

# ENGINEUNITY TUTORIAL



## Factors Affecting The Share Price



## Factors Affecting The Share Price

The company's share price is one of the key performance indicators in measuring the success or failure of the company, with a rising share price signifying increasing industry confidence in the fortunes of the Company.

The share price is influenced by **internal factors**, related to the company's decisions :-

- The level of dividend paid to the shareholders
- Changes in the value of the company
- Changes in the future profitability of the company
- Changes in the debt burden of the Company

and **external factors (world events)**, outside of the company's control.



# Factors Affecting The Share Price

Consider the following example, where a company is in period 5.

Since period 1 the share price has fluctuated, with periods of **improvement (2)**, and periods of **deterioration (1, 3 and 4)**.

We will now look in more detail at why this has been the case.

Financial Performance

Management consultants report    Graphics

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

OPERATIONAL    INVESTMENTS

Summary

Dividend payments to shareholders

Other internal factors affecting the company share price

Period	Status	Year/qtr	Share price			Equity		Change in share price due to influencing factors				
			Start of the period	% change	End of the period	No. of shares	Equity value	Dividend paid to s/holders	Company value changes	Forward margin changes	Gearing ratio changes	World events
1	History	2023 (Q1)	1.00	-6.85 %	0.93	5,000,000	4,650,000	0.00 %	-6.85 %	0.00 %	0.00 %	0.00 %
2	History	2023 (Q2)	0.93	13.51 %	1.06	5,000,000	5,300,000	0.00 %	-8.49 %	22.00 %	0.00 %	0.00 %
3	History	2023 (Q3)	1.06	-0.83 %	1.05	5,000,000	5,250,000	0.00 %	4.55 %	-0.74 %	0.00 %	-4.64 %
4	History	2023 (Q4)	1.05	-0.73 %	1.04	5,000,000	5,200,000	0.00 %	4.13 %	0.04 %	-4.90 %	0.00 %



# Factors Affecting The Share Price

**Financial Performance**  
 Management consultants report   Graphical analysis

OPERATIONAL   **SHAREHOLDERS**   INVESTMENTS

Summary  
 Dividend payments to shareholders  
 Other internal factors affecting the company share price

Dividend payments to shareholders							
Period	Status	Year/qtr	Shareholder expectation	Initial equity	Dividend paid	Dividend paid as a % of equity	Change in share price
1	History	2023 (Q1)	History Level	5,000,000	100,000	2.00 %	0.00 %
2	History	2023 (Q2)	History Level	4,650,000	93,000	2.00 %	0.00 %
3	History	2023 (Q3)	History Level	5,300,000	106,000	2.00 %	0.00 %
4	History	2023 (Q4)	History Level	5,250,000	105,000	2.00 %	0.00 %

## DIVIDEND PAYMENTS

Dividends are taxable payments declared by a company's board of directors and given to its shareholders, normally quarterly. They provide an incentive to own stock in stable companies even if they are not experiencing much growth.

The affect on share price is determined by the **% of the company's equity** that is paid as a dividend.

The **equity** of the company at any time is the overall share value.

$$\text{EQUITY} = \text{NUMBER OF SHARES} \times \text{CURRENT SHARE PRICE}$$

There is a level of dividend, measured as a % of the equity, at which the share price **does not change**. Paying more than the 'equilibrium' level will cause the share price to rise, but paying less will be not be well received by the shareholders, and the price will fall.

Since period 1 the company has paid a dividend of 2% of equity every period (8% per annum), and this has been **sufficient to keep the shareholders content** because there has been no change in the share price.

**If dividend has had little affect on the share price, what about other factors ?**



# Factors Affecting The Share Price

Summary  
Dividend payments to shareholders  
Other internal factors affecting the company share price

Period	Status	Year/qtr	Company value				Forward margin				Gearing ratio			
			Start of period	% change	End of period	% change in share price	Start of period	% change	End of period	% change in share price	Start of period	Change	End of period	% change in share price
1	History	2023 (Q1)	5,000,000	-3.11 %	4,844,420	-6.85 %	0	0.00 %	0	0.00 %	0.000	0.000	0.000	0.00 %
2	History	2023 (Q2)	4,844,420	-4.09 %	4,646,054	-8.49 %	0	100.00 %	937,916	22.00 %	0.000	0.000	0.000	0.00 %
3	History	2023 (Q3)	4,646,054	2.33 %	4,754,218	4.55 %	937,916	-3.70 %	903,198	-0.74 %	0.000	0.000	0.000	0.00 %
4	History	2023 (Q4)	4,754,218	2.08 %	4,852,965	4.13 %	903,198	0.25 %	905,458	0.04 %	0.000	0.049	0.049	-4.90 %

## COMPANY VALUE

Changes in the value of the company from period to period also affect the share price.

