

**The Internal Financial Determinants of Common Stock Market
Price: Evidence from Abu Dhabi Securities Market**

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Abstract

This study investigates the effect of Earnings per Share (EPS), Dividends per Share (DPS), and Book Value per Share (BVPS) on stock market prices in Abu Dhabi Securities Market. All listed companies in the Abu Dhabi Securities Market are included in this study except those companies which were listed after the starting of year 2002. In addition, those companies which had been prevented from trading in the market for one year or more during the years from 2002 to 2006 were also excluded because the available data of these companies are not adequate. As a result, among the 60 listed firms in Abu Dhabi Securities Market, 22 were excluded. Four hypotheses are under consideration in this study. The simple linear regression method was used to test the first three hypotheses based on t-test, while the multiple linear regression method was used to test the last hypothesis based on F-test. Moreover, the correlation method is used to support the findings. The current study found a significant effect of EPS and BVPS on stock market price in the Abu Dhabi Securities Market, whereas no significant effect of DPS was found.

Key words: Common stock, Earnings per Share, Dividends per Share, Book Value per Share, Retained Earnings, Securities Market.

Introduction

Many people believe that a stock market is just a place for trading securities among buyers and sellers. Actually, a stock market allocates savings efficiently to ultimate users, so it enables the economic units to use more than their total savings for investing in real assets. A stock market enables lenders and users of money to satisfy their own needs (*Brewers et al, 1999*). Moreover, a stock market provides the essential requirements of investment because users of money will use these extra amounts in producing goods and services. In addition of satisfying the needs for money to investors and the need for return for those who have extra amounts of money, a stock market plays a vital role in economic growth (*Van Horne, 1986*). Economic growth cannot be achieved in a country unless efficient stock market is available. Moreover, the periodic stock dividends and interests are considered the main source of income to some people in different countries.

Most stock markets in the Arab and Middle East countries were established only a few years ago, so the nature and workings of these stock exchanges differ from those of similar organizations in more developed countries such as the USA, Japan, and England. Abu Dhabi Securities Market is one of the most recently established stock exchanges in the Arabian Gulf and the Middle East areas as a whole.

Common stock is the most common type of traded securities in most stock markets, because most corporations can finance their operations through the issuance of common stocks. Many corporations prefer this to the use of bonds or other debt securities, because common stocks do not add new obligations or risk to these corporations.

Nobody can deny that common stock prices may change daily and sometimes these changes occur from time to time during the same day because of the effect of demand and supply for stocks. When demand for a stock increases, the price of that stock will also increase, but when the supply of that stock increases, its price will decline. Demand and supply for a common stock may increase or decrease because of the effect of numerous factors or determinants. Many prior researchers classified those determinants into three categories: (1) company fundamentals (internal factors), (2) external factors, and (3) market behavior (*White, et al. 2003*). Earnings per share (EPS), dividends per

share (DPS), and book value per share (BVPS) are the most important internal financial factors affecting common stock market prices (*Al-Deehani and Al-Thamer, 2008*). The current study concentrates just on these three internal financial factors.

Determining the internal financial factors affecting common stock prices in a stock exchange is a very important issue to many parties such as investors, stockholders, and management. Unfortunately, researchers are not certain yet about all of these determinants, but some of them have been determined. Determining the most important factors affecting common stock prices is important to decision makers, whether these users are internal users (managers) or external users such as stockholders, investors, creditors, etc.

Many stockholders lost large amounts of money during the recent few years, possibly because they may lack the ability to determine the correct time to buy or sell common stocks and because they do not have the ability to identify which stock to purchase or sell, and how many stocks to purchase. Moreover, most losers of money in stock exchanges are normally among small investors and stockholders. The problem of the current study appears as a result of the large amounts of money this group of investors lose. This problem can be solved, and the amounts of these losses may be reduced if investors have enough information and have the ability to predict the expected future stock market prices. Many investors and stockholders are low educated people in the environment of stock markets, or not professionals in trading common stocks in stock markets. In brief, the problem of this study can be well presented through the following two questions: What are the most important internal financial factors affecting the common stock market prices? How can the process of trading common stocks be improved, so stockholders and investors in these stock exchanges can avoid, or at least, reduce their loss?

Two stock exchanges are available nowadays in the United Arab Emirates (UAE); Abu Dhabi Securities Market and Dubai Stock Exchange. Abu Dhabi Securities Market was established at the beginning of 2001, so this stock exchange is newly emerged. As a result, the nature of work in this stock exchange may differ from other stock exchanges within or outside the Arabian Gulf area, so the current study attempts to identify the most important internal financial

factors affecting stock prices in this stock exchange. The objectives of the current study can be summarized to be as follows:

1. To increase the current available literature about common stock market prices.
2. To highlight why a common stock price may increase or decrease.
3. To investigate the separate effect of each of EPS, DPS, and BVPS on a common stock market price.
4. To determine the entire effect of EPS, DPS, and BVPS as a whole on a common stock market price.

