



Accounting Indicators and their Impact on Market Prices of Shares of Commercial Banks Listed on the Amman Stock Exchange for the Period 2006-2017

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ABSTRACT

The study aimed at identifying the impact of some accounting indicators on the market price of share for the Jordanian commercial banks listed in Amman Stock Exchange (ASE) for the period 2006-2017. The study adopted STATA program in data processing and Random effect regression model was chosen to test the relationship between accounting indicators as independent variables include: return on equity (ROE), earnings per share (EPS), market price per share to book value per share (MPBV), dividend payout ratio (DPR), retained earnings per share (RPS), financial leverage (FL), current ratio (CR) and market price of share (MPS). The results show a positive and significant relationship between (ROE, EPS, MPBV, DPR) and MPS. Likewise, there is negative and significant relationship between retained earnings per share (RPS) and market price of share. On the other hand, the results show a negative and insignificant relationship between financial leverage(FL)and market price of share(MPS).The present study recommended that investors in Amman Stock Exchange (ASE) should be attention to the accounting indicators in general and (ROE, EPS, MPBV, DPR) in particular in order to build their investment decision.

Keywords: Accounting Indicators, Market Price of Share, Return on Equity, Earning Per Share, Commercial Banks

JEL Classifications: G21, M41

1. INRODUCTION

The study of the movement of securities prices is one of the important topics in the world of finance and investment, And many researchers have tried since the last century to describe the factors that lead to changes in the prices of securities and try to study and analyze them to benefit from the knowledge of the future of these prices, And that appropriate accounting information is the primary source in determining the relative price structure of securities, as well as the appropriate accounting information is considered as the key element on which investors rely on their investment decision.

The relationship between accounting indicators and stock market prices has been deeply researched, beginning with the studies of both (Ball and Brown, 1968) and (Beaver, 1968) and both studies

had a significant impact on subsequent studies with regard to the usefulness of accounting indicators in forecasting stock market prices.

In order for financial markets to play their role they must be characterized by a high level of efficiency and effectiveness, one of the most important elements to achieve the efficiency of the financial market is the existence of an effective information system that ensures the flow of this information at all times and at the lowest possible cost. As financial markets need to have an effective information system through which the investor can choose the best alternatives at the right price, As accounting information is considered one of the most important information to be provided by the stock exchange, As the global financial markets give great importance to the preparation of information and accounting data

and work to publish periodically to investors. But the talk about the importance of accounting indicators and their role in the impact on stock prices does not mean that they are the only factors affecting those prices, In general, stock prices are affected by many factors in addition to information and accounting indicators, such as: Economic and political factors, speculations in the financial markets, rumors, financial and political crises, these factors all affect the behavior of investors, Therefore, it is difficult to study the impact of all these factors on stock prices and this is one of the determinants of this study.

In this study, the researchers attempt to identify and analyze the nature of the relationship between the most important accounting indicators extracted from the financial statements of the commercial banks listed on the Amman Stock Exchange and the prices of the shares of these banks. The researchers also aim to determine the importance of each variable of the study in the ratio of its impact on stock prices.

The stock market represents in any country an investment opportunity and an important factor to attract domestic and foreign capital, and recent years have seen great efforts in most developing countries to improve the investment climate in them by creating the right conditions to attract investments and without those markets, countries cannot get the financial resources they need to develop investment activities.

This study is important in two ways:

- Scientific importance: This study contributes to determining the most important accounting indicators that explain the changes in the market prices of shares of commercial banks and the impact on measuring the efficiency of the financial market.
- Practical importance: This study contributes to determining the impact of accounting indicators on the market prices of shares of commercial banks listed on the Amman Stock Exchange, and this contributes to the rationalization of investment decision in that market.

This study aims to investigate the relationship between the prices of shares of commercial banks listed on the Amman Stock Exchange and the accounting indicators extracted from the financial statements for the period from 2006 to 2017. To achieve this objective, the study should achieve the following objectives:

- Determine any accounting indicators that affect the changes in the prices of shares of commercial banks.
- Measurement of the contribution of these accounting indicators in the interpretation of changes in shares of commercial banks.