If the company value falls in a period, it will have a **depressing effect on share price** as shareholder and industry confidence falls. Conversely, if the value increases then confidence will improve, and the **share price will increase**.

As can be seen the during periods 1 and 2 the value of the company fell, with adverse affects on share price, but in periods 3 and 4 the value increased with a positive affect on the share price.

Overall there was a clear **negative affect** on the share price.



# Factors Affecting The Share Price

Financial Performance

Management consultants report Graphical analysis

OPERATIONAL SHAREHOLDERS INVESTMENTS

Summary  
 Dividend payments to shareholders  
 Other internal factors affecting the company share price

Period	Status	Year/qtr	Company value				Forward margin				Gearing ratio			
			Start of period	% change	End of period	% change in share price	Start of period	% change	End of period	% change in share price	Start of period	Change	End of period	% change in share price
1	History	2023 (Q1)	5,000,000	-3.11 %	4,844,420	-6.85 %	0	0.00 %	0	0.00 %	0.000	0.000	0.000	0.00 %
2	History	2023 (Q2)	4,844,420	-4.09 %	4,646,054	-8.49 %	0	100.00 %	937,916	22.00 %	0.000	0.000	0.000	0.00 %
3	History	2023 (Q3)	4,646,054	2.33 %	4,754,218	4.55 %	937,916	-3.70 %	903,198	-0.74 %	0.000	0.000	0.000	0.00 %
4	History	2023 (Q4)	4,754,218	2.08 %	4,852,965	4.13 %	903,198	0.25 %	905,458	0.04 %	0.000	0.049	0.049	-4.90 %

## FUTURE PROFITABILITY

Another factor that affects the share price is the **changes in the future profitability** (forward margin) of the company, which is based upon the company's work in progress.

At the end of period 1, whilst the company was being established, there were no ongoing jobs, and hence no forward margin. However, during period 2, when some new work was secured, forward margin increased dramatically, falling back slightly in period 3, and increasing marginally in period 4.

Overall there was a clear **very positive affect** on the share price.



# Factors Affecting The Share Price

**Financial Performance** Management consultants report Graphical analysis

OPERATIONAL **SHAREHOLDERS** INVESTMENTS

Summary  
 Dividend payments to shareholders  
 Other internal factors affecting the company share price

Period	Status	Year/qtr	Company value				Forward margin				Gearing ratio			
			Start of period	% change	End of period	% change in share price	Start of period	% change	End of period	% change in share price	Start of period	Change	End of period	% change in share price
1	History	2023 (Q1)	5,000,000	-3.11 %	4,844,420	-6.85 %	0	0.00 %	0	0.00 %	0.000	0.000	0.000	0.00 %
2	History	2023 (Q2)	4,844,420	-4.09 %	4,646,054	-8.49 %	0	100.00 %	937,916	22.00 %	0.000	0.000	0.000	0.00 %
3	History	2023 (Q3)	4,646,054	2.33 %	4,754,218	4.55 %	937,916	-3.70 %	903,198	-0.74 %	0.000	0.000	0.000	0.00 %
4	History	2023 (Q4)	4,754,218	2.08 %	4,852,965	4.13 %	903,198	0.25 %	905,458	0.04 %	0.000	0.049	0.049	-4.90 %

## GEARING RATIO

The final internal factor that affects the share price is **changes in the gearing ratio**.

The gearing ratio is the ratio of the company's liabilities (cash account overdraft) to its assets (capital base and investments, and indicates the **debt burden** of the company. If there are no liabilities, the gearing ratio is 0.

