a dividend-increasing signal. Dividend income. Bajaj and Vidi (Bajaj and Vidi, 1990) has a signal effect. However, they argue that customers have an impact in addition to the effect they have on signaling. Prabhakaran (1993) shows the results of Bajaj and Viji (Viji, 1990) and Lang and Listensberger (Listensberger, 1989) are fictitious. They misconstrued the martingale burden dividend format used by them. Deatcho (Deatcho, 1999) studies the continued income and productive valuation. Collins and

Kothari (Kothari, 1989) focuses on changing stock prices with unexpected earnings changes. It is cross-cutting inter-temporary data. Collins, Pincus and Hier (Collins, Pincus and Hier, 1989) Equity book value during equity valuation. Discuss the role of remaining value in the estimation of Desho (Desho, 1999) of equality with EPS. Miller and Modigliani (Miller and Modigliani, 1961) studied the growth of the company on dividend policy and equity and mainly focussed the

EPS and market price. Chiang (Chiang, 1995), based on earnings and dividend-based values, are followed by stocks recovered as a stock and are compatible with their discoveries Campbell and Shiller (Campbell and Shiller, 1988). Ansotegui and Esteban (Ansotegui and Esteban, 2002) were established in the long term. There is a relationship between the Spanish stock market and its EPS, and this relationship helps predict. Singh (Singh, 2002) examined the relationship between stock prices and EPS in Singapore, and found that the average re amplification of share prices has been directed to key factors AND IMPORTANT FACTOR IS EPS. Ball and Brown (Ball and Brown, 1968) first used the security Abnormal Performance Index (API) to measure the variation of annual stock price movements with EPS. Freeman (Freeman, 1987) investigated the relationship between the accountings earnings and stock prices in big companies and small



companies. Beaver, Lambert and Morse (Beaver, Lambert and Morse, 1980) reverse the direction of the relationship and examined the information content of prices with the change in earnings as the dependent variables and find the variations of stock prices have significant correlation with the variations of earnings.

In this study we focus on examining the relation between stock prices and EPS in Taiwan's stock market. After testing whether or not both series are non-stationary, we will use Pedroni panel test to determine their long-term relationship. It means that we will test whether stock prices and EPS are connected. Furthermore, in order to determine the magnitude that stock prices responds to EPS, we use Kao and Chiang (Kao and Chiang, 2000) and Pedroni (Pedroni, 2000) panel method to estimate the unbiased EPSs. Finally, we investigate whether there is a relationship between EPS and stock market prices.

## **METHODOLOGY**

### **Introduction**

This chapter contains a detailed description of the methodology used for research study. Explanations are provided when needed. In particular, this section includes study information, conceptual framework work, population, sample systems, data analysis methods, and measurement and data analysis methods.

### **Purpose of the study**

In the existing literature as well as the social research practice, there are three well developed and widely spread research purposes – exploration, description and hypothesis testing. These techniques differ in terms of data collection, formulation of the research questions and the deriving from them hypothesis (Umasekaran 2012). The purpose of this study is what level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange. We have selected 47 bank and finance companies listed on CSE and we expect to do a quantify data collection

According to Umasekaran (Umasekaran, 2012) a research that studies which have been undertaken to explain the nature of certain relationship or establishing the differences among groups or the independence of two or more factors in a situation called hypothesis testing. The present thesis takes a closer look into the contemporary phenomenon like Earning per Share and market price per share in Banking and Finance companies but also aims to reveal certain relationships between different variables the like Earning per Share and market price per share.

### **Type of investigation**

Causal and correlation studies can be undertaken to answer to particular research problem. A study in which the researcher wants to delineate the cause of one or more problem is called causal study whereas the researcher is interested in delineating the important variable associated with the problem is called correlation study. Therefore type of investigation of this study is related to correlation study.

### **Extent of researcher interference with the research**

The study of what level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange is a correlation

study which is undertaken to in the natural environment of the research context and by the researcher's interferences was minimal interferences.

