

6.10 An Assessment of the Influence of Fundamental Factors on Share Prices in Sri Lanka

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ABSTRACT

This study analyses certain fundamental factors which are determinants of equity share prices in Sri Lanka. These factors are earning, growth, leverage, risk and company size.

The literature review of the study have identified various aspects of equity share valuation. The theoretical and empirical studies have been used to formulate the foundation for the study. To assess above mentioned fundamental factors on share prices, multiple regression analyze was used with a log linear model as a cross section analyses related to the period 1993-2001. The sample for the study was selected from companies registered and listed in the Colombo Stock Exchange. The sample consisted of 40 companies from a group of 239 companies in all industries.

Result show that dividends appear to be a powerful influence in determining share prices than growth and retained earnings. Business risk and financial risk cannot be assessed because they are redundant variables. Company size is having a considerable influence on share prices and, accordingly large companies enjoy higher values for shares.

On the basis of findings the following observation was made about the stock market in Sri Lanka.

“The determinants of valuation of the share prices are not very clear. It goes mainly by considering dividend and company size factors which are readily measurable. However, factors like growth and risk cannot be measured with more certainty”

Key words: Equity share prices, Colombo Stock Exchange, Dividends, Growth and retained earnings and Valuation of the share prices