2. LITRETURE REVIEW

A number of studies have been undertaken to identify the factors influencing stock prices in different stock market. And the following studies were cited when conducting this study.

Yemi and Seriki (2018) aimed to examine the impact of retained earnings on market value listed firms Nigeria Stock Market. The results indicates a positive and significant relationship between

retained earnings, earnings per share, dividend payout ratio and market value of firms while market value is positively but non-significant associated with financial leverage. Poudel (2016) aimed to explore the determinants of stock price in banks in Nepal, The study most important results show that there is statistical significant relationship between the variables or not. Even though DPS, BVPS, and EPS affect the MPS positively, when earnings per share, dividends per share, and book value per share increase, the market price per share also increase and vice versa.

Chhipa and Nabi (2016) aimed to identify the factors affecting share price of banking sector of Pakistan, The results of this study show a positive correlation of leverage on share price of banking sector registered in Pakistan Stock Exchange, while share price have 4control variables (earnings per share, dividend yield, return on assets) all the results shows low variation of share price on banking sector in Pakistan.

Another study by (Siraj, 2016) aimed at identifying the impact of some accounting indicators on the market price per share for the companies listed in Kingdom of Saudi Arabia (KSA) stock market during the period of 2011-2014. The study most important results include the following: The existence of a significant statistical correlation between the independent variables and dependent variables at (level of sig. = 0.000). Also, the entire independent variables affect the market price per share of the companies by 73%. Moreover, the independent variables such as (earning per share, market price/book value, return on equity) have the most effect on the market price per share at (level of sig. = 0.000).

Arshad et al. (2015) aimed to identify the determinants of share price for the listed commercial banks in Karachi stock exchange over the period 2007-2013. The results indicate that earning per share has more influence on share prices and it has positive and significant relationship with share prices while other variables (gross domestic product, price earnings ratio, dividend per share, leverage) have not relationship with share price.

Sharif et al. (2015) aimed to identify the main determinants affecting share prices in the Bahrain financial market, The study analyzes a panel data set of 41 companies listed in the Bahrain stock exchange for the period 2006-2010, The results indicate that the variables return on equity, book value per share, dividend per share, dividend yield, price earnings, and firm size are significant determinants of share price in the Bahrain market.

A study by AL-Habashneh et al. (2015) aimed to identify and analyze the factors influencing the share price in Amman Stock Exchange for the period 1984-2011. The study determined three key variables which positively affect the rate of the stock price of companies, namely dividends, trading volume, and earnings per share, the study recommends focusing on these three variables when directing investor to invest their money in Amman Stock Exchange.

A study by Almumani (2014) seeks to find quantitative factors that affect share price for the listed banks in Amman Stock Exchange during the period 2005-2011 using the empirical analysis of a

group of independent and dependent variables. In this study, the ratio analysis correlation and a linear multiple regression models have been chosen to determine the individual as well as combined effects of explanatory variables on the dependent variables. The empirical finding prove that there is positive relationship between the independent variables PE positive correlation, BV positive correlation, EPS positive correlation, DPS positive correlation, and dependent variables MP and it is also important at 1% probability level. However, further empirical findings that there is a significant positive relationship between EPS and the MP of the listed banks in Jordan, and there is a significant relationship between BV and MP, Another empirical findings from the regression analysis shows a positive relationship between P/E and MP, other variables DPS and DY have insignificant influence on MP.

Luvembe et al. (2014) aimed to investigate effect of dividend payout on market value of listed banks in Kenya for the period between 2006-2010, The study found a significant and positive relationship between market value and capital structure, corporate earnings, dividend payout ratio and capital market investment.

Thunabat (2014) aimed to investigate the impact of financial and accounting variables on shares prices of companies (banking sector) in the Amman Stock Exchange for the period 2000-2012 The results indicate that there is a significant impact of the return on equity, and the current ratio, and earnings per share, and non-significant impact of the return on assets, and the ratio of total liabilities to total assets, and assets turnover.