The current study may be beneficial to many parties such as, investors, stockholders, and managers, because this study provides the opportunity to each of these parties to avoid some of unexpected negative results. Moreover, because stock exchanges are necessary for the economic growth in our modern economies, this study can be considered important, because it investigates one important economic aspect. This study comes to investigate the role that the most internal financial factors play in determining the common stock market price; so, it determines the effect of EPS, DPS, and BVPS on common stock market prices in Abu Dhabi Securities Market. The current study stems its importance from the importance of stock markets in a society. Whenever efficient stock markets are available, a healthy economic will be found. The availability of efficient stock markets in the most developed countries is considered clear incentives for the relationship between efficient stock markets and developed economies. The importance of this study increases when the need for a clearer relationship between the internal financial factors and the common stock market prices becomes more apparent to those who trade stocks in the available stock exchanges. The current study is considered a part of the efforts devoted in this direction.

This study differs from the previous related studies. It takes place in Abu Dhabi Securities Market, on which there had not been enough studied because of its recent emergence, so it enriches the available information about trading common stocks in Abu Dhabi Securities Market. Moreover, this study involves just the most important internal financial determinants of common stock prices, where some prior research found that these factors affect common stock market price in other stock markets. Many previous studies examined the relationship

between each internal financial factor and the stock market price through studying the effect of the change in each of these internal financial determinants and the stock market price, while this study investigates the relationship between the absolute values of each of these three determinants and common stock market prices in Abu Dhabi Securities Market, so this study simplifies the issue, and highlights these determinants using an easier method. Moreover, this study involves all listed companies in Abu Dhabi Securities Market during the period from 2002 to 2006, and excludes any common stock that had been prevented from trading in the stock exchange for one year or more during these five years of time, while most previous studies depend on samples selected among the listed companies in a related stock market.

The next section presents the related literature and reviews some of the prior researches that are classified in the field of this study. Based on the revision of the related literature and prior researches, the hypothesis of the current study are developed and formulated in a manner that reflects the purposes of this study. These hypotheses exist in a separate section which follows directly after the section on related literature. A separate section is available in the body of this study to present the methodology of the study, which is followed directly by a section for the results. The last section is used to present the conclusions of this study.

Related Literature and Prior Researches

Many interested researchers used historical information to predict related future outcomes. For example, Fair (2002), and Liu (2006) examined the historical data of stock markets in USA during 1980s and 1990s, where Fair used short-term data, and Liu used daily data. Other prior researchers used historical data to examine the relationship between stock prices and stock performance. Batchelor and Orakcioglu (2003), Lettau and Ludvigson (2005), and Lee (2006) are examples of these. Stock market volatility was also among the interests of many researchers. Examples of these are: Ray and Tsay (2001), Areal and Taylor (2002), and Al-Deehani and Al-Thamer (2008). This section provides the most important information of common stock prices, EPS, DPS, and BVPS. In addition, the current

section presents some of the related prior researches to the title and content of the current study.

The majority of the above mentioned studies were conducted in the developed and western countries, while few of them were carried out in developing countries. The findings of the studies carried out in developed countries cannot be generalized to stock prices and stock markets of developing countries because of major differences between these two environments of stock markets.

A common stock is defined as the residual corporate interest that bears the ultimate risks of loss and receives the benefits of success (*Kieso and Weygandt, 2006*). Because of that, common stocks are classified as the most risky traded securities in stock exchanges. Therefore, there are no guaranteed dividends to common stockholders, and there are no guaranteed rights to them in the assets of the company when that company is liquidated. When a company is liquidated, lenders have the first priority to receive their rights, followed by preferred stockholders, while common stockholders receive the rest of the liquidation results after these two parties receive their interests. The remaining amounts after creditors and preferred stockholders have been paid can be received by common stockholders. As a result, common stockholders may or may not receive the results of dissolution, or they may just receive a portion of these results, and rarely do they receive all of their rights.

Prior researchers used several ideas to present the stock price returns. For example, some of them used the percentage change in stock price to present stock prices (see Beaver, (1968), and Moosa and Al-Deehani, (2001)). Other prior researchers used the absolute price change and the squared change. Stochastic volatility was also used to present the stock returns, (Shephard, 1996). Moreover, some prior researchers used the extreme value of variance, (Garman and Klass, 1980). One of these methods can be used to present the stock price returns, but using a hybrid of two or more methods is possible.