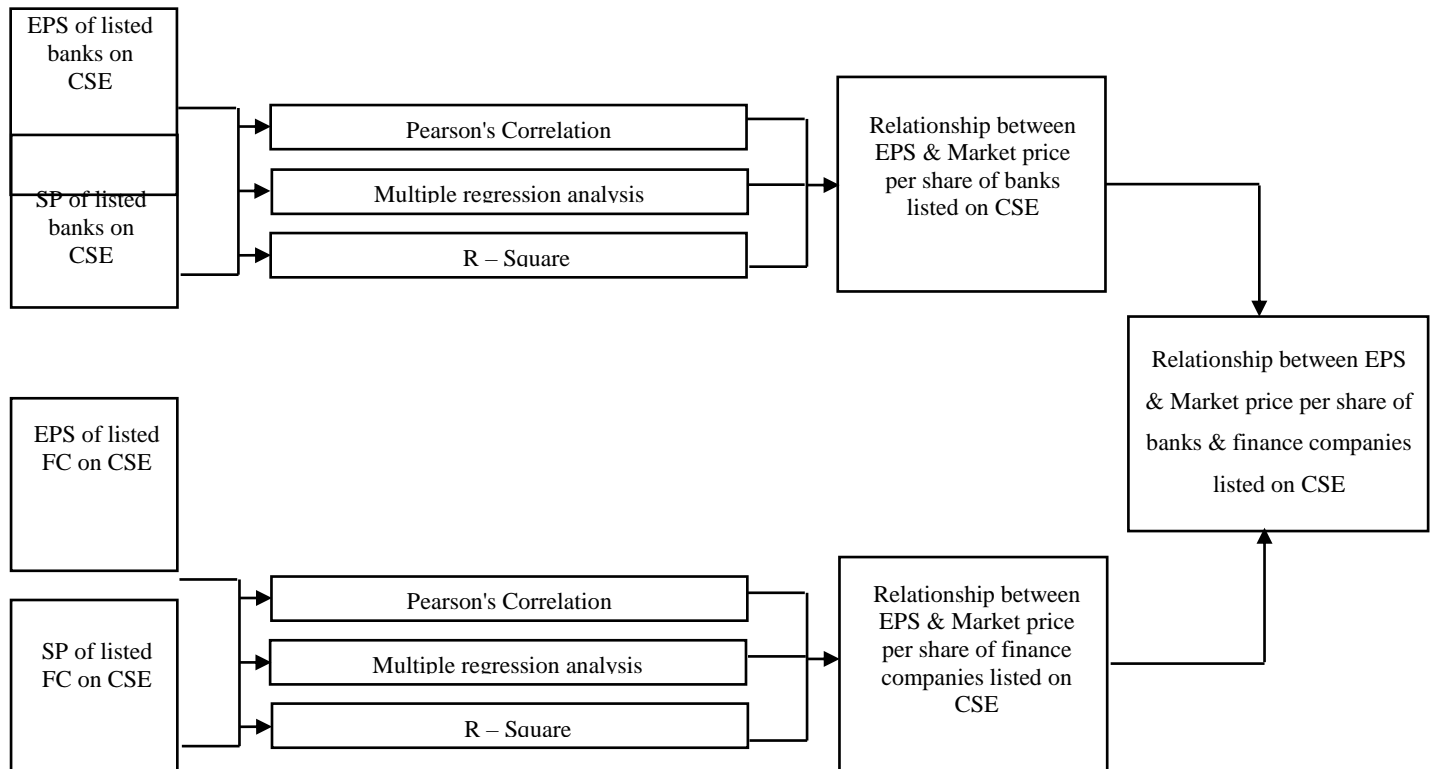
### **Study settings**

The study setting deals with whether the research is conducted with natural environment (noncontrived settings) or in artificial environment (contrived settings). This study conducted with natural environment therefore this is a field study where it is conducted with the natural environment.

