



## THE EFFECT OF NET PROFIT ON STOCK PRICES A COMPARATIVE STUDY BETWEEN COMMERCIAL BANKS AND ISLAMIC BANKS (FOR THE PERIOD 2006-2019)

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<b>Received:</b> 3 <sup>rd</sup> September 2022 <b>Accepted:</b> 3 <sup>rd</sup> October 2022 <b>Published:</b> 6 <sup>th</sup> November 2022	The research sought to identify the results of the work of some Iraqi private banks and the net profit achieved, as well as measuring the relationship between the net profits of commercial and Islamic banks and the share prices of these banks, The problem of the study was summarized by asking about the contribution of the realized profits of the Iraqi commercial and Islamic banks to the stock prices, and to test the research hypothesis, which stipulated the existence of a statistically significant relationship between (net profit for Iraqi commercial and Islamic banks) and their stock prices, Standard quantitative methods were used on the data of the Economy Bank for Investment and Finance (commercial bank) and the Iraqi Islamic Bank (Islamic bank) in the period from 2006 to 2019, and the research concluded that it is important for banks to monitor the mechanisms for determining their stock prices in the Iraqi stock market. It is not spontaneous and is intended for trading purposes. The banks should not leave room for speculators to determine the share price, which necessarily affects the market value of the bank.
<b>Keywords:</b> Stock market, banking sector, business results, financial indicators, regression coefficient.	

### INTRODUCTION:

All joint stock companies seek to maximize their market value, by increasing their share prices, and therefore they use various methods. The most important indicator that makes investors rush to acquire company shares and increase the demand for it, and then raise its price, is the results of the companies' business (the net profit achieved).

However, the net profit is a controversial issue, there is accounting profit and economic profit, and accounting profit depends on the accounting policies followed by the company, the company can follow certain accounting policies that inflate the net profit and there are certain accounting policies that reduce the net profit.

Assuming that investors in the developing financial markets are not familiar with the different accounting methods, methods and policies, they will follow the large investors whose investment decisions are well-studied meaning based on the result of the activity, and this is a very dangerous matter for the market and for small investors alike, as the possibility of manipulation rises In such a situation.

The efficient financial market is the market in which the gap between the price of the traded share and the real share price is reduced. Therefore, the

emerging financial markets always seek to impose legislation on the companies whose shares are traded in the market by publishing clear indicators about the results of the activity, provided that these indicators are understandable to investors whether They are specialists or not, in addition to the fact that the financial market sheds light on some of the necessary indicators for companies whose shares are traded in the market in its periodic bulletins and reports.

All this so that the market does not leave the space for large investors to determine stock prices according to their interests and at the expense of misleading small investors, and does not allow manipulation of the market value of companies listed in the financial market and that this value is determined according to the results of the companies' actions to ensure legitimate competition.

### The problem of the Research:

The Iraq Stock Exchange is an emerging market. It was established in 2004 by order of the Coalition Provisional Authority, as Law No. 74 was issued. It cannot be compared to the large and ancient financial markets, although the Iraqi Stock Exchange strives to keep pace with the working methods of the financial markets. The long-established and benefiting from its historical experiences indicated that the modernity



characteristic of the market remains the dominant one, and does not help in some cases to control the trading movement and the speculation that permeates it, which returns to some investors large profits without relying on the results of the activities of the listed companies, the most important of which are the achieved profits, which are harmful to the market Listed companies and small investors alike, so the research problem can be formulated by the following question:

Did the profits of the Iraqi commercial and Islamic banks contribute to the stock prices?

#### **The importance and purpose of the research:**

The importance and objectives of the research can be summarized as follows:

1. Identifying the business results of some Iraqi commercial and Islamic banks and the net profit achieved.
2. Shedding light on the share prices of Iraqi banks, the research sample, and their review in the form of a time series.
3. Building standard models to measure the relationship between research variables based on theoretical rooting and previous studies.
4. Measuring the relationship between the net profits of commercial and Islamic banks and the stock prices of these banks.

#### **Research hypothesis:**

1. There is a relationship between net profit of Iraqi commercial banks & their stock prices.
2. There is a relationship between net profit of Iraqi Islamic banks & their stock prices.

#### **Previous Studies:**

The study (Zaab and Sharab, 2007) aimed to show the impact of the announcement of dividends on the stock prices of companies listed on the Palestine Stock Exchange. To accomplish this, the researchers conducted an applied study on stock prices, where the study methodology relied on collecting data through market reports, and the study covered the period between 1997-2005. Simple and multiple regression method were used to test the hypotheses of the study. A statistically significant relationship between the share of profits, the date of announcing the distribution of cash dividends, the share of cash profits, the share of retained earnings and the share price, and that the share of profits affects the market price of the share and the effect of the share of the cash dividends is greater From the effect of the share's share of retained earnings on both the price and value of the share's trading in the market, and that the change in the share's market price is less than the share's share of net profit (Mashkour and Sadiq, 2019) it sought to measure the relationship between the dividend policy on the market value of the stock, as