Most prior researches used EPS to interpret the changes in the common stock prices, (for example, Beaver (1968), Ramadan (1989), and Abdullah (1993)). EPS is defined as earnings divided by the number of common shares outstanding (*Gibson, 2001*). In other words, it is the amount of income earned on a share of common stock

during the accounting period. Because of its importance to users of accounting information, EPS should be presented by incorporation at the bottom of their income statements. To compute EPS in a more accurate manner, information about net income declared and accumulated preferred stock dividends when they exist, and the number of common shares outstanding should be available. (*Gibson, H, 2001*).

Two measures are used to determine the value of EPS. One takes into consideration the treasury stocks when they exist, so the amount of the purchased treasury stocks should be deducted from the total number of stocks outstanding. The second measure takes into account all stocks whether they are treasury stocks or common stocks (*Kieso and Weygandt, 2006*). The second measure was used for the purposes of this study, so this study does not take into consideration the treasury stocks when available.

Some people believe that a relationship should exist between EPS and DPS, because when a company does not achieve net income for many continuous periods, it will not be able to pay cash for its common stockholders, and when EPS is high along many continuous periods, DPS will also be high, because in this case, the company will not be able to retain any extra amounts of cash for a long period of time, so it will pay high amounts of money to its stockholders. In fact, this relationship may exist in some companies where the company is highly profitable and when the company has no plans of new investments, new products or services, or new plans to enter new markets. The relationship between EPS and DPS is not the general case, because most companies have annual plans to expand their investments and processes, so these companies find that it is easier to use their retained earnings to finance these new projects and investments. As a result, this assumed relationship cannot be accepted as a fact, but it may also exist in some companies under such circumstances. In summary, many factors have to be considered before the board of directors declares dividends to common stockholders, among these are (*Van Horne, 1986*); (1) funds needs for the company, (2) liquidity, (3) ability to borrow, (4) assessment of any valuation information, (5) control, and (6) restrictions in bond indenture or loan agreement. Whether the relationship between EPS

and DPS is available or not, many researchers investigated the effect of DPS on the variability of common stock prices.

Dividends are distributions of cash to stockholders that reduce retained earnings, so it reduces stockholders' claim arising from the generation of net income (*Horngren, 1984*). The authority to declare dividends belongs to the corporation's board of directors. A company's ability to pay dividends arises from its profitability. DPS is the amount of money distributed to each common stock. Determining DPS can be found through dividing the total amount of declared dividends to common stockholders by the weighted average number of common stocks outstanding (*Gibson, 2001*).

Book value per share indicates the related amount of stockholders' equity to each common stock outstanding. The change in a company's BVPS can be determined through deducting BVPS of the prior accounting period from the same value of the current period.

Common stock prices are changeable from time to time, and sometimes those prices change daily in a dramatic way. The price of a common stock is determined in the stock exchange to reflect the financial performance of a company. When the buyers' demand for a stock is higher than the sellers' supply of that stock, that common stock price tends to increase, while it will decline when the supply of that stock is higher than the demand for it. Moreover, demand and supply for a stock do not change arbitrarily, but they reflect the announced information of the company itself.

Maximizing stockholders' wealth is the most important goal that managers want to attain. This goal can be achieved through increasing the common stock prices in the stock market. Theoretically, when the financial performance of the firm is acceptable based on the announced financial information, the demand for the stock will increase, and therefore, its market price will increase. The issue is completely different when the announced financial information is unacceptable. In this case, the supply of that stock will increase, so this will lead to a decline in the market price of that stock.

A high number of related researches to common stock prices had been conducted in the securities exchanges of the developed countries, especially in the United States and some European countries, while few research examined the determinants of common stock prices in

the stock exchanges of Arab countries, because the doors of most Arab stock exchanges have only recently opened for trading securities. Abu Dhabi Securities Market is one among these stock exchanges which was established in 2001. In the remainder of the current section, selected researches and their important findings are presented.

The most recent study concerning the stock market prices was carried out by Uddin (2009) in Dhaka to model the equity return of financial services firms. The author states that Dhaka Stock Exchange in Bangladesh is inefficient in weak form. Thus, he used the multiple regression analysis to find out the relationship microeconomic factors with the stock price. Using multiple regression analysis, the study found a significant relationship between market price of stock and net asset value per share; market price of stock and dividend percentage; and market price of stock and earnings per share of market returns of bank leasing and insurance companies of Dhaka Stock Exchange in Bangladesh. Moreover, the study found insignificant nonlinear relationship among the variables at 95 percent level of significance. In this study, the author recommends that future research can be conducted considering macroeconomic factors like money supply, inflation rate, exchange rate, interest rate etc.

One study carried out by Al-Deehani and Al-Thamer (2008) and was in Kuwait. The main objective of this study was to investigate the incremental effect of corporate governance on stock price variability by controlling some established variables. One of the other objectives is to add knowledge by examining the asymmetric effects of the established controlling variables which include the change in EPS, the change in book value per share, and the change in cash dividends on stock price variability. Cross-sectional data of the period 2003-2005 for most of the listed companies in Kuwait Stock Exchange was used in this study. This study concluded that there is insignificant incremental effect of the corporate governance on stock variability, while the study provided strong evidence for the existence of asymmetric effects of the controlling explanatory variables on stock price variability.