### **Conceptual framework**

Conceptual framework is the next important aspect of this study and conceptual framework can be developed as follows. Here EPS can be divided into 2 main categories such as general EPS and Cash based EPS. Here the problem statement of this study is to identify the extent of influence which earnings per share exert on market price of ordinary shares of banking and finance companies listed on Colombo stock. With such environment 2 variables can be identified as

independent variable and dependent variable. Here EPS is the independent variable and stock market price is the dependent variable.



## Hypothesis Analysis

The study of what level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange

### Basic EPS

- **H01** – There is no relationship between basic EPS and the market price per share of banking and finance companies listed on CSE.
- **H11** – There is a relationship between basic EPS and the market price per share of banking and finance companies listed on CSE.

## **Cash EPS**

- **H02** – There is no relationship between cash EPS and the market price per share of banking and finance companies listed on CSE.
- **H1<sub>2</sub>** – There is a relationship between cash EPS and the market price per share of banking and finance companies listed on CSE.

## **Data collection**

Secondary data being the main category of data for the study, Annual reports which are published in CSE was used by the researcher to gather data from consumers.

***Secondary Data:*** Reviewing previous literature, books, periodicals, white papers, and websites were used to collect the secondary data in order to help preparing the theoretical framework.

This research is a quantitative research. We will use high structural methods to collect data for our research. Key Source is Annual Financial Report on Selected Companies. The research is based on the numerical value. All these values are in annual financial statements. So collect data from the financial statements and will used to analyze in order to identify the relationship of EPS and share prices of bank and finance sector in Sri Lanka. These financial statements include a full income statement, a cash flow statement, and a statement of changes in the equity. In addition to this source, we look forward to conducting a structural interview with selected companies. We also hope to provide some structured phone calls with the selected responsible companies of those companies.

## **Observations**

The observations have been done with regard to market price and EPS of listed finance companies activities in the local contents before the questionnaire was prepared and finalized.

## **Data analysis**

Primary data collection is being followed by data analysis. In order the collected data to be analyzed SPSS; a computer program that helps surveys to interpret the results, was used. The

data analysis will show whether the hypotheses will be rejected or accepted and will help to make conclusions.

### **Univariate analysis**

Descriptive statistics were used to analyze each dimension of the study. Frequency distribution was counted to measure how many respondents have given the same answer to the same question. Percentages were calculated to determine the fraction of subjects who gave a particular response. Demographics of respondents, i.e. responses for question number 01 to 05 were limited to univariate analysis only.

### **Testing the reliability of the questionnaire**

The Cronbach's alpha value of SPSS was used to check whether the questionnaire developed by the researcher especially for the research purpose, measures the dimensions reliably. If the corresponding alpha value of a given set of answers is greater than 0.70 the researcher can conclude that the set of data used to measure particular dimension is reliable.

Reliability of the data was tested for each question item. The "If Item Deleted" reliability test describes how the other data contribute to measure the dimension when one particular question item is removed from the total set of questions. It gives a very clear idea about each question item. The test was carried for the research and alpha values obtained by each question item were very reliable.

### **Bivariate analysis**

The bivariate analysis was done to find the association or dependency of two variables and dependency of each dimension and the dependent variable. The researcher used four methods to explore this association. They are Pearson's Co-efficient of correlation analysis, correlation analysis, correlation matrices and Kruskal Walli's test.

### **Pearson's Co-efficient of correlation analysis**

This method was used to make out the degree of linear relationship that exists between two variables. The correlation gives an implication of how well two variables move together in a straight line. When the values are more concentrated, the value of 'r' is higher. In this type of cases, many methods are used.

Considering the objectives of this study, the researcher used Pearson's "r" co-efficient of correlation to determine the association between two variables.

If the Pearson's coefficient of correlation is close to 1 ( $> 0.5$ ) with a high significant level ( $F < 0.05$ ) then, there is strong positive relationship between the two variables.

