

TESTING THE EFFECT OF THE EARNINGS ON THE SHARE PRICE ON THE BAHRAIN STOCK EXCHANGE

Abdelrhman Ahmad Meero, Kingdom University

ABSTRACT

The purpose of this paper is to evaluate the relationship between EPS and common stock performance for the listed companies in Bahrain Bourse (Stock Exchange) (BSE). The sample of the research is composed of the majority of the listed companies in BSE. The research model is designed based on the work of Easton & Harris (1991). The regression analysis has been used to test the three models (A, B, C) of the research. Model (A) testing the linkage between the stock performance and the value of the Earnings Per Share (EPS). Model (B) is employed to test the relationship between the change of Earnings Per Share (EPS) and the stock performance. Model (C) combines the models (A and B) to test the relationship between the EPS, Change in EPS and the stock performance. The data is collected from the published annual financial reports for the period 2011-2019. The result of the analysis showed a non-significant relationship between EPS and stock performance for the three models. This result implies the irrelevance of EPS (earnings per share) in explaining the changes in the share price of the listed companies in BSE.

Keywords: Earnings Per Share (EPS), Change in EPS, Share Price, Bahrain Stock Exchange

INTRODUCTION

The financial markets play a pivotal and important role as they represent a point of contact between investors and companies, mobilizing and transferring savings into investments that reinforce economic development (Meero, 2019). Earnings created by the firms indicate their financial strength, which reflects the ability of the firm to grow and pay a cash dividend to the shareholders. The share price in the stock market is an important indicator reflecting the evaluation of the historical and potential performance of the firm (Hribar et al., 2006).

The relationship between earnings and common stock performance is one of the most widely discussed topics in the field of finance (Basu, 1983). The analysis of this relationship leads managers, investors, stockholders in making their financial decisions (Mehtab & Sen, 2020; Fama & French, 2021). The literature review on this topic is rich with research conducted in advanced and developed countries, including the USA and Europe. Ball & Brown (1968) initiated a series of studies on the topic in the United States stock markets. This effort has been followed by the contributions of (Beaver, 1968; Beaver et al., 1980; Easton & Harris, 1991; Bartov, 1992; Ely & Waymire, 1999; Wang et al., 2006; Gallo et al., 2016; Cen et al., 2017; Gruszczyski, 2020). The literature shows also a good contribution to the study of the relationship between earnings and common stock performance inside and outside the United states such as the effort given by Basu (1983); Easton, et al., (1992); Cheng, et al., (1993); Shroff (1995); Haw, et al., (1999); Pritchard (2002), Dimitropoulos & Asteriou (2009); Kesavan (2013); Chen (2013); Cheng, et al., (2013); Hendershott, et al., (2015); Campbell (2015); Chang, et al., (2016); David & Simonovska, (2016); Hess, et al., (2017); Isidro & Dias (2017); Chen, et al., (2018); Penman, et al., (2018); Ahmed & Hla (2019); McMillan (2019); Wibbens & Siggelkow (2020); Ozturk & Karabulut (2020); Hijazi & Tabash (2020); Crawford, et al., (2021); Akhtar (2021), Naoum & Papanastasopoulos (2021).

The usefulness of this type of research is to support investors and financial market stakeholders in making financial decisions. The literature review doesn't show any similar research applied in Bahrain or GCC countries. This paper tests the relationship between earnings and stock performance for the listed companies in the Bahrain Bourse (Stock Exchange Market). The result of the research could support the stakeholders in the Bahrain Bourse to understand the

effect of earnings on stock performance and help them to make their own investment decisions. The research model has been built based on the previous work by Easton & Harris (1991). In Easton & Harris model, the EPS and change in EPS were employed as independent variables while the return of the common stock was the dependent variable. The current study tests the relationship between the same variables through three models (A, B, C). The stock return of the listed companies on the BSE is considered as the dependent variable in the three models. The stock earnings per share are the independent variable in the model (A). The changes in earnings per share are employed as the independent variable of the Model (B). The two previous independent variables are combined together as the independent variable for the third model (C). Based on the previous brief introduction, the research objectives are:

- To test the significance of the relationship between the value of the EPS and stock performance for the listed companies on the BSE,
- To test the significance of the relationship between the changes in the value of the EPS and stock performance for the listed companies on the BSE.
- To test the significance of the relationship between the EPS and the change in the EPS from one side as the independent variable, with the stock performance of the listed companies on the BSE as the dependent variable.