Pourheydari, Aflatooni, and Nikbakhat (2008) compared the combined value relevance of dividends and book value versus combined value relevance of earnings and book value, and

investigated their relationship with market value of stock in Tehran Stock Exchange. One of their findings is that dividends have large information content and thus, have very important role in stock valuation. The last finding of this study is that the major part of combined value relevance of book value and earnings is related to earnings, and the major part of combined value relevance of book value and dividends is related to dividends.

To determine the most important intra-day determinants of stock price changes and asymmetric information, Ting (2007) carried out a study which presented a synthesized model of asymmetric information. He used an empirical analysis of more than 1,400 NYSE common stocks. This empirical analysis revealed that the trade direction is more important than volume in revealing the asymmetry. The analysis found evidence which suggests that signed duration reflects informed trading activity. Using the proposed measure of information asymmetry to study the daily variances in stock prices in the level of informed trading, he found that earnings announcements narrow the information gap between the informed and uninformed trading activity. This study also revealed that, on average, information asymmetry is large at the day starting and decreases along the day to reach its lowest by the day end. Moreover, the study mentioned that the asymmetric information measure is negatively related to the number of shareholders, number of analysts, and to the exchange-traded equity option written on the firm's stock. As a result, the author found that the company can reduce information asymmetry by implementing disclosure measures that attracts investors, analysts, and option writers.

A related study to internal financial factors affecting stock prices was carried out by Lee (2006), who employed two types of aggregate index data: annual Dow Jones industrial average index data for the sample period 1920-1999, and annual Standard and Poor's 400 industrial index data for the sample period 1946-1999. This study concluded that investors overreact to nonfundamental information but underreact initially to fundamental information such as book value, earnings, and dividends. Another conclusion of this study is that the residual income model provides a better valuation than the dividend discount model.

Weber and Rosenow (2006) carried out a related study to investigate large stock price changes of more than five standard deviations. They tried to explain the effect of two factors: large fluctuations in trading volume and time varying liquidity. In this study, the authors argued that a large trading volume alone is not a sufficient explanation for large price changes. Little evidence supporting the assumption that extreme stock price changes are caused exclusively by a large trading volume was found. Through using order book data, the authors reconstructed the price impact of trading volume for all time intervals with returns larger than five standard deviations. They found that the price impact in these time intervals is much stronger than the average one and that such an anomalously large price impact is a necessary prerequisite for the occurrence of extreme price changes. Moreover, the study concluded that the combined effect of trading volume and time varying liquidity can account for extreme price changes quantitatively.

An empirical study carried out by Terregrossa (2005), combined fundamental intrinsic-value theory with modern-portfolio theory to help discern the main determinants of common-stock valuation. This study started based on the question: What do investors capitalize to determine the value of a share of common stock? Moreover, the study attempted to show that it is the firm's ability to pay dividends that better determines the intrinsic value of its common stock. The study found that a valuation model incorporating dividend-paying-ability significantly outperformed, on average, a valuation model incorporating actual dividends in forecasting EPS growth. The implication of this conclusion is that the dividend-paying-ability approach to valuation may lead to better appraisals of firm value. A second conclusion to this study is that it indicated that EPS growth forecasts generated by a valuation model based on dividend-paying-ability have greater informational content and therefore greater explanatory power than the forecasts manufactured by a valuation model based on actual dividends.

To investigate the effect of expected EPS and EPS on common stock prices, Ohlson and Juettner-Nauroth (2000) developed a parsimonious model relating to the price per share of the firm. The model assumes that the present value of DPS determines its price, but

it does not restrict how the DPS-sequence is expected to evolve. This study showed how one expresses cost-of-capital as a function of next-year expected EPS and the two measures of growth in expected EPS. Moreover, the study generalized the text-book equation in which cost-of-capital equals DPS-yield plus the growth in expected EPS.

A study carried out by Brewers, et al (1999) to investigate the efficiency of Japanese stock market to appropriately price the riskiness of Japanese firms. This study examined the response in the stock market returns of Japanese commercial banks to the failure of four commercial banks and two securities firms between 1995 and 1998. The study found that the stock market responds to new information of failure rationally. Moreover, it found that, financially weaker banks and financial institutions were affected more than stronger banks by information of failure.

Al-Loughani (1999) analyzed the casual relationship between stock prices and the volume of stocks traded in Kuwait Stock Exchange. The analysis was done before and after the entry of Iraqi army. This study revealed that the organizational and legislative improvements that occurred before the entry of Iraqi army, and the structural adjustment that occurred after that entry contributed in the stock exchange. The study also revealed that the price-volume relationship was positive before the entry. Moreover the study did not find evidence to support the market efficiency.