If the Pearson's coefficient of correlation is close to -1 ( $> -0.5$ ) with a high significant level ( $F < 0.05$ ) then, there is a strong negative relationship between the two variables.

If the Pearson's coefficient of correlation is close to 0 ( $< -0.5$  or  $-0.5$ ) with a high significant level ( $F < 0.05$ ) then, there is a positive or negative relationship between the two variables, but not so strong.

### **Correlation Matrices**

The whole set of correlations in bivariate analysis is possible to be presented using these correlation matrices. The variables on the top of these three matrices are the same as those on the down side. "r" values were tested at the significant level of point  $p=0.01$ .

### **Testing Hypotheses**

In analyzing statistical data,  $H_0$  is always called a null assumption.  $H_1$  is referred to as the hypothetical trick. This is called alternate hypothesis.

Thus, if the blue hypothesis ( $H_0$ ) is rejected, at least one independent variable significantly contributes to the prediction of certain variables. It refuses to reject  $H_0$ , and we cannot show that it is difficult for us to explain the behavior of a variant dependent on independent variables (or their combinations).

F - Test and p were used to determine which independent variables were useful predictors. The significance of 'F' values is that the calculated value 'F' can override the value of the chart, we can deny the null hypothesis ( $H_0$ ) and depend on the possibility that at least one independent variable can be predicted to be a prognostic. Therefore; the 'F' value is denoted by counting the 'F' value table.

## **DATA PRESENTATION AND ANALYSIS**

### **Introduction**

In this chapter the gathered data from the secondary sources will be analyzed in order the researcher to be able to make conclusions. The chapter consists following main parts. The first part represents, some descriptive statistics with interview and, the factor analysis and the reliability test as well. In addition to that the hypotheses are tested and the steps that followed in order to examine them are being presented. The hypotheses will be either rejected or accepted and after that we will be able to draw conclusions.

The study aims at determining the extent to which changes in market price of shares in Sri Lanka banking and finance sector is explained or influenced by earnings per share. The study also examined the nature and magnitude of their granger causalities and integration. Market Price of

Shares of the banking and finance industry was found to be positively and significantly influenced by Basic Earnings per Share. However, cash earnings per share is also have a positive influence on market price of ordinary shares. There is also a fairly strong relationship between overall market price and earnings per share. None of the explanatory variables was found to granger cause market price of ordinary share in the banking and finance industry in Sri Lanka. The implication of the findings is that an increase in earnings could lead to a noticeable appreciation in the market price of shares in Sri Lanka banking and finance industry. Hence, to grow the share price, banks and finance should apply critical cost reduction strategies, aggressive marketing, and diversification strategies to improve on its net earnings which by extension, could lead to enhanced market price further. When earning is enhanced, according to the signaling theory, it gives an indication that the bank and finance are stable.

### **Hypothesis Analysis.**

Hypothesis analysis for what level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange is as follows.

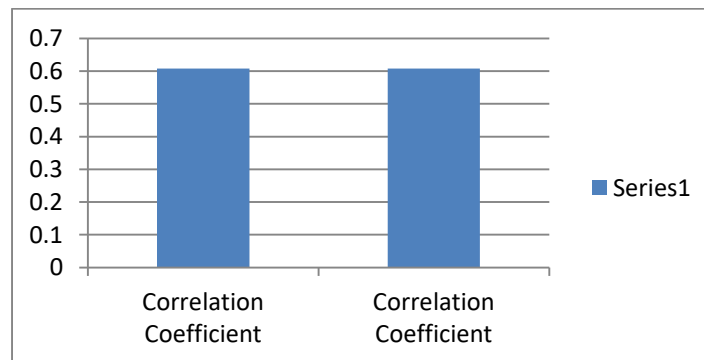
## Basic EPS

- **H01** – There is no relationship between basic EPS and the market price per share of banking and finance companies listed on CSE.
- **H1<sub>1</sub>** – There is a relationship between basic EPS and the market price per share of banking and finance companies listed on CSE.Descriptive statistics on Relationship.