well as the impact of the dividend policy and the market value of the stock on the trading volume in banks, through a study in a sample of banks registered in the stock market. The value of the correlation coefficient and the simple regression between the dividend policy and the market value of the stock and the interactive effect on the trading volume have been extracted. The study concluded that the trading volume of the stock plays a large and important role in changing stock prices, and when stock prices rise, an increase in the trading volume is desirable. It is required, and in the event of a decrease in prices, what is desirable is to reduce the ratio of trading volume, and the study recommended the need to increase dividends to shareholders and not to withhold profits at the expense of dividends to encourage the public to invest their money in the market, The (Al-Tal, 2015) to show the impact of profit on the prices of market shares, and the study population consisted of all engineering and construction companies operating in Jordan, and the study sample consisted of (8) Jordanian engineering and construction companies registered in the Amman Stock Exchange, During the period (2011-2013) and to achieve the objectives of the study, the descriptive analytical approach was used through data collection, analysis and hypothesis testing. Multiple regression test was used to show the impact of earnings management on stock market prices, in addition to simple linear regression analysis in order to test the effect of each approved variable on The dependent variable is the market share prices, and the results of the tests showed that there is no relationship to the combined profit management practices (change in accounts under collection, change in company revenues, cash flow from operations) in market share prices, and it was recommended to activate the commitment of the companies under study with standards and rules Governance through disclosure of information and disclosures that occur to companies to ensure a financial environment free from manipulation and fraud, and to provide sound and appropriate incentives The Board of Directors aims to achieve the objectives of stakeholders and companies, which contributes to framing and limiting the risks facing companies, and increasing the effectiveness of the role of auditing bodies to become aware and aware of revealing the operations of practicing profit management. The study (Shurrab, 2006) aimed to know the effect of the cash dividends and retained earnings, the date of announcing cash dividends, in-kind shares, and net profits on investors' desire to buy shares of companies whose profits are achieved in the Palestine Stock Exchange. The descriptive and analytical approach was used on the sample data, and the study concluded that the market price of the stock



is affected by the share of profits, and the effect of the share of retained earnings is less than the effect of the share of the cash dividends distributed in both the value and trading price of the share, and the share of the net profit. The change in its market price exceeds the change in its market price, and the study recommended conducting training courses for investors to activate dealing with the stock exchange and encourage saving by providing advice and guidance to both companies and investors alike and maintaining market stability, and recommending companies to choose efficient management and interest in publishing financial statements and separating the results of each branch's work on the unit and conduct more studies at the level of activities and sectors. The study (Al-Amiri et al., 2008) started from the fact that the dividend return is one of the most important financial indicators that has always received distinguished attention, due to its role in determining the market value of the common stock, as the price is determined in the light of this indicator based on the realized profits and the policy followed in their distribution. This study sought to test the effect of the dividend return on the market value of common shares in the Iraqi Stock Exchange, and the study sample consisted of (12) mixed and private joint-stock companies, including (7) mixed joint-stock companies and (5) private joint-stock companies. As for the duration of the study, the years (1990-1999) were recorded, and this period was divided into two sub-periods, each of which lasted (5) years. And to test the relationship between the variables of the study, financial and statistical methods were used, and the study reached a number of conclusions, the most important of which is the weak effect of the dividend yield in determining the market value of the common stock, due to the smallness of the dividend divisor. The study (Al-Hijjah, 2016) sought to know the impact of each of the earnings per share, the return on equity, the book value of the share, the size of the bank's assets, earnings per share, liquidity risks, credit risks and capital risks on the market value of the shares for the banks listed in the Damascus Stock Exchange during the extended period. From the launch of the Damascus Securities Exchange in 2009 to 2011, and to achieve these goals, the descriptive analytical approach was adopted, and the study concluded that there is a direct relationship between the size of the bank's assets and the market value of the share, and that the return on the share and liquidity risks do not

affect the market value of the share, as well as its ability to. From building a standard model can explain 42% of the change in stock market prices.

#### **Similarities and differences between the current study and previous studies:**

With regard to the dependent variable, which is market share prices, the current study agreed with all previous studies, except for the study (Shurrab 2006), which relied on investors' appetite for stock trading, meaning that the trading volume was the dependent variable, knowing that some previous studies adopted additional dependent variables such as trading volume, for example. As for the independent variable, the previous studies relied on several independent variables, not including the net profit, with the exception of the study (Shurrab 2006), in which the realized net profit was one of its independent variables, and it agreed with the study (Mashkour and Sadiq 2019) and (Al-Amiri et al. 2008) in choosing Iraq as a society for the study. , With regard to the sector discussed in the study, it agreed with (Al-Hijjah 2016) and (Mashkour and Sadiq 2019) in choosing the banking sector specifically, and the study was unique in the temporal limits and limiting the relationship between the dependent variables (net realized profit) and independent (market share prices).

#### **Research limits:**

1. Place limits: It originated from Iraq.
2. Time limits: It consisted of a time series from the year 2006 to the year 2019, because the Iraqi Stock Exchange did not start publishing the shares prices of the listed companies until the year 2006, and that the last published reports of the banks of the research sample were in 2019.