A study was carried out by Abdullah (1993) in Saudia Arabia to determine whether a relationship exists between stock prices and EPS of companies listed in Saudia Arabia Stock Exchange. The sample of this study included 24 corporations listed in that stock exchange, and covers the years from 1978 to 1993. This study found a significant relationship between stock prices and EPS along the short range, while this relationship is insignificant along the long range. In other words, the study found that EPS affects the stock prices directly after the announcement of its value, whereas, it doesn't affect the stock prices after a passage of enough period within the year. Moreover, this study mentioned that the stock returns achieved after the announcement is one among the determinants of stock prices in the future, but with some few differences among industries.

Study Hypotheses

The focus of research along the last 10 years was on the general determinants of stock market prices, whether these are external or internal. Few of these studies focused on the internal determinants, each of which reached to different conclusions. These differences may be related to differences among stock markets, or to investors in these markets. Abu Dhabi Securities market, as mentioned above, is new emerged stock markets, so no enough attempts had been done to investigate what internal financial factors affecting the prices of traded securities in this market. The previous section considers some related studies to stock market prices. As a result, some of these studies found that EPS, DPS, BVPS, or a mix of them, are the most common internal determinants of stock market prices.

Several people believe that stock prices are affected by the amount of earnings. Theoretically, this is true, but this is not the case in all financial markets and at different situations. Prior researches attempted to determine whether stock prices are affected by EPS as a measure for earnings, among these are Uddin (2009), Lee (2006), Terregrossa (2005), and Ohlson, (2000). To examine whether EPS affects or does not affect stock prices in Abu Dhabi Securities Market, the following hypothesis is formulated to be as follows:

Ho₁: A company's earnings per common share do not affect its stock market price.

Based on the findings of the related researches, some studies determined that DPS is one internal determinant to stock market prices. These findings seem logical, because many investors are looking for receiving periodic dividends. Uddin (2009), Pouheydari et al. (2008), Lee (2006), and Abdullah (1993) found that stock prices are affected by DPS. To examine this effect, the second hypothesis is formulated to be as follows:

Ho₂: A company's dividends per common share do not affect its stock market price.

Other investors are more interested with book values of common stocks. Some prior researches found that there a significant effect of BVPS on stock prices. For example, PorHeydari (2008), Terregrossa (2005), and Ohlson (2000), et al., found that stock prices

are affected by BVPS. Therefore, the following hypothesis is presented to be as follows:

Ho₃: A company's book value per common share doesn't affect its stock market price.

The entire effect of EPS, DPS, and BVPS together on stock prices is still questionable. Therefore, this study investigates the combined influence of the above factors together. As a result, the fourth hypothesis of the current study is formulated to examine the combined effect of these three determinants on stock market prices in Abu Dhabi Securities Market as follows:

Ho₄: There is no combined effect of earnings per share, dividends per share, and book value per share as a whole, on the common stock market price in Abu Dhabi Securities Market.

Research Methodology

The current study takes into account all listed companies in Abu Dhabi Securities Market during the period from the beginning of 2002 to the end of 2006. Firms listed after the beginning of 2002 were excluded because the financial data of these firms are inadequate. Moreover, all firms which their stocks had been prevented from being traded in the Abu Dhabi Securities Market for one year or more during this period were excluded. The total number of companies that were listed in different sectors of Abu Dhabi Securities Market was 60 up to the end of the year 2006. Among these, 22 companies had been excluded from consideration in this study for the above mentioned two reasons. Hence, 38 companies were found appropriate for the purposes of this study.

Two statistical methods were used to test the four hypotheses in the current study. Simple linear regression model was used to test each of the first three hypotheses, based on t-test at 0.95 level of confidence (sig. = 0.05) whereas; the multiple linear regression method was used to test the fourth one, based on F-test at 0.95 level of confidence (sig. = 0.05).

The correlation method is also used in this study to examine the pair-wise relationships between the variables that this study takes into consideration, and to enrich its findings.

This study is structured to involve one dependent and three independent variables. Common stock market price (CSP) is the dependent variable in this study, whereas, EPS, DPS, and BVPS are the independent variables. This study investigates the separate effect of each independent variable on the common stock market price as a dependent variable, and the total effect of these three independent variables on the common stock market price.

Results

Descriptive Statistics

Table (1) shows the total number of the listed companies in each sector in Abu Dhabi Securities Market as of the end of year 2006 and the total number of companies used in the analysis.