Another study (Masum, 2014) aimed to identify the effect of dividend policy on stock price on commercial banks listed in Dhaka Stock Exchange for period the 2007-2011. The results of this study show a positive and significant relationship between earnings per share, return on equity, retention ratio and stock price.

A study by (Tandon and Malhotra, 2013) attempted to determine the factors that influence stock price in the context of National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007-2012 and linear regression model was used. The results indicated that firms book value, earnings per share, and price earnings ratio are having a significant positive association with firms stock price while dividend yield is having a significant invers association with the market price of the firms stocks. Dhungel (2013) aimed to identify impact of dividend on share pricing in commercial banks of Nepal, The study findings indicate that there is no significant impact of dividend on share pricing in most of the banks and there is significant relationship between earnings per share and share pricing.

Al-Shubiri (2010) aimed to analysis the determinants of market stock price movement for the listed commercial banks in Amman Stock Exchange during the period 2005-2008, Simple and multiple regression analysis is conduct to find out the relationship microeconomic factors with the stock price and found highly positive significant relationship between market price of stock and net asset value per share; market price of stock dividend percentage, gross domestic product, and negative significant relationship on inflation and lending interest rate.

3. RESERCH METHODOGY

3.1. Data Base of Study

The present study has been undertake to investigate the empirical relationship between market price of share (MPS) and accounting or financial indicators (return on equity [ROE], earnings per share [EPS], market price to book value [MPBV], dividend payout ratio [DPR], retention ratio [RR], financial leverage [FL], current account ratio [CR]). For the period 2006-2017, data have been derived from the income statements and the balance sheets of the listed commercial banks published in the Amman Stock Exchange (ASE). <https://www.ase.com.jo>. In addition, data was gathered from books, papers, articles and specialized international journal.

3.2. Sample and Period of Study

The sample population will cover all Jordanian Commercial Banks listed in Amman Stock Exchange (ASE) presented in Table 1.

3.3. Research Variables

The selection of variables and the relationship between accounting indicators and market price of share was primarily guided by the results of the previous empirical studies; Table 2 shows the details of these variables.

3.4. Research Model Specification

The following regression model is used in this study in an attempt to examine the empirical relationship between (return on equity, earnings per share, market price per share to book value per share, dividend payout ratio, retained earnings per share, financial leverage, current ratio) and market price of share, we used model in our research which is as follows:

$$MPS = \alpha + \beta_1(ROE_{it}) + \beta_2(EPS_{it}) + \beta_3(MPBV_{it}) + \beta_4(DPR_{it}) + \beta_5(RPS_{it}) + \beta_6(FL_{it}) + \beta_7(CR_{it}) + \epsilon_i$$

Where:

i = Banks (13) Jordanian Commercial Banks listed ASE

t = Time (2006-2017)

MPS = Market price of share

α = Intercept of regression line

β_1 (ROE) = Coefficient for return on equity

β_2 (EPS) = Coefficient for earnings per share

β_3 (MPBV) = Coefficient for market price per share to book value per share

β_4 (DPR) = Coefficient for dividends payout ratio

β_5 (RPS) = Coefficient for retained earnings per share

β_6 (FL) = Coefficient for financial leverage

β_7 (CR) = Coefficient for current ratio

ϵ_i = Random error.

3.5. Research Hypothesis

H₀₁: There is no relationship between ROE and MPS.

H₀₂: There is no relationship between EPS and MPS.

H₀₃: There is no relationship between PMBV and MPS.

H₀₄: There is no relationship between DPR and MPS.

H₀₅: There is no relationship between RPS and MPS.

H₀₆: There is no relationship between FL and MPS.

H₀₇: There is no relationship between CR and MPS.

