

DETERMINANTS ON SHARE PRICES BEHAVIOUR OF BURSA MALAYSIA STOCK EXCHANGE

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Abstract. The main purpose of this study is to examine the determinants of share price behaviour of Bursa Malaysia Stock Exchange. There are 50 public listed companies were selected randomly from Bursa Malaysia main market. The period of the present study is from 2007 until 2016. Share price is chosen as dependent variable while dividend per share, return on equity, size of firm, and price earnings ratio have been chosen as independent variables in this study. Based on the findings, the results show that dividend per share, return on equity, and size of firm are significant with share price behaviour while price earnings ratio is not significant.

Introduction

The stock price behaviour is the one of the significant information in making decision for investment in stock market. Equity investment is depends on price of share because it is act as an indicator to investors whether they should invest or not in a particular share. According to Gill, Biger, & Mathur (2012), the most important element that becomes an indicator for investors to make investment decisions is share price. It is because the share price is not stable and fluctuates extremely with the news about fundamentals primarily due to irrational market (Shiller, 1981). Some researchers might say that the share price behaviour is depending on the demand and supply of shares. Although, Haque & Faruqee (2012) proved that fluctuation of the share price is controlled by two factors which are fundamental and technical factors.

The stock price behaviour can be determined by many factors. One of the factors is dividend per share (DPS). Sukhija (2014) proved that there is a positive effect between DPS and share price behaviour. The result has been agreed by Lebbe & Rauf (2016) found that the DPS has significant impact and positive relationship to the share price behaviour. Yet, there still have researchers against the result given. From the result by Srinivasan (2011), there is a negative relationship and significant impact between DPS and share price behaviour of pharmaceutical, energy, manufacturing, and infrastructure sectors in India. However, Haque & Faruqee (2012) found there is no relationship between DPS and market price of share. Secondly, the factor that can determine the stock price is return on equity (ROE). According to Sharif, Purohit, & Pillai (2015) found the effects of ROE on share price behaviour. Khan (2012) agreed with the finding as he also found that ROE has significant impact and positive with share price behaviour. However, the result found by researchers from Indonesia Deitiana & Chriselda (2017) that a there is no effect between ROE and share price behaviour.

Thirdly, the factor to determine the price of stock is size of firm (SIZE). Pradhan & Dahal (2013) found that SIZE is the most factors that have positive and significant impact towards share price behaviour. In addition, study done by Srinivasan (2011) identified that SIZE has a significant impact to determine the share price behaviour in five major sectors in India. In contrast, there still have some other researchers found another result about the SIZE towards share price behaviour. As such Almumani (2014) found that negative relationship result between the SIZE and share price behaviour. In turn, study done by Singh & Sharma (2011) found that there is no significant impact of SIZE and share price behaviour.

Lastly, the factor used to determine the share price is price earnings ratio (PE). As the result gather by Khan & Amanullah (2012) found that positive and significant effects of PE relatives with share price. This means that when the PE increases, the share price increase. The statement was supported by Malhotra & Tandon (2013) where PE has significant positive impacts with share price. Unfortunate, the result found by Arshad, Arshaad, Yousaf, & Jamil (2015) is against the previous literatures. They found that there is no relationship between PE and share price behaviour. It was supported by Githinji (2011), found that there is an insignificant relationship between PE and share price behaviour.

From the previous study can be concluded that DPS, ROE, SIZE and PE influence the share price behaviour in literature. However, in the real world today, there still have some investors experience huge losses in investment on stock market (Mahavera, 2017). Therefore, this study is motivated in order to fill the gap by providing factors influencing share price behaviour on public listed companies of Bursa Malaysia Stock Exchange, which is focused in Malaysian stock market.

Literature Review on Share Price Behaviour

Study done by Singh & Sharma (2011) to examine the relationship between explanatory variables and price of share in Indian corporate sector of Bombay Stock Exchange. The samples are taken about 160 companies from six industries which are cotton textile, electrical, general engineering, iron and steel, chemical, and miscellaneous. The ranges for collecting data are 5 years starting from 2001 to 2005. The method of Linear Multiple Regression has been applied to complete the study. Based on the result, it shows that book value per share, dividend per share, earning per share, and price earning shows positive and significant relationship with market price of share while cover, payout, size, and return on capital employed shows positive but insignificant relationship with price of share.