Table (1)
Companies involved in the study sample

Sector	No. of Listed Companies	No. of Com. Included in the sample
Banks and Financial Services	17	11
Insurance	12	9
Real Estate	3	0
Consumer	8	3
Construction	8	8
Industrial	4	2
Telecommunication	4	4
Health Care	2	1
Energy	2	0
Total	60	38

Resource: Companies Guide of Abu Dhabi Securities Market

Based on information provided in the 2006 Annual Report of Abu Dhabi Securities Market, the main observation is that few manufacturing companies are listed in this market. This observation means that the industrial sector did not mature yet in the UAE. In contrast, most listed companies belong to banks and financial

industry, followed by insurance industry. The reasons for the weak existence of industrial companies in Abu Dhabi Securities Market need more investigation because the manufacturing sector is not well represented in this market.

Data on CSP, EPS, DPS and BVPS for all 38 companies included in this study during the years 2002 to 2006 are available in the Companies Guide of Abu Dhabi Securities Market.

Under efficient market hypothesis, the publicly available information is fully reflected in stock prices (*Gibson, 2001*). In other words, a common stock market price reflects the financial performance of the company during a specified period of time, when the principle of full disclosure is fully applied. Table (2) shows the descriptive statistics of the common stock market prices in Abu Dhabi Securities Market during the five years (2002 to 2006). As shown in this table, the highest mean price was recorded in 2004, where this mean was 98.79 AED at 128.60 standard deviations, while the lowest one was recorded in 2006, where it was 17.76, at 44.47 standard deviations. As a result, it is clear that common stock market prices declined sharply in 2006. It is worth noting that stock prices in Arab Gulf Securities Markets declined in 2006 but at different degrees.

Table (2)
Descriptive Statistics of Common Stock Market Prices

<i>Years</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Price Mean</i>	<i>Standard Deviation</i>
2002	0.47	830	73.39	142.40
2003	1.36	340	65.26	76.14
2004	1.60	662.10	98.79	128.60
2005	2.86	600.90	47.94	107.05
2006	1.72	220	17.76	44.47

Because EPS is calculated based on the amount of the company's net income, an increase in the amount of a company's net income will lead to an increase in its EPS, while a decrease in its net income will lead to a reduction in its EPS. Most stockholders and investors are highly interested in EPS, because it reflects the profitability level of

the company, and determines the actual return to each common stock. As a result, because most stockholders and investors have a desire to own the common stocks of the most profitable companies, they are very interested in EPS as one indicator of the company's level of profitability and stock returns. Hence, many researchers study the relationship between EPS and stock prices. The assumed relationship is that an increase in EPS leads to an increase in the common stock market price, while, a decrease in EPS leads to reduction in a stock market price.

Table (3) shows the descriptive statistics of EPS in Abu Dhabi Securities Market during the five years (2002 to 2006). As shown in this table, the highest mean of EPS was recorded in 2004, where this mean was 10.42 AED at 29.12 standard deviations, while the lowest one was recorded in 2002, where it was 5.93, at 11.19 standard deviations. In spite of the fact that the lowest mean of the common stock market prices was recorded in 2006, the mean of EPS in this year was not the lowest.

Table (3)
Descriptive Statistics of Earnings per Share

<i>Years</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
2002	0.00	61.95	5.93	11.19
2003	0.02	91.00	7.72	16.09
2004	0.09	178.77	10.42	29.12
2005	0.07	69.74	6.43	13.99
2006	0.02	260	9.94	42.24

Stockholders, as a group, are highly interested in DPS, because this group of users looks forward to receiving dividends. Table (4) shows the descriptive statistics of DPS in Abu Dhabi Securities Market during the five years (2002 to 2006). As shown in this table, the highest mean of DPS was recorded in 2006, where the mean in that year was 0.02391 at 0.096 standard deviations, while the lowest one was recorded in 2005, where it was 0.00843, at 0.044 standard deviations. In general, the table shows that DPS was very low during

the five years, which means that stockholders were not interested in dividends as they were interested in stock prices increases.

Table (4)
Descriptive Statistics of Dividends per Share

<i>Years</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
2002	0	0.27	0.00994	0.044
2003	0	0.60	0.01829	0.097
2004	0	0.30	0.00997	0.048
2005	0	0.27	0.00843	0.044
2006	0	0.54	0.02391	0.096

Book value per share is defined as net stockholders equity divided by the number of common stocks outstanding by the end of the accounting period. Many stockholders are interested in this important financial ratio because it determines the related amount of stockholders' equity to each outstanding common stock. As shown in Table (5), the mean of BVPS decreases from year to year. The highest mean of BVPS was 84.81 at 228.67 standard deviations in 2002, while the lowest one was 8.26 at 17.90 standard deviations in 2006.

Table (5)
Descriptive Statistics of Book Value per Share

<i>Years</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
2002	1;00	1070	84.81	228.67
2003	1.46	283.05	37.01	57.11
2004	1.24	222.76	35.61	49.03
2005	1.27	480.45	26.51	82.06
2006	0.98	96.07	8.26	17.90

Based on the descriptive statistics appearing in tables (2), (3), (4), and (5), most common stock market prices, EPS, DPS, and BVPS were reduced in year 2005, and reduced sharply in year 2006.