Table 1: Jordanian Commercial Banks listed in ASE

Banks name	Date of establishment	Abbreviation	Period of study
Arab Bank	1930	ARBK	2006-2017
Jordan Ahli Bank	1956	AHLI	2006-2017
Bank of Jordan	1960	BOJX	2006-2017
Cairo Amman Bank	1960	CABK	2006-2017
Society General Jordan	1993	SGBJ	2006-2017
The Housing Bank for Trade and Finance	1974	THBK	2006-2017
Jordan Kuwait Bank	1977	JOKB	2006-2017
Jordan Commercial Bank	1978	JCBK	2006-2017
Arab Jordan Investment Bank	1978	AJIB	2006-2017
Bank Al Etihad	1991	UBSI	2006-2017
Arab Banking Corporation (Jordan)	1989	ABCO	2006-2017
Capital Bank of Jordan	2004	EXFB	2006-2017
Invest Bank	1989	INVB	2006-2017

Source: Amman Stock Exchange (ASE), <http://www.ase.com.jo>

Table 2: Details of variables

Abbreviation	Variables	Type	Unit	Equations
MPS	Market price of share	Dependent	JOD	MPS=Closing price of stock at the end of the financial year of the bank has been taken
ROE	Return on equity	Independent	%	ROE=Net profit after interest and tax/shareholder equity
EPS	Earnings per share	Independent	JOD	EPS=Net income - preference dividend/number of equity shares outstanding
MPBV	Marker price to book value	Independent	Times	MPBV=Market price per share/book value per share
DPR	Dividend payout ratio	Independent	%	DPR=Dividends per share/earnings per share
RPS	Retained earnings per share	Independent	JOD	RPS=Retained earnings/number of equity shares outstanding
FL	Financial leverage ratio	Independent	%	FL=Total debit/total assets
CR	Current ratio	Independent	%	CR=Total current assets/total current liabilities

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

The descriptive statistics used in this study consists of mean, standard deviation, minimum and maximum value associated with variables under consideration. Table 3 summarizes the descriptive statistics of dependent and in dependent variables used in this study during the period 2006-2017 associated with 13 samples commercial banks listed of Amman Stock Exchange in Jordan.

The Table 3 summarizes the descriptive shows for 7 variables influencing market price of share of 13 Jordanian commercial banks listed in Amman Stock Exchange (ASE) and results show that mean market price of share (MPS) is 3.2752 JOD over the study period. This variable has minimum value of (0.79 JOD) and maximum one at (29.34 JOD) during the study period. On the other hand, in terms of standard deviation of 3.61412 during the study period. Return on equity variable (ROE) has obtained mean 0.09728 over the study period. This variable has minimum value of (-0.014479) and maximum value at (0.21385) during the study period. In terms of standard deviation ROE registered (0.039539) during the study period. In addition, the table shows that Earnings per share (EPS) has obtained mean 0.22352 JOD over the study period. This variable has minimum value of (-0.02 JOD) and maximum at (0.94 JOD). In terms of standard deviation, EPS registered (0.15695). The variable market price per share to book value per share (MPBV) has obtained mean (1.2925 times) over the study period. This variable has minimum value of (0.54) and maximum value at (4.14), In terms of standard deviation MPBV

Table 3: Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Standard deviation
MPS	156	0.79	29.34	3.2752	3.61412
ROE	156	-0.014479	0.2138528	0.09728	0.039539
EPS	156	-0.02	0.94	0.22352	0.15695
MPBV	156	0.54	4.14	1.2925	0.61312
DPR	156	0	1.3333	0.4588	0.3137
RPS	156	-0.0278275	0.89880	0.20446	0.2151
FL	156	0.7803605	0.90724	0.85702	0.02736
CR	156	0.4337	0.9081	0.63763	0.09980

Sources from STATA version 2012, output

registered (0.61312). Dividends payout ratio (DPR) has obtained mean 0.4588. On the other hand, this variable has minimum value of (0) and maximum value at (1.333%), In terms of standard deviation DPR registered (0.3137). Similarly retained earnings per share (RPS) has obtained mean 0.20446 JOD, This variable has minimum value of (-0.0278275) and maximum value at (0.89880), In terms of standard deviation RPS registered 0.2151. Moreover, financial leverage (FL) has obtained mean 0.85702. This variable has minimum value of (0.78036) and maximum value at (0.90724), In terms of standard deviation FL registered 0.02736 during the study period, current ratio (CR) has obtained mean 0.63763. This variable has minimum value of 0.4337 and maximum value at.9081. In terms standard deviation CR registered 0.09980.

