

RARE

AN ASSESSMENT OF THE INFLUENCE OF VARIOUS
FUNDAMENTAL FACTORS ON SHARE PRICE

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Abstract

There are several fundamental factors which are determinants of equity share price in Sri Lanka. Out of them, this study focuses on cooperate financial economic factors; earning, growth, leverage, risk and company size.

Many of the previous theoretical and empirical studies that have been reviewed various aspects of equity share valuation, have been used to formulate a foundation for the study. To assess the relative influence of the above mentioned fundamental factors on share price, regression analysis was used and continuous cross-section analysis carried out with log linear regression model for the period 1993 - 2001. The sample of study is selected from companies listed in the Colombo Stock Exchange. The sample consisted of 30 companies from a group of 239 companies in all industries except the banks, finance and insurance industries.

Result shows that dividend appears to be a powerful influence on share than growth and retained earnings. Business risk and financial risk cannot to be assessed which are redundant variables. This means there are relatively free from major risk in Sri Lanka Stock Market. Company size having a considerable influence on share prices in which large companies enjoy high value of share.

On the basis of these findings the following conclusions were made about the Stock Market in Sri Lanka.

“The market for equity shares is not very sophisticated in its valuation. It goes mainly by dividend and company size factors which are readily measurable. The influence of Growth factor is not significant.”