### Correlations

		MP	Basic EPS
MP	Pearson Correlation	1	.593**
	Sig. (2-tailed)		.000
	N	681	681
Basic EPS	Pearson Correlation	.593**	1
	Sig. (2-tailed)	.000	
	N	681	683

\*\*. Correlation is significant at the 0.01 level (2tailed).



According to the table the P value is less than 0.05 and the results support to reject the null hypothesis and say that there is a between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange at 95 % confidence level.it have positive relationship



**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10388376.256	1	10388376.256	488.285	.000 <sup>b</sup>
	Residual	18934952.672	890	21275.228		
	Total	29323328.928	891			

a. Dependent Variable: MP

b. Predictors: (Constant), Basic EPS

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	34.654	5.257		6.592	.000
	Basic EPS	11.960	.541	.595	22.097	.000

a. Dependent Variable: MP

According to the table the P value is less than 0.05 and the results support to reject the null hypothesis and say that there is a between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange at 95 % confidence level. R square is .354 it say that if change the Basic EPS 1 rupees it affected to change market price in 0.354 rupees and Regression line can be define as follow

$$\text{MP} = 34.654 + 11.960 \text{ Basic EPS}$$

**Cash EPS**

- **H02** – There is no relationship between cash EPS and the market price per share of banking and finance companies listed on CSE.
- **H12** – There is a relationship between cash EPS and the market price per share of banking and finance companies listed on CSE. Descriptive statistics on Relationship.

### Correlations

		MP	Cash EPS
MP	Pearson Correlation	1	.211**
	Sig. (2-tailed)		.000
	N	681	681
Cash Eps	Pearson Correlation	.211**	1
	Sig. (2-tailed)	.000	
	N	681	683

According to the table the P value is less than 0.05 and the results support to reject the null hypothesis and say that there is a relationship between cash EPS and the market price per share of banking and finance companies listed on CSE at 95 % confidence level.

### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1277515.050	1	1277515.050	31.745	.000 <sup>b</sup>
	Residual	27324602.819	679	40242.419		
	Total	28602117.869	680			

a. Dependent Variable: MP

b. Predictors: (Constant), Cash Eps

### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	66.098	8.004		8.258	.000
	Cash Eps	1.952	.346	.211	5.634	.000

According to the table the P value is less than 0.05 and the results support to reject the null hypothesis and say that there is a relationship between cash EPS and the market price per share of banking and finance companies listed on CSE at 95 % confidence level. and R square is 0 .043 it say that if change the earning per share is 1 the market price change .043 affect by the cash eps. Regression line can be define as follow

$$\text{MP} = 66.098 + 1.952 \text{Cach EPS}$$

### **Factor Analysis and Reliability Tests**

According to Sekaran (2012) “factor analysis simplifies data analysis by taking advantage of the correlations among  $p$  variables- extracting that overlapping information and reducing the problem down to just a few core factors”. Validity will be checked with the factor analysis and the reliability with Cronbach’s alpha. In order the results of the factor analysis to be used, the KMO and the Bartlett’s test are done to assure that items correlate with the variable and that the factor analysis is appropriate. Kaiser Meyer Olkin (KMO) measure of sampling adequacy tests whether or not the correlation among variables are large enough and Bartlett’s test of sphericity tests if the correlation matrix is an identity matrix which means if the factor model is appropriate or not. If the KMO value is greater than 0.5 and the significance level of the Bartlett’s test is smaller than 0.05 then a satisfactory factor analysis can be proceed. Moreover, factors should also have a level of Cranach’s alpha more than 0.7 in order to be used.

The variables that needed to be tested were: what level of relationship is there between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange. For Earning per Share and market price per share in Banking and Finance companies the factor analysis showed a KMO value of 0.889 ( $>0.50$ ), Bartlett’s test was significant (0.00). For market price per share, KMO value was 0.947 ( $>0.50$ ), Bartlett’s test was significant (0.00). Therefore, it can be assumed that the factor models were appropriate and correlations between the variables were sufficient.