The remaining sections of this paper are divided as follows: The literature review and the research background are presented in the first section. The research methodology and the research model are exposed in the second section. The analysis results are presented in the third section. The discussion of the findings and the test of the research hypothesis are presented in the fourth section. The last section is devoted to the conclusion and the limitations of the research.

BACKGROUND AND LITERATURE REVIEW

Studying risk, earnings and stock performance fluctuation has been considered as a decisive topic in the area of investment, stock markets, and financial affairs. The work of Sharpe (1964), which has been focused on describing the relationship between systematic risk and stock, expected return, led to the Capital Asset Pricing Model. Ross (1976) initiated the first attempts to create a multi-factor model to price assets. These efforts led to the elaboration of the Arbitrage Pricing Theory (APT), which is based on the idea that asset returns can be predicted using the linear relationship between the asset's expected return and a number of macroeconomic variables that capture systematic risk.

Holthausen & Watts (2001) argued that stock price fluctuations could be explained by using two theories: the "direct valuation" theory from one side and the "inputs-to equity-valuation" model from the other side. The "direct valuation" model considers earnings per share as an explanatory variable of the stock's price or of the change in this price. On the other hand, the "inputs-to equity-valuation" model explains that investors use the valuation models to make their decisions based on the available information from the financial markets and the firm's financial reports. Holthausen & Watts (2001) showed that the majority of the researchers use these two theories (or one of them) for designing their research model to explain the behavior of the stock performance based on the firm's earnings. Beaver (2002) explained that a combination between valuation theory and the development and analysis of financial data is the core concept for designing the appropriate theoretical background to test the relationship between stock price and accounting information.

The relationship between earnings and stock performance has been studied widely in the developed stock markets. Ball & Brown (1968) studied the relationship between accounting profit and investment decisions on the New York Stock Exchange (NYSE). They found that the EPS affects the stock performance of NYS. Basu (1983) found the same positive result in the same stock market. Freeman (1987) tried to use firm size as a moderator variable to explain the

relationship between EPS and stock price for different firms in the USA (1966-1982). The result of the study showed a positive, significant relationship between the two variables. Furthermore, this relationship is stronger in big firms. Freeman also found that the size of the firm is negatively related to the unexpected revenues.

Collins & Kothari (1989) found a positive effect of the earnings on the stock price. In contradiction with the results of Collins and Kothari, Lev (1989) detected a weak significance of the earnings effect on the stock price. Easton & Harris (1991) used nine years of cross-section and time-series data to study the relationship between financial reporting information and stock performance for a sample of US firms. They found that the stock price and return could be explained by using the earnings and the variance of these earnings. Ohlson & Shroff (1992) used the Easton and Harris model and confirmed the significance of the relationship between the studied variables. Fairfield, et al., (1996) found the same results using the Easton and Harris model. They proved the significant effect of the earnings and the change in earnings on the stock's performance. Ball, Kothari & Watts (1993) found a significant effect of the change in earnings on the stock price on the NYSE. Harris, et al., (1994) found a significant effect of the earnings and change in earnings on the stock price for a sample of firms in Germany.