4.2. Correlation Matrix Analysis

A correlation matrix of all variables include in the analysis is presented in Table 4 below, which is calculated based on data of

Table 4: Correlation matrix for dependent and independent variables

Variables	MPS	ROE	EPS	MPBV	DPR	FL	CR
MPS	1.0000						
ROE	0.1258	1.0000					
EPS	0.8144	0.4971	1.0000				
MPBV	0.5948	0.3903	0.4367	1.0000			
DPR	0.1084	0.0135	0.1391	-0.0876	1.0000		
RPS	-0.2201	0.1785	0.4957	0.0100	0.2036	1.000	
FL	-0.1393	0.2352	-0.0220	0.0042	-0.0511	-0.0985	1.0000
CR	0.2571	-0.0256	0.1169	0.1762	0.0006	-0.1392	-0.2315

Sources from STATA version 2012, output

Table 5: Summary of Hausman test results

Hausman test	Chi-square statistic	Chi-square. d.f	P-value Chi-square
Results	13.80	7	0.0548

Sources from STATA version 2012, output

156 observations. The table shows that market price of share is positively associated with return on equity (ROE) and dividends payout ratio (DPR) and current ratio (CR) and strongly with earnings per share (EPS) and market price per share to book value per share (MPBV), On other hand, The table shows that market price of share is negatively associated with retained earnings per share (RPS) and financial leverage (FL).

An overall observation and analysis of all the observed variables (156 in total) revealed and cemented the results of previous studies such as (Yemi and Seriki, 2018), (Siraj, 2016), (Almumani, 2014), (Khan et al., 2011) and anther previous studies. Whose studies show the existence of a strong direct relationship between market price of share and accounting indicators.

Gujarati and Sangeetha (2007) document that if the multicollinearity among two variables is 70% and above, and that through the results of Table 4 in this study we do not find any severe case of multicollinearity as the maximum correlation is 49.7% between return on equity (ROE) and earnings per share (EPS).

4.3. Regression Analysis

The regression results will be obtained using a statistical package namely STATA v.12. In this study entitled “accounting indicators and their impact on the market price of share of commercial banks listed in Amman Stock Exchange” is estimated using panel data analysis. Fixed effect model and random effect model are used to validate the results. To determine the best analysis model to test the hypotheses of the study, researchers used the Hausman test.

The Hausman test is used to select the best model in the test hypothesis of the study by calculating the value of (P-value) of Chi-square. The decision rule is that if (P-value) of Chi-square is lower than 5%, the fixed effect model (FE) is best to test the hypotheses of the study. On the other hand, if (P-value) of Chi-square is >5%, the random effect (RE) is best to test the hypotheses of the study. Table 5 shows the results of the Hausman test.

Table 5 shows that the probability value of the statistic is Chi-square = (P-value = 0.0548 >5%), this means that the best model for testing hypotheses is the random effect model. Table 6 shows

the results of the regression analysis according to the random effect model.