### Test of reliability

Variable	Cranach's alpha ( $\alpha$ )
Earnings per Share	.889
market price per share	.947

According to the results shown in the table, between Earning per Share and market price per share in Banking and Finance companies listed on Colombo stock exchange takes overall Alpha values 0.889 and it is more than 0.7 which imply that individual question items measure each respective variable reliably and very highly. And the other variable market price per share obtains Alpha values 0.947 and it is more than 0.7 which imply that individual question items measure each respective variable reliably and very highly. Therefore, the researcher can conclude that overall research measures developed for the research purpose is reliable.

### Conclusion

The study aims to capture the stock and equity shares of listed banks' stocks in the CSE from 2012 to 2016 and its size and nature. In addition, earnings on it is priced in common stock in Sri Lanka's banking industry. In the Diagram, a multi-curve regular average minimum spectral system was used. The skin contact test was conducted for the research analysis. Earnings per share quoted on the CSE have a significant effect on the stock market in ordinary and common stock. There is a strong and positive relationship. Earnings per share is divided into two main categories as common stock earnings, and these are held in long term in the Sri Lankan banking sector earning money at the stock market price. Findings suggest that the trend of earnings growth is significantly more likely to grow. The CSE is one of the main factors affecting the volatile fluctuation of common stock prices in Sri Lanka, stocks and shares in listed companies' equities and stock market shares. Therefore, in order to enhance the potential strategies for attracting deposits, the banks have to improve their deposits, lending, cost reduction and other investment opportunities to improve their earnings.

## **Research Discussion**

The research variables were structured into dependent and independent variable for the purpose of analysis. The dependent variable of the study is the market price of ordinary shares while the independent variable is Earnings per Share (EPS). The study used simple regression analysis in the form method to test the effect of earnings per share on share price of listed banks in Colombo stock exchange. The simple regression model shows the dependent variable (market price of shares) as a function of a single independent variable, earnings per share, in line with the stated objective of the study. Correlation analysis was employed to determine the extent of association of the variables under study.

Growth, diversification, investment and shareholders' wealth are very important in the life of the company. Shareholders and other stakeholders provide the necessary resources to invest in equity and other investment. The value of ordinary shares of banks and finance companies listed on the Colombo Stock Exchange may reflect corporate management efficiency and managerial efficiency in an amount of time. Stock Exchange is one step in the listing of the shares listed on the stock quoted in the stock and finance companies on efficiency of the management. In the financial analysis, the stock market's EPS does not have any projection strength. Therefore, it is important to analyze fair principles, the share prices of banks and finance companies listed on the Colombo Stock Exchange include earnings-earnings -expo (EPS) of its business. According to the analysis, the future profits of the Colombo Stock Exchange in the banking and finance companies will be the main factor affecting share prices and will contain the largest information content of all accounting information on earnings information that is an important discussion of the relationship. The accounts are among the accounts and equity prices of listed banks and finance companies listed on the Colombo Stock Exchange. However, according to the analysis, earnings are being built by the accountants to evaluate the fundamentals of the company's investors and the general public.