Lipe, et al., (1998) found a significant relationship between earnings and stock performance, but this relationship has a non-linear form. Haw, et al., (1999) found that the share price is affected by the changes in earnings for a sample of Chinese firms. Charitou, et al; (2001) showed that the fluctuation of the share price could be explained by the earnings level and the changes in the earnings. Similar results have been found by Pritchard (2002) when he studied a sample of firms in Estonia, Latvia, and Lithuania. Pritchard found a significant effect of the firm's earnings on the stock performance. Che (2007) tested the effect of the earnings on the stock price in the Chinese stock market. He found that for investors in the stock market, earnings are considered an important factor for making investment decisions. In 2009, Dimitropoulos and Asteriou noticed that the earnings level and the change in earnings had a significant impact on the stock performance on the Greek Stock Exchange. Cheng, et al., (2013) discovered a positive relationship between earnings and stock price changes. Similarly, Campbell (2015) found that stock market price fluctuations could be explained by changes in earnings. Hess, et al., (2017) and Penman et al., (2018) found the same results. Macmillan (2019), used financial ratios to design a predictive model to predict the future movement of the stock price. Ozturk & Karabulut (2020) tested the effect of profitability financial ratios in explaining the stock price variation on the Istanbul Stock Exchange. They found a significant relationship between the variables for the listed companies in the telecommunication sector. Crawford, et al., (2021) found a significant effect of the oil price on the firm's earnings which has a positive effect on the stock price.

A few studies have been done in the GCC stock markets. As an example of this study, the work of Al-Sehali & Spear (2004). The two authors tried to test the relationship between earnings and stock performance in the KSA SE between 1995 and 1999. The result of the research demonstrated the existence of a non-significant effect of earnings on the stock return of listed companies on the Saudi Stock Exchange (Tadawul). Alzarouni, et al., (2011) examined the influence of the financial reports on the stakeholders' financial decisions in the United Arab Emirates stock markets. The results showed that the financial reports are an important source of information for investors on the UAE stock exchanges. Khanagha (2011) studied the relationship between earnings and share prices for a sample of firms listed on the Dubai Stock Exchange. The research results showed a significant relationship between the earnings level and the stock price. In Egypt, Elbayoumi & Awadallah (2012) found that earnings and other accounting information have a limited influence on the share price on the Egyptian Stock Exchange. Hijazi & Tabash (2020) showed a non-significant relationship between the EPS and the share price during Ramadan on the Palestine Stock Exchange (PEX). At Amman Stock Exchange Market (ASE), Shakatreh (2020) showed a positive and significant relationship level between the EPS and share price for the listed companies in the industrial sector at (ASE).

The research in the literature review didn't show any similar study in Bahrain. For that reason, this paper is targeting the Bahrain Stock Exchange as a trial to understand the behavior

of the stock price based on the earnings generated by the listed companies. The result of the research will help the stakeholders in the market make investment and financial decisions.

RESEARCH METHODOLOGY

Different models have been used to test the relationship between EPS and the share price. The multi-regression model has been used by the majority of the studies. As per Fernandez (2017), all the models used should be under one of the following three groups of valuation criteria. The first model is based on the criteria of capitalization. The second model is based on the firm's value. The third model is based on a set of multiple growth-referenced criteria. This study adopts the regression model which has been employed by Easton & Harris (1991). The literature review showed that this methodology has also been employed by Lang & Moller (1994) to study the same relationship for a sample of German companies. Haw et al., (1999) used the same model to study the phenomena in the emerging capital market (China). Charitou, et al., (2001); Pritchard (2002) have referred to Easton and Harris in their studies. Dimitropoulos & Asteriou (2009) have employed the same model to test the significance of this relationship in the context of the Greek capital market. Fernandez (2017) concluded that P/E is mostly employed to test the effectiveness of the relationship between earnings and share price by analysts in Europe.

This research employed the Easton & Harris (1991) model in three stages. The first model (A) tested the relationship between the value of EPS and share performance. The model (B) tested the effect of the changes in the EPS on the same dependent variable. The Model (C) is used to combine the two previous independent variables and test their effect on the dependent variable of the research. The objective of these models is to investigate the relationship between the mentioned variables on the Bahrain Stock Exchange.

Model A (EPS and Stock Performance)

As per the employed model, the value of the Earnings Per Share (EPS) divided by the share price is the independent variable. The dependent variable is stock performance, which is measured by share price gains or losses during the period. This model stipulates that the variable (A_{jt}) should be able to explain the movement of the share price and performance of the companies listed on the BSE, as per the below regression model:

$$R_{jt} = a_0 + a_1 A_{jt} + \varepsilon_{jt1} \quad (1)$$

Where:

R_{jt} : is the market return of the firm j share for the period of one year, starting from the April for the year (t-1) to the end of March for the year (t).