#### **Research sample:**

It consisted of two banks, namely the Economy Bank for Investment and Finance (a commercial bank) and the Iraqi Islamic Bank (an Islamic bank) and they were chosen by random sampling method, knowing that the study population consisted of all the banks listed in the Iraq Stock Exchange in the year 2006, provided that it continues to be included.

#### **Research data:**

The independent variable (net realized profits) was collected from the annual reports of the research sample banks for the period 2006-2019, while the dependent variable (market share prices) was collected from the annual bulletins of the Iraqi Stock Exchange for the same period, as shown in the following table:

Table (1) Research data						
the year	the Economy Bank for Investment and Finance			the Iraqi Islamic Bank		
	net profits*	market prices**	share	net profits*	market prices**	share
2006	552	1.95		-255	0.85	
2007	714	3		143	0.8	
2008	1697	2		821	0.8	
2009	8406	1.85		770	1.05	
2010	12903	1.3		736	0.9	
2011	11946	1.49		13301	1.1	
2012	26845	1.13		26904	1.23	
2013	7385	0.8		33385	1.29	
2014	-3248	0.72		8547	0.95	
2015	2192	0.72		4039	0.51	
2016	1607	0.72		3217	0.6	
2017	1072	0.43		8882	0.5	
2018	-6624	0.16		6123	0.4	
2019	249	0.16		14541	0.4	

\* The amount is one million Iraqi dinars  
 \*\* The amount is one Iraqi dinar

**Analysis of the relationship between the net profit and the market share price the Economy Bank for Investment and Finance:**

1. Normal distribution test:

The independent variable does not follow normal distribution (the net profit of the Economy Bank for Investment and Finance), while the market share price of the bank follows the normal distribution as shown in Table (2), so it cannot be Parametric tests are conducted to prove the relationship between the two variables.

Table (2) Normality test on (net profit) &( market share prices) for the Economy Bank for Investment and Finance						
	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	Df	Sig	Statistic	Df	Sig
Net profit	0.26	14	0.011	0.87	14	0.038
Stok price	0.18	14	0.200	0.93	14	0.325

**Source: Prepared by the researcher according to SPSS results.**

2. Wilcoxon Test between the net profit of the Economy Bank for Investment and Finance and the market share price of the bank.

Although the value of Z amounted to 2.23, which is a significant value, as the p-value amounted to 0.03, which is less than 0.05, indicating that the direction of the relationship between the net profit of the Economy Bank for Investment and Finance and its market share price is negative, which is the opposite of the theoretical rooting, as it is assumed that the share price increases as it achieves The bank's net profit is higher.

Table (3) Nonparametric Test Between (net profit) &( market share prices) for the Economy Bank for Investment and Finance		
Wilcoxon Test	Z value	2.23
	Sign	Negative
	p-value	0.026

**Source: Prepared by the researcher according to SPSS results.**



**Analysis of the relationship between the net profit and the market share price of the Iraqi Islamic Bank:**

1. Normal distribution test:

The independent variable does follow normal distribution (the net profit the Iraqi Islamic Bank), while the market share price of the bank follows the normal distribution as shown in Table (4), so it can be Parametric tests are conducted to prove the relationship between the two variables.

<b>Table (4) Normality test on (net profit) &amp;( market share prices) for the Iraqi Islamic Bank</b>						
	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	Df	Sig	Statistic	Df	Sig
Net profit	0.21	14	0.112	0.81	14	0.01
Stok price	0.13	14	0.200	0.94	14	0.48

**Source: Prepared by the researcher according to SPSS results.**

2. Testing the effect between the net profit of the Iraqi Islamic Bank and the bank's market share price.

From the calculated F value of 3.58, which is less than its tabular value of 4.60 at the significance level of 0.05 and the degree of freedom (12, 1), it is clear that the simple linear regression equation is not significant between the net profit of the Iraqi Islamic Bank and its market share price, that is, there is no significant relationship between the two variables.

<b>Table (5) the correlation coefficient and the regression between (net profit) &amp;( market share prices) for the Iraqi Islamic Bank.</b>					
A	$\beta_1$	Calculated t	R	R <sup>2</sup>	Calculated F
0.69	1.37	1.89	0.48	0.23	3.58

**Tabular value for (F) in df (1 , 12) And the level of significance 0.05 = 4.60**  
**Tabular value for (t) in df (1 , 12) And the level of significance 0.05 = 1.76**  
**Source: Prepared by the researcher according to SPSS results.**

**RESEARCH RESULTS:**

1. The market share price was not related to the results of the activities of the Economy Bank for Investment and Finance (commercial bank) and the Iraqi Islamic Bank (an Islamic bank). Therefore, the Iraqi Stock Exchange should strive to make the prices of traded shares real and dependent on business results, the most important of which is the net income achieved.
2. It is important for banks to monitor the mechanisms for determining their share prices in the Iraqi Stock Exchange, In the event that it is not spontaneous and is intended for trading purposes, and then the banks should not allow speculators to determine the share price, which necessarily affects the market value of the bank.
3. It is the responsibility of the supervisory authorities to educate investors about the important indicators that determine the real share price and to compel banks to show these indicators in their quarterly reports clearly and calculated accurately in accordance with the accounting rules and principles.

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