According to the analysis, the shares of listed banks and finance companies listed on the Colombo Stock Exchange may be responded to by the principles derived from the strategies adopted by the competitors, derived from government policies and the fluctuations in the fluctuations in the values of fluctuating currents. The results of the published financial performance indices and the reactions of market forces in demand and supply. But these external factors were ignored and these factors were assumed to be stable. According to the analysis, the share prices of banks and finance companies listed on the Colombo Stock Exchange are willing to invest in a pattern of changes in stocks and usually with the banks and finance companies that are listed in Colombo stock markets. Always, share price reflects public opinion about the company in the company's values. Data analysis emphasized that the efficiency and effectiveness of management decisions could be evaluated on the strength of the banks and finance companies that have displayed the CSE's stock price. They pointed out that the shares of the banks and finance companies listed on the CSE have earned one share (EPS). They are management efficiency. Understanding price fluctuation significantly influences the acquisition of investment opportunities, understanding the psychology of investing in the investor's corporate shares, investing in equity shares, guiding the principles of corporate finance, and investing in banks and finance companies listed on the Colombo Stock Exchange; and Only the stock market will be active if the investors fulfill their needs Can. According to the analysis, the only value in financial publications that gives the most attention to investors is the earnings per share. In addition to analyzing the data, an interesting phenomenon is to observe one section of one segment for earnings within the information on the banks and finance companies that list the future prospects for the Colombo Stock Exchange. The researchers intend to analyze the nature and the magnitude relationship between the shares and the earnings of the banks and finance companies listed in the Colombo Stock Exchange, focusing on the banks in Sri Lanka's banking sector. The study also considers the stock earnings impact on market prices of common shares in Sri Lankan banks.

## **Limitations of the Study**

EPS is an important indicator of the share price. EPS uses market rates for the average shares traded in the communications method by using the rate of return. Before the initial and consumed EPS, the accountants calculated the primary and dilute EPS. Unfortunately EPS has some limitations as EPS's analytical tool. The limits are as follows:

- The diluted EPS model was based on the calculation of the Treasury stock method using the latest price rather than the average price. The EPS, which has been completely repaired, is only identical to the current liquid method, at the end of the year
- The elimination of old primary and fully-loose electro technologies early has been lifted by several arbitrary rules and has been exposed to securities used in securities when calculating.

In addition, the volatility of stock price will also have several factors: economic performance, market risk model and market sentiment. Therefore, when analyzing the actual stock price, the EPS values and the factors mentioned.

## **Summery and Conclusion**

The objective of this study is to create a link between the earnings and the market price of a share of listed banks and finance companies listed on the CSE. Reasons and impacts such as earnings per share and earnings of the shares in a share and the market prices of ordinary shares. An analysis reveals that the average trading equals a significant and rational value for trade. According to the size of the Union, common stock had a strong and positive relationship with the market price. However, in Relativity, the analysis reveals that earnings per share in the Colombo Stock Exchange which are listed on the Colombo Stock Exchange earned earnings due to market prices of ordinary shares in the Sri Lankan banking sector. The researcher has tried to investigate the possibility of maintaining the earning capacity of an existing share market with the stock market of ordinary shares in the Colombo Stock Exchange. The skin relations analysis showed that the short term relationship is sustained in the long term. The finding implies that there are effects of the market price of banks and finance companies that are listed on the Colombo Stock

Exchange as well as other earnings factors. By raising and extending the earnings, part of the banks and finance companies are listed on the Colombo Stock Exchange and Sri Lankan banks A significant increase in the market prices of the shares of the companies Data. It is intended to earn part earnings per share in the common stock market index, especially in the banking sector, amid fluctuations in the Colombo Stock Exchange.

The findings of this study coalesced with the standings of Wong, Fu and Luo (VANS, FU and LUO, 2013), with share earnings in shares and listed on the stock market's stock market and finance companies. According to earnings pertaining to the earnings data, share dividends, price and earnings ratio, and stock quotes, all of them seem to have a positive difference in earnings per share trading. ; According to this study. Kothari, Lewellen and Warner (Kothari, Lewellen and Warner, 2003) are in line with these surveys. In addition, INA Chang, Chen, Saw and Chang (Chang, Chen, Saw and Chan, 2008) have a profound impact on share prices for low-growth companies. Therefore, the bank's higher earnings growth in the banking sector in order to increase the prices of the listed banks and finance companies listed in the Colombo Stock Exchange. According to the dividend filing theory, the bank's earnings are believed to be more stable than dividends. This event may appeal to shareholders and make another investment. Therefore, for banks to focus on banking activities aimed at improving the strategies in order to attract the deposit, leveraging borrowings, reducing costs and opening up other investment channels are the final effects on the banking market and Finance companies are listed in the Colombo Stock Exchange.



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