$A_{jt} = \text{EPS}_{jt} / P_{jt-1}$ where: EPS_{jt} of the firm (j) for year (t), and P_{jt-1} is the share price for the firm (j) recorded for the period (t-1).

a_0 and a_1 : regression parameters

ε : regression residual.

H01: There is no statistically significant relationship between Earnings per Share and the share performance in the Bahrain SE.

Model (B) (Δ in EPS and Stock Performance)

Using the same variables explained in model (A), Model (B) links the changes in Earnings Per Share (EPS) to the share price, as per the following formula:

$$R_{jt} = b_0 + b_1 \Delta A_{jt} + \varepsilon_{jt2} \quad (2)$$

Where:

ΔA_{jt} : $\Delta EPS_{jt}/P_{jt-1}$ where: $\Delta EPS_{jt}=(EPS_{jt}- EPS_{jt-1})$ is the variance of EPS of the firm j between the period (t-1) to (t), P_{jt-1} is the share price of the firm (j) recorded for the period (t-1)

H02: There is no statistically significant relationship between Earnings Per Share variation and the share performance in the Bahrain SE.

Model (C) (Combined Model)

Model (C) is used to test the relation of the combined independent variables in the previous models (A, B) with the stock performance as dependent variable. All the variables of the below regression have been explained in the previous models:

$$R_{jt} = c_{t0} + c_{t1} A_{jt} + c_{t2} \Delta A_{jt} + \varepsilon_{jt} \quad (3)$$

H03: There is no statistically significant relationship between Earnings Per Share, changes in EPS and share performance in the SE Bahrain.

Research Sample and Data Collection

The study of the relationship between earnings and share performance in the Bahrain Bourse (Stock Exchange Market) is motivated by many factors. The important development of the financial sector in Bahrain has positively reflected on the Bahrain Stock Exchange. Bahrain Cabinet EDB's unwavering support for the Kingdom's economic and financial sectors. The national economic vision 2030 focuses on the importance of the growth of financial activities, which is targeting Bahrain as a regional financial hub in the coming years. These different factors were behind the motivations for applying the study to the listed companies in the Bahrain Bourse. Bahrain Bourse was officially established in 1987 as the Bahrain Stock Exchange (BSE), and it has been regarded as the Kingdom's national market for financial instrument trading. BSE operations officially started in June 1989 with 29 national companies on the list of the Stock Exchange. The development in the economic and legislative environment has accelerated the progress and the growth of the financial Bourse. The number of listed companies on the BSE increased to 42 companies by the end of the year 2020.

This study tested the existence of a significant relationship between earnings and stock performance. The research sample is composed of 38 companies out of 42 listed. After screening the available data for the research, five companies have been excluded to keep homogeneity and conformity of the data collected for the companies studied. The primary source of data was the reports published by Bahrain Bourse and the official financial reports published by the companies on the website of the BSE for the period (2013-2019). SPSS (IBM SPSS Statistics 22) is employed to analyze and execute the regression analysis for the three models.

DATA ANALYSIS AND RESULTS

The analysis of the data will be done in two levels. The first level is the market level for all the firms in the sample, and the second level is sectorial analysis, which tests the relationship between the research variables in the different sectors.

Market Level

In this section, the regression results of the three models are presented. Table 1 shows the mean statistical features of the research variables.

Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	258	258	258	258	258	258
Min	-0.071	0	0.027	-0.5	-0.903	-0.755
Max	0.438	0.067	2.1	2.25	0.523	0.887
Mean	0.029	0.016	0.414	0.62	0.058	0.011
STD	0.044	0.017	0.376	0.296	0.121	0.119

Table 1 shows the maximum, the minimum, the mean and the standard deviation for all the research variables. The negative values reflect the loss of some companies from the sample. The SPSS regression results for the three models (A, B, C) are presented in Table (2).