The regression analysis for model (random effect), which is our general model, revealed an R-squared = 0.8032 which means that 80.32% of the variation in market price of share in commercial banks listed Amman Stock Exchange (ASE) is explained by variables include in the present study. The P-value of F-test also shows significance at 1% level. The coefficient of variation (β) which explains the direction of variability is positive for ROE, EPS, PMBV, DPR While it is negative for RPS respectively. The regression results showed a positive impact with significance at 1% level for ROE, EPS, PMBV, DPR, The coefficient (P-value) for ROE, EPS, PMBV, DPR were 42.83 (0.000), 23.059 (0.000), 1.995 (0.000), 0.5147 (0.005) respectively. Thus, our null hypothesis for the aforesaid variables are rejected at 1% significance level and the alternative hypothesis is accepted, thus documenting the positive effect of the aforesaid variables on market price of share. The results were consistent with the findings of (Yemi and Serki, 2018), (Arshad et al., 2015), (Almumani, 2014), (Thunaibat, 2014). This shows that market price of share is significantly and positively affected by a high return on equity, increasing market price per share to book value per shares, higher dividend payout ratio, and increased earnings per share. This suggests that an upward trend in these variables will automatically cause an increase in the market price of shares as investors show a preference for these stocks.

The variable retained earnings per share (RPS) showed a negative relationship with market price of share and the results were significant at 1% level. This results is consistent with the results of (Munir et al., 2017). The results also reveal a negative relationship between financial leverage for commercial banks and market price of share and the result is not statistically significant (P-value = 0.718) this result is consistent with the results of some previous studies of such as: (Thunaibat, 2014), on the other hand, The results show a positive relationship between current ratio (CR) and market price of share but the result is not statistically significant (P-value = 0.440). And Table 7 shows a summary of the results of the hypothesis test.

5. CONCLUSION AND RECOMMENDATION

The main aim of this study was to examine the empirical relationship between accounting indicators: Return on equity (ROE), earnings per share (EPS), market price per share to book

Table 6: Results of random effect regression (RE)

MPS	Coefficient	Robust standard error	Z-statistic	P-value
ROE	42.83522	5.826972	7.35	0.000
EPS	23.05991	1.584127	14.56	0.000
PMBV	1.995131	0.5003569	3.99	0.000
DPR	0.514739	0.1824203	2.82	0.005
RPS	-3.0122604	0.7242645	-4.16	0.000
FL	-1.039753	2.880511	-0.36	0.718
CR	0.9905334	1.281918	0.77	0.440
Constant	0.3483694	2.742917	0.13	0.899

Dependent variable: MPS, time period: 2006-2017, number of group: 13 Jordanian Commercial Banks, number of observations: 156, R-square=0.8032, F-statistic=1701.01, P value (F-statistics)=0.000. Sources from STATA version 2012, output

Table 7: Summary of hypothesis test

Hypothesis statement	P-value	Relationship type	Null hypothesis conclusion	Alternative hypothesis conclusion
H ₀₁ : There is no relationship between ROE and MPS	0.000	Positive	Rejected	Accepted
H ₀₂ : There is no relationship between EPS and MPS	0.000	Positive	Rejected	Accepted
H ₀₃ : There is no relationship between PMBV and MPS	0.000	Positive	Rejected	Accepted
H ₀₄ : There is no relationship between DPR and MPS	0.005	Positive	Rejected	Accepted
H ₀₅ : There is no relationship between RPS and MPS	0.000	Negative	Rejected	Accepted
H ₀₆ : There is no relationship between FL and MPS	0.718	Negative	Accepted	Rejected
H ₀₇ : There is no relationship between CR and MPS	0.899	Positive	Accepted	Rejected

value per share (MPBV), dividend payout ratio (DPR), retained earnings per share (RPS), financial leverage (FL), current ratio (CR) and market price of share (MPS) of Jordanian commercial banks listed in Amman Stock Exchange (ASE) for the period 2006-2017.

The empirical results reveal a positive and significant relationship between ROE, EPS, MPBV, DPR and market price of share. In addition, the regression results showed that the rate of return on equity and earnings per share were the most influential variables in the market price per share for commercial banks. Similarly, the regression result shows that retained earnings per share has negative and significant relation with market price of share, on the other hand, financial leverage variable has a negative but insignificant relationship with market price but current ratio variable has a positive and insignificant relationship with market price of share. The present study recommended that investors in Amman Stock Exchange (ASE) should be attention to the accounting indicators in general and (ROE, EPS, MPBV, DPR) in particular in order to build their investment decision.

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