Testing the First Hypothesis

Ho₁: A company's earnings per common share do not affect its common stock market price.

As previously mentioned, simple linear regression was used to test this hypothesis. The value of the t-test is 2.942 with an associated p-value of 0.006. Since the computed level of significance equals 0.006 is lower than the predetermined level of 0.05, the null hypothesis is rejected. In other words, the statistical analysis reveals that EPS affects the common stock market price in Abu Dhabi Securities Market.

Testing the Second Hypothesis

Ho₂: A company's dividends per common share do not affect its common stock market price.

A simple linear regression gives a value of 0.285 for the t-test with an associated p-value of 0.777. Since the computed level of significance equals 0.777 is higher than the predetermined level of 0.05 the null hypothesis cannot be rejected. So, the analysis reveals that DPS does not affect the common stock market price in Abu Dhabi Securities Market.

Testing the Third Hypothesis

Ho₃: A company's book value per common share doesn't affect its common stock market price.

A simple linear regression gives a value of 6.520 for the t-test with an associated p-value < 0.001. Since the computed level of significance is lower than the predetermined level of 0.05 the null hypothesis is rejected. Hence, the analysis reveals that BVPS affects the common stock market price in Abu Dhabi Securities Market.

Testing the Fourth Hypothesis

Ho₄: There is no combined effect of earnings per share, dividends per share, and book value per share as a whole, on the common stock market price in Abu Dhabi Securities Market.

As mentioned above, this hypothesis was tested by using the multiple linear regression method, based on F-test. The value of the F-test equals 38.372 with an associated p-value < 0.001. Since the computed level of significance is lower than the predetermined level of 0.05 the null hypothesis is rejected. In other words, the analysis reveals that the common stock market price is affected by the entire of EPS, DPS, and BVPS as a whole. In fact, the three independent variables EPS, DPS and BVPS explain 76% of the variations in CPS as R^2 equals 0.762. The regression equation that represents the combined effect of EPS, DPS, and BVPS as a whole, on the common stock market price in Abu Dhabi Securities Market, is as follows:

$$CSP_{it} = 17.139 + 0.297 EPS_{it} + 46.982 DPS_{it} + 1.244 BVPS_{it}$$

The correlation method is used to identify the pair-wise relationships between the variables under considerations. The coefficients of correlation and the corresponding levels of significance are shown in Table (6).

As this table shows, the coefficient of correlation that represents the relationship between stock market prices and EPS equals 0.450, at 0.006, level of significance. The coefficient of correlation and level of significance determine that a significant relationship exists between these two variables.

Concerning the relationship between the stock market price and DPS, Table (6) shows that the coefficient of correlation is 0.047 at the 0.777 level of significance. The coefficient of correlation and the level of significant concerning this relationship determine that there is no significant relationship between these two variables.

The correlation method is also used to test the relationship between stock market prices and BVPS. As the table shows, the coefficient of correlation equals 0.736 at the 0.000 level of significance. The coefficient of correlation and the level of significance representing this relationship, state that a significant relationship exists between stock market prices and BVPS.

Considering the relationships among the independent variables of the study, Table (6) reveals that except the relationship between EPS and BVPS, no other significant relationship exists among other

independent variables. Moreover, the analysis reveals that the strongest relationship is available between stock price and BVPS, while the weakest one is available between DPS and BVPS.

Table (6)
Coefficients of Correlation & significance level

<i>Variables</i>	<i>EPS</i>	<i>DPS</i>	<i>BVPS</i>
<i>Stock Price</i>	0.450 (0.006)	0.047 (0.777)	0.736 (0.000)
<i>EPS</i>		0.032 (0.856)	0.655 (0.000)
<i>DPS</i>			0.005 (0.975)

Conclusions

This study investigates the separate effect of each of EPS, DPS, and BVPS on stock market price in Abu Dhabi Securities Market. Moreover, it also examines the entire effect of these three internal financial ratios together on the common stock market price. Four hypotheses formalize the structure of the study. The first one is concerned with the separate effect of EPS on common stock market price. Based on the data analysis, the study finds that EPS has a significant effect on the common stock market price. In more details, the study finds that stockholders and investors are highly interested in EPS as one important financial indicator, so they take with their consideration, the value of EPS in determining the price they are willing to pay to acquire that stock, and the price they accept instead of that stock when they need to sell the stock. The study finds a clear positive relationship between EPS and common stock price. This study finds that as the value of EPS increases, the price of that stock also increases. Because EPS calculations take into account net income and the number of common stocks outstanding, this means that stockholders and investors are very interested in the firm's profitability, and they take into account the profitability of the firm when they consider which common stock they purchase and how

many stocks they will purchase. This conclusion also means that investors are highly motivated to purchase more of the common stocks of highly profitable companies, while they are reluctant to purchase the common stocks of less profitable companies. As a result, the demand for the common stocks of more profitable companies, will increase, therefore the price of these common stocks increases because of high demand for them. Investors prefer the purchase and ownership of the common stocks of highly profitable companies, while they are highly reluctant to own the common stocks of less profitable companies, because they are looking for the highest possible return on their investments. In other words, the current study finds that the common stock market prices reflect, to some degree, the value of EPS of the company. This conclusion is in agreement with the findings of Al-Deehani and Al-Thamer (2008), Terregrossa (2005), Brewers et al (1999), and Abdullah (1993).