Regression Results						
Model A			$R_{jt}=a_{t0}+a_{t1} A_{jt}+\epsilon_{jt1}$			
N	a_{t0}	a_{t1}	R	R^2	P-Value	
258	0.376	0.223	0.097	0.011	0.124	
Model B			$R_{jt}=b_{t0}+b_{t1} \Delta A_{jt}+\epsilon_{jt2}$			
N	b_{t0}	b_{t1}	R	R^2	P-Value	
258	0.246	0.225	0.069	0.004	0.258	
Model C			$R_{jt}=c_{t0}+c_{t1} A_{jt}+c_{t2} \Delta A_{jt}+\epsilon_{jt3}$			
N	c_{t0}	c_{t1}	c_{t2}	R	R^2	P-Value
258	0.079	0.12	0.325	0.112	0.012	0.246

* Significant if=P-Value<0.05

Table 2 shows that the P-Value of all the three models (A, B, and C) is higher than 0.05, which means that there is a non-significant relationship between the research variables. Earnings and the change in earnings are not significantly considered as explanatory factors for the variance of the stock return. The P-Value for the model (A) is 0.124, which is higher than 0.05, which means that the relationship between the variables of the model is non-significant. The R^2 of the model (A) is equal to 0.011, which means that EPS explains only 1.1% of the share performance variation. The relationship in model (B) is also non-significant because of the P-Value, which equals 0.258. The changes in EPS explain only 0.4 % of the share performance variation as per the value of R^2 of the model (B). The regression result for the combined model (C) is also non-significant, and the combined variables can explain only 1.2 % of the changes in the share price of the listed companies on the BSE.

This finding shows clearly that the relationship between the variables of the study is non-significant at all the levels, which means that investors and stakeholders in the Bahrain Stock Exchange could not depend on the EPS or the change in EPS to argue the movement of the share price or to explain the capital return of common stocks in the BSE. Khan (2009) found a significant relationship between the same variables in some sectors of the DSE (Dhaka Stock Exchange) and non-significant in other sectors.

Regression Data Analysis by Sector

In this section, the three models (A, B, and C) have been tested for each sector. This analysis aims to test the significance of the relationship between the study variables in each

sector of BSE. The table below (3) presents the mean statistical features of the study variables in each sector.

Table 3						
DESCRIPTIVE ANALYSIS FOR THE RESEARCH VARIABLES AS PER BSE SECTOR						
Services Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	68	68	68	68	68	68
Min	0.002	0.005	0.089	-0.441	0.007	-0.064
Max	0.442	0.055	2.099	0.538	0.337	0.278
Mean	0.05	0.029	0.596	0.074	0.093	0.005
STD	0.06	0.019	0.56	0.196	0.049	0.039
Investment Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	57	57	57	57	57	57
Min	-0.071	0	0.026	-0.48	-0.325	-0.251
Max	0.129	0.05	1.5	2.25	0.436	0.367
Mean	0.018	0.011	0.356	0.061	0.053	0.017
STD	0.037	0.016	0.311	0.401	0.113	0.112
Commercial Banks Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	50	50	50	50	50	50
Min	-0.039	0	0.04	-0.463	-0.427	-0.444
Max	0.053	0.035	0.85	1.859	0.184	0.502
Mean	0.017	0.01	0.31	0.125	0.032	0.01
STD	0.023	0.011	0.263	0.394	0.109	0.124
Insurance Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	33	33	33	33	33	33
Min	-0.038	0	0.1	-0.5	-0.073	-0.137
Max	0.059	0.04	0.67	0.385	0.137	0.138
Mean	0.021	0.013	0.4	-0.012	0.045	-0.002
STD	0.024	0.013	0.155	0.204	0.049	0.052
Hotels & Tourism Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	28	28	28	28	28	28
Min	-0.07	0	0.056	-0.276	-0.903	-0.755
Max	0.084	0.04	0.85	0.25	0.523	0.887
Mean	0.021	0.011	0.316	-0.009	0.01	0.027
STD	0.033	0.013	0.275	0.1298	0.247	0.25
Industrial Sector						
Var	EPS	DPS	P	R_{jt}	A_{jt}	ΔA_{jt}
N	22	22	22	22	22	22
Min	-0.036	0.005	0.215	-0.373	-0.113	-0.166
Max	0.202	0.067	0.905	0.581	0.518	0.436
Mean	0.045	0.021	0.392	0.084	0.107	0.012
STD	0.052	0.012	0.158	0.217	0.118	0.113

Source: SPSS statical result.