Lebbe & Rauf (2016), study to investigate the past of fluctuations in stock prices behaviour in Sri Lanka among the hotel sector. About 12 hotels chosen as samples that listed in Colombo Stock Exchange which can provide adequate information that needed. The data were collected from the year of 2000 until 2014. The method used for the study is correlation analysis and multiple regression analysis. The finding shows that DPS has a positive correlation with the stock price behaviour.

Sharif et al. (2015) studied to identify the main determinants affecting share prices in the Bahrain financial market. The study use samples of 41 companies from sectors of investment services, commercial banks, insurance companies, tourism, industrial sector, services, and non-Bahraini companies that listed in Bahrain Stock Exchange. The period of the study covers from 2006 to 2010 which is 5 years. The method used in the study is ordinary least squares. Based on the findings, ROE shows positive and significant relationship towards share price.

Pradhan & Dahal (2013) had done a study of examining the factors that affects the share price behaviour among commercial banks in Nepalese. As samples, total of 14 commercial banks listed in Nepalese Stock Exchange were selected to gather the information. Data collected starting from year 2002 to 2014. Model that used in the study is multiple regression models because it can used to test the impact of internal and external factors towards share price behaviour of Nepalese commercial banks. The finding is that SIZE has significant and positive relationship with the share price behaviour.

Study has done by Githinji (2011) on the determinants the relationship between price earnings ratio and stock prices of companies quoted at the Nairobi Stock Exchange. The study uses 50 companies as samples after some selection. The data were collected for a four year period beginning from 2007 until 2010. The methods of the study are descriptive analysis, correlation analysis and regression analysis. Therefore, it shows that PE has a positive relationship but not significant with share price.

Methodology

In this study, there are 50 public listed companies in Bursa Malaysia Stock Exchange had been chosen randomly. The data are collected for 10 years starting from 2007 to 2016 of annual report of the firm, total dividend, number of outstanding shares, net income, total shareholders' equity, total assets, price of share, and earnings per share. The study use secondary data and all the data are collected from DataStream. Frequency of data will be on yearly basis.

The dependent variable is share price. It is a closing price of stock at the end of the financial year of the bank (Sharif et al., 2015). Meanwhile, for the first independent variable, it is dividend per share. It is the total amount (dividend) paid to equity shareholder divided by number of equity shares outstanding (Srinivasan, 2011). The second variable is return on equity. The measurement for return on equity is profit after tax divided by shareholders' equity (Khan, 2012). The third variable is size of firm. It explains natural logarithm of assets using total assets (Enow & Brijlal, 2016). The last variable is price earnings ratio which is share price divided by earnings per share (Enow & Brijlal, 2016).

The ordinary least square regression model is used for the study. Equation 1 below shows the research model applies in this present study.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon \quad (1)$$

Where,

Y represent multiple regression, α is a constant, β is the slope which represent coefficient for X1 is DPS, X2 is ROE, X3 is SIZE, X4 is PE, and X5 is LAG1SP. Based on this model, it shows that this study wants to determine the determinants between share price behaviour with DPS, ROE, SIZE, PE, and LAG1SP.

Findings and Analysis

Descriptive Analysis. The purpose of applying the descriptive statistical analysis is to understand the characteristic of the

data in the present study. Table 1 reported the descriptive statistic of all variable in this study.