One hypothesis of the current study investigates the effect of DPS on common stock market prices. The analysis finds insignificant effect of DPS on the common stock market prices in Abu Dhabi Securities Market. In general, most stockholders in Arab Stock Exchanges are more interested with capital earnings than dividends. Common stockholders are not too much interested in annual dividends, but are more interested in the expected increases in common stock market prices. This idea is different from the standpoints of stockholders in most western countries. In those countries, most stockholders own common stocks in order to receive annual dividends, because dividends are considered as the main source of income to many people in those countries. The rational stockholder should take into consideration the periodic dividends that he expects to receive, not just the expected positive changes in common stock market price. This conclusion disagrees with the findings of Al-Deehani and Al-Thamer (2008), and with Terregrossa (2005).

Regarding the assumed effect of BVPS on the common stock market prices, the current study finds a significant effect of BVPS on the common stock market prices in Abu Dhabi Securities Market. In other words, this study finds that the common stock market prices reflect the value of BVPS. Moreover, because the coefficient of correlation between BVPS and common stock market prices is

positive, this study reveals that there is a positive relationship between BVPS and common stock market prices. BVPS in Abu Dhabi Securities Market has the highest effect on common stock market prices among the three independent variables this study investigates. As previously mentioned, BVPS is calculated by dividing stockholders equity on the number of common stocks outstanding. Common stockholders' equity is increased through the accumulation of retained earnings. As a result, BVPS increases as the company achieves higher profits and retains the higher portion of these profits. This conclusion supports the findings of Al-Deehani and Al-Thamer (2008), Christopher Ting (2007), and Brewers et al et al (1999).

The last conclusion of this study is that the entire three independent internal financial factors (EPS, DPS, and BVPS) have a significant effect on the common stock market prices in Abu Dhabi Securities Market. In addition, the data analysis reveals that there is a positive relationship between these three factors and the common stock market prices. In other words as the value of these determinants increase, the common stock market prices will also increase. Many prior studies and researchers found the same conclusion, including Al-Deehani and Al-Thamer (2008), Terregrossa (2005), Brewers et al (1999), and Abdullah (1993).

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المحددات المالية الداخلية للقيمة السوقية للأسهم العادية:
حالة سوق أبو ظبي للأوراق المالية

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ملخص

تختبر هذه الدراسة أثر كل من نصيب السهم من الأرباح المحققة ونصيب السهم من الأرباح الموزعة والقيمة الدفترية للسهم على القيمة السوقية للأسهم العادية للشركات المدرجة بسوق أبو ظبي للأوراق المالية. وتشتمل الدراسة على كافة أسهم الشركات المدرجة بسوق أبو ظبي للأوراق المالية والتي بلغ عددها 60 شركة حتى نهاية العام 2006م، عدا أسهم الشركات التي تم إدراجها بعد بداية العام 2002م. وتستثني الدراسة كذلك أسهم الشركات التي منعت أسهمها من التداول لمدة سنة واحدة أو أكثر خلال الفترة من عام 2002م وحتى العام 2006، لأن البيانات المالية المتوافرة عن هذه الشركات لا تعتبر كافية. وبناء على ذلك، فقد استثنيت أسهم 22 شركة من إجمالي عدد الشركات المدرجة بهذا السوق. وترتكز هذه الدراسة على أربعة فروض، حيث استخدم أسلوب الانحدار الخطي البسيط في اختبار الفروض الثلاثة الأولى اعتماداً على قيمة اختبار ت، فيما استخدم أسلوب الانحدار الخطي المتعدد لاختبار الفرض الرابع اعتماداً على قيمة اختبار ف. إضافة لذلك، فقد تم استخدام أسلوب الارتباط لتعزيز نتائج الدراسة. ولقد وجدت الدراسة أن هناك أثراً ذو دلالة منطقية لكل من نصيب السهم من الأرباح المحققة والقيمة الدفترية للسهم على أسعار الأسهم العادية المتداولة بسوق أبو ظبي للأوراق المالية، فيما لم تجد الدراسة تأثيراً ذو دلالة منطقية لنصيب السهم من الأرباح الموزعة على القيمة السوقية للسهم.