Table 3 shows that the services sector has the highest earnings per share (EPS=0.442 BD) and the highest share price (P=2.099 BD). The investment records show that this sector scored the minimum level of EPS (maximum loss) (EPS=-0.071 BD). The lowest share price (P=0.026 BD) and highest stock return (R=2.25) are both for the same sector. The minimum return is recorded in the insurance industry (loss of -0.5). The highest level of share return is recorded in the industry (0.581).

To investigate the relationship between the research variables, a sectorial level regression analysis has been run for the models (A, B, and C). The table 4 - demonstrates the analysis results for the model (A):

Sector	N	a_{i0}	a_{i1}	R	R ²	P-Value
Services	68	-0.011	0.912	0.228	0.054	0.065
Investment	57	0.007	1.015	0.285	0.079	.030*
Commercial Banks	50	0.11	0.466	0.128	0.021	0.369
Insurance	33	0.23	2.826	0.143	0.019	0.419
Hotels & Tourism	28	-0.009	0.037	0.069	0.004	0.723
Industrial	22	0.065	0.182	0.098	0.011	0.669

* Significant if=P-Value<0.05

The P value of the regression in all the sectors is higher than 0.05 except in the investment sector. In the investment sector, the P-value of (0.031) indicates the significant relationship between the EPS and the stock return, and the value of R² shows that 7.9 % of the changes in the stock return could be explained by the EPS. For all other sectors, the result confirms the previous findings at market level, which means the non-significance effect of the EPS in explaining the changes in the stock price in all the sectors of the BSE. The values of P-Value are between 0.065 and 0.723. The highest coefficient of determination is 0.054, which means the weak effect of EPS in explaining the variation of the share return in these sectors.

Sector	N	b_{i0}	b_{i1}	R	R ²	P-Value
Services	68	0.071	0.548	0.11	0.012	0.381
Investment	57	0.04	1.249	0.36	0.13	.008*
Commercial Banks	50	0.122	0.277	0.088	0.008	0.548
Insurance	33	0.345	0.705	0.038	0.001	0.829
Hotels & Tourism	28	-0.006	-0.08	0.158	0.025	0.425
Industrial	22	0.082	0.182	0.096	0.009	0.683

* Significant if=P-Value<0.05

The sectorial regression analysis for model (B) shows a significant relationship between the variables only in the investment sector. The P-Value of 0.008 reflects a significant statical relationship between the change in the EPS and the share performance in the investment sector. As per the R², 13% of the changes in the share price could be explained by the changes in EPS for the companies listed in the investment sector. The Model (B) is not significant for the other sectors of the BSE. The value of R² reflects a low power of explanation of the share return by the changes in the EPS in these sectors. The P-Value of the model (B) for all these sectors is

higher than 0.05, which leads to the non-significance relationship between the independent and the dependent variables.

Sector	N	c_{10}	c_{11}	c_{12}	R	R²	P-Value
Services	68	-0.042	-0.629	1.274	0.239	0.057	0.075
Investment	57	0.014	0.988	0.561	0.382	0.146	.016*
Commercial Banks	50	0.111	0.083	0.416	0.129	0.017	0.667
Insurance	33	0.226	-0.234	2.914	0.139	0.019	0.726
Hotels & Tourism	28	-0.006	-0.113	0.083	0.208	0.043	0.555
Industrial	22	0.07	0.075	0.121	0.098	0.01	0.912

* Significant if $P\text{-Value} < 0.05$

Table – 6 shows the non-significance of the relationship between the variables of the model (C). The P Value of the regression analysis in the investment sector shows a significant relationship between the (EPS, Change in EPS) and the stock return. As per the R2 the independent variables explain 14.6% of the changes in the dependent variables in this sector. The sectorial regression result is aligned with the findings of the market regression results and the relationship is non-significant.