Table 1: Descriptive Statistical Analysis

	SP	DPS	ROE	SIZE	PE	LAG1SP
Mean	5.4174	0.1921	13.5127	14.1480	58.9178	5.4268
Maximum	78.2000	2.9500	99.3562	17.5588	22623.1700	78.2000
Minimum	0.0530	0.0000	-29.3380	11.7119	-646.1046	0.0530
Std. Dev.	9.2559	0.3589	12.3428	1.2670	1013.3460	9.2537
Skewness	4.4168	4.2476	2.8489	0.3791	22.1918	4.4171
Kurtosis	28.4895	25.5683	17.1160	2.5878	494.6476	28.4983
Observations	499	499	499	499	499	499

The first variable is SP. The mean for SP is 5.4174. Then, the maximum and minimum numbers for SP is 78.2000 and 0.0530 respectively. The standard deviation for SP is 9.2559. The result of skewness and kurtosis for SP are 4.4168 and 28.4895 respectively. The second variable is DPS. The mean for DPS is 0.1921. Then, the maximum and minimum numbers for DPS is 2.9500 and 0.0000 respectively. The standard deviation for DPS is 0.3589. The result of skewness and kurtosis for DPS are 4.2476 and 25.5683 respectively. The third variable is ROE. The mean for ROE is 13.5127. Then, the maximum and minimum numbers for ROE is 99.3562 and -29.3380 respectively. The standard deviation for ROE is 12.3428. The result of skewness and kurtosis for ROE are 2.8489 and 17.1160 respectively.

The fourth variable is SIZE. The mean for SIZE is 14.1480. Then, the maximum and minimum numbers for SIZE is 17.5588 and 11.7119 respectively. The standard deviation for SIZE is 1.2670. The result of skewness and kurtosis for SIZE are 0.3791 and 2.5878 respectively. The fifth variable is PE. The mean for PE is 58.9178. Then, the maximum and minimum numbers for PE is 22623.1700 and -646.1046 respectively. The standard deviation for PE is 1013.3460. The result of skewness and kurtosis for PE are 22.1918 and 494.6476 respectively. The last variable is LAG1SP. The mean for LAG1SP is 5.4268. Then, the maximum and minimum numbers for LAG1SP is 78.2000 and 0.0530 respectively. The standard deviation for LAG1SP is 9.2537. The result of skewness and kurtosis for LAG1SP are 4.4171 and 28.4983 respectively.

Correlation Analysis. Table 3 above shows that column two (SP) is the correlation between dependent variable and independent variables. The column (DPS), (ROE), (SIZE), (PE) and (LAG1SP) are among independent variables. Based on the second column, SP has positive linear correlation with DPS, ROE, SIZE, LAG1SP but a negative linear correlation with PE. The linear correlation between SP and DPS is at 85.24% and significant at 1%. For the SP and ROE, the linear correlation is at 57.06% and significant at 1%. For SP and SIZE, the linear correlation is at 27.05% and significant at 1%. For the SP and LAG1SP, the linear correlation is at 88.25% and significant at 1%. For SP and PE, the linear correlation is at -1.89% and it is not significant. Based on the third column, DPS has positive linear correlation with ROE, SIZE, LAG1SP but a negative linear correlation with PE. The linear correlation between DPS and ROE is at 56.78% and significant at 1%.

For the DPS and SIZE, the linear correlation is at 14.80% and significant at 1%. For DPS and LAG1SP, the linear correlation is at 74.03% and significant at 1%. For SP and PE, the linear correlation is at -1.97% and it is not significant. Based on the fourth column, ROE has a positive linear correlation with LAG1SP but negative linear correlation with SIZE and PE. The linear correlation between ROE and LAG1SP is at 49.18% and significant at 1%. For ROE and SIZE, the linear correlation is at -14.71% and significant at 1%. For ROE and PE, the linear correlation is at -4.84% and it is not significant. Based on the fifth column, SIZE has positive linear correlation with PE and LAG1SP. The linear correlation between SIZE and LAG1SP is at 23.38% and it is significant at 1%. For the SIZE and PE, the linear correlation is at 1.25% and it is not significant. Based on the sixth column, PE has a negative linear correlation with LAG1SP. The linear correlation between PE and LAG1SP is at -1.79% and it is not significant.