If the gearing ratio increases the company will be viewed as being vulnerable to both interest rate rises, and its ability to service its debts from its future profit flows. Consequently, this will have a **depressing effect on share price**. Conversely, if the gearing ratio decreases then the company will be viewed as being more financially sound, and the **share price will increase**.

As can be seen, the cash account was overdrawn in period 4, when the increasing gearing ratio had a **negative affect** on the share price, albeit a slight one.



# Factors Affecting The Share Price

World Events

Navigate to "Main menu/Measuring performance/Assessing performance/Impact of world events"

[ALL]			FIN	[ALL]		[ALL]
Period	Status	Year/qtr	Category	Job	Description	Nature
3	History	2023 (Q3)	FIN		The Russian Ukraine conflict continues to affect global share markets, and a fall in the FTSE 100 Index reduces the company share price by 4.64%	NEGATIVE

## THE RUSSIAN UKRAINE CONFLICT CONTINUES TO AFFECT GLOBAL SHARE MARKETS, AND A FALL IN THE FTSE 100 INDEX REDUCES THE COMPANY SHARE PRICE BY 4.64%



The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. It is seen as a gauge of prosperity for business and industry in the United Kingdom. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

The index began on 3 January 1984 at the base level of 100. It reached a previous peak of 7,039.98 on 27 April 2015, the previous peak having been over 15 years previously, on the last trading day of 1999, during the dot-com bubble. It fell to a low of 6091.33 on 8 February 2011, fell under the 3,500 mark in March 2009, after falling during the financial crisis of 2007-2010 to below 3500 in March 2009, the index recovered to a peak of 7103.98 on 27 April 2015, more than doubling in value from the crash in 2009.

## THE FINANCIAL TIMES STOCK EXCHANGE 100 INDEX

The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. It is seen as a gauge of prosperity for business and industry in the United Kingdom. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

The index began on 3 January 1984 at the base level of 100. It reached a previous peak of 7,039.98 on 27 April 2015, the previous peak having been over 15 years previously, on the last trading day of 1999, during the dot-com bubble. It fell to a low of 6091.33 on 8 February 2011, fell under the 3,500 mark in March 2009, after falling during the financial crisis of 2007-2010 to below 3500 in March 2009, the index recovered to a peak of 7103.98 on 27 April 2015, more than doubling in value from the crash in 2009.

## EXTERNAL FACTORS

External factors that affect the company's share price are **caused by world events** outside the control of the company's management team.

For example, in period 3 (2023 / Quarter 3) the Russian invasion of Ukraine caused a further shockwave on Financial Markets around the world, and reduced the company share price by nearly 5%.





# Factors Affecting The Share Price

Financial Performance

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

## Summary

Dividend payments to shareholders

Other internal factors affecting the company share price

Period	Status	Year/qtr	Share price			Equity		Change in share price due to influencing factors				
			Start of the period	% change	End of the period	No. of shares	Equity value	Dividend paid to s/holders	Company value changes	Forward margin changes	Gearing ratio changes	World events
1	History	2023 (Q1)	1.00	-6.85 %	0.93	5,000,000	4,650,000	0.00 %	-6.85 %	0.00 %	0.00 %	0.00 %
2	History	2023 (Q2)	0.93	13.51 %	1.06	5,000,000	5,300,000	0.00 %	-8.49 %	22.00 %	0.00 %	0.00 %
3	History	2023 (Q3)	1.06	-0.83 %	1.05	5,000,000	5,250,000	0.00 %	4.55 %	-0.74 %	0.00 %	-4.64 %
4	History	2023 (Q4)	1.05	-0.73 %	1.04	5,000,000	5,200,000	0.00 %	4.13 %	0.04 %	-4.90 %	0.00 %

## IN SUMMARY

Both internal and external factors have different levels of impact upon the company share price. It may be that the share price rises even though most of the factors have negative affects, but the positive affect of one factor has the greatest impact.

**Careful examination** is needed of the company data to determine which factors have had which affects, and to what level :-

- During period 1 the **share price fell** because of the falling company value and the affect of world events
- Even though company value fell further during period 2, this was more than offset by a rapidly improving forward profitability, and the **share price rose** considerably.
- During period 3 the rise in company value and forward margin was offset by world events, and the **share price fell slightly**
- During period 4, although the company value rose, this was offset by an increase in gearing, and the **share price fell slightly**