Table 3: Correlation Analysis

Correlation	SP	DPS	ROE	SIZE	PE	LAG1SP
Probability						
SP	1.0000					

DPS	0.8524	1.0000				
	(0.0000)	-----				
ROE	0.5706	0.5678	1.0000			
	(0.0000)	(0.0000)	-----			
SIZE	0.2705	0.1480	-0.1471	1.0000		
	(0.0000)	(0.0009)	(0.0010)	-----		
PE	-0.0189	-0.0197	-0.0484	0.0125	1.0000	
	(0.6740)	(0.6600)	(0.2809)	(0.7809)	-----	
LAG1SP	0.8825	0.7403	0.4918	0.2338	-0.0179	1.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.6899)	-----

Ordinary Least Square Regression Analysis. Table 4 shows the result of regression model. Based on the table, it indicates that the R-squared (R²) is 0.8799. It means that 87.99% changes in the SP can be explained by the independent variables which are DPS, ROE, SIZE, PE, and LAG1SP while the other 12.01% from dependent variable cannot be explained by the independent variables. It also shows the result for the F-test. The significant value should be less than 0.05. Based on the F-statistic result, the significant value for the variable is 0.0000 which is less than 0.05. Consequently, there is a statistical significant relationship between all the independent variables and also the dependent variable. The coefficient for DPS is 10.2222, ROE is 0.0838, SIZE is 0.7991, PE is 0.0000 and LAG1SP is 0.5087. The coefficient for all independent variables shows the positive signs which mean a positive correlation between SP with DPS, SP with ROE, SP with SIZE, SP with PE, and SP with LAG1SP. Based on the result above, an increase in the DPS, ROE, SIZE, PE, and LAG1SP will cause increase in SP. In addition, using the p-value it shows that DPS, ROE, SIZE, and LAG1SP are significant at 1% but PE is insignificant since the value is greater than 0.01.

Table 4: Regression Analysis

Variable	Coefficient	t-Statistic	Prob.
C	-11.7462	-6.5714	0.0000***
DPS	10.2222	15.9553	0.0000***
ROE	0.0838	5.5366	0.0000***
SIZE	0.7991	6.4604	0.0000***
PE	0.0000	0.1335	0.8939
LAG1SP	0.5087	21.1168	0.0000
R-squared	0.8799	F-statistic	722.4981
Adjusted R-squared	0.8787	Prob (F-statistic)	0.0000

***Significant at 1% level

Discussions and Conclusion

Based on the findings, the present study the DPS is significant relation with share price behaviour. This result is consistent with the previous study because the result is same. It founded that there is positive correlation between DPS and share price behaviour. According to Lebbe & Rauf (2016), which the study found the same result as DPS has positive relationship and significant towards share price behaviour. It has been agreed by Sukhija (2014), in their study, the finding shows that DPS has a positive effect between DPS and share price behaviour.

The present study also found that ROE has a positive correlated with share price behaviour and it is significant. It is also consistent with previous study. According to Sharif et al. (2015), the result shows that there is a positive and significant relationship between ROE and share price behaviour. It was supported by Khan (2012), who also has a same result which is ROE has positive and significant impact towards share price.

The finding also found that SIZE is positive relation with share price behaviour and it is significant. The research is consistent with the past research because the result is same such as Srinivasan (2011). The researcher shows that there is a significant and positive relationship between SIZE and share price behaviour. In addition, Pradhan & Dahal (2013) also found the same answer that SIZE is the most influence factor that has positive and significant impact towards share price behaviour.

The present study also found that PE is positive correlated with share price behaviour but not significant. It is also consistent with previous study. It has been proved by Arshad et al. (2015), which they found that PE has positive relationship but insignificant with share price behaviour. Githinji (2011) also found the same result which is PE is not significant with share price behaviour.

In short, three of four variables are significant to share price behaviour which is DPS, ROE, and SIZE while PE is not significant to share price behaviour. It is recommended to future researchers are to clearly understand about the main idea on determinant of share price behaviour. Furthermore, future researchers are recommended to include other new variables that relate to determine the share price behaviour such as liquidity, return on asset, and earnings per share.

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