DISCUSSION AND HYPOTHESIS TEST

This paper studied the relationship between EPS, changes in EPS, and the stock performance of the listed companies in the Bahrain Bourse. Based on the Easton & Harris (1991) model, three regression models have been designed (A, B, and C). The model (A) is to test the relationship between EPS and share performance. The model (B) is to investigate the relationship between the changes in EPS and the share performance. The model (C) is a combined model of the (A) and (B) models. In (C) models, the independent variables are the EPS and the changes in the EPS. The dependent variable is the stock performance. The result of the regression analysis of the model (A) showed a non-significant effect of the EPS on the share performance for the listed companies on the BSE. This finding is consistent with the findings of Hagerman, et al., (1984) on the NYSE. The same results have been found by Lev (1989) in the US stock markets. In Taiwan and Malaysia, Graham & King (2000) found a weak effect of earnings on the stock return. The same results have been found in the stock market in Mexico by Swanson, et al., (2003) and by Pritchard (2002) in Lithuania. In the other hand, a positive significant relationship has been found by Easton & Harris (1991); Lev & Thiagarajan (1993); Richardson, et al., (2010), in the US stock markets. The study by Ohlson (1995) has led to a positive and significant relationship between earnings and share performance. This relationship is confirmed by Al-Qenae, et al., (2002) in the Kuwait stock market. As per the result of model (A) regression, the P-value is higher than 0.05, then the null hypothesis H01 is accepted. In a concluding manner, there is no statistically significant relationship between Earnings Per Share and the share performance in the Bahrain SE.

The investigation of the pertinence effect of the changes in the EPS on the share performance has been tested by the model (B). The result of the regression analysis showed that there were no significant relationships between the independent and the dependent variables in the Bahrain Stock Exchange. These findings are aligned with the results found by Freeman (1983) in the NYSE, and the results of Hughes & Ricks (1987) when they studied the effect of the information content of annual earnings announcements in the US stock market. Ramesh and Thiagarajan (1993) found the same findings by using accounting earnings based on the Unobservable Components (UC) model. The same findings have been found by Francis and

Shipper (1999) when they studied the pertinence of the financial statements' content for stock market investors. Other studies, however, have confirmed the existence of a significant relationship between changes in EPS and share performance. Ball & Brown (1968) confirmed this relationship when they studied the usefulness of accounting models and the best practices for choosing the appropriate evaluation model. The same result was also found by Beaver (1968) when he studied the information content of annual earnings announcements. In Taiwan and Malaysia, Graham & King (2000) found a significant relationship between the changes in earnings and the stock return. The same results have been found on the Hong Kong stock exchange by Chen & Zhang (2003). As per the result of model (A) regression, the P-value is higher than 0.05, then the null hypothesis H02 is accepted. In conclusion, there is no statistically significant relationship between variation of the Earnings Per Share and the share performance in the Bahrain SE. The Model (C) investigated the relationship between EPS and the changes in EPS as independent variables and the share return as dependent variables. The regression analysis results also showed a non-significant relationship between the research variables for the listed companies on the Bahrain Stock Exchange. The P value of the model is higher than 0.05 and the third null hypothesis H03 is accepted. In summary, there is no statistically significant relationship between earnings per share, changes in EPS, and the performance of the shares in the SE Bahrain.

CONCLUSION

This paper aimed to study the relationship between EPS, changes in EPS, and the share price return on the Bahrain Stock Exchange (BSE). The model designed by Easton and Harris (1991) has been used to investigate the existence of such a relationship between the variables of the research. At the market level, the regression results showed a non-significant relationship between the independent variables (EPS and changes in EPS) and the dependent variable (share price performance). By applying the models at the sectoral level, the results showed the same results in all the sectors except in the investment sector. For this sector, a significant relationship is found in the three models (A, B, and C). The result of this research led to accepting the null hypotheses (H01, H02, and H03) which pretend the insignificance effect of the earnings, or the changes in earnings on the performance of the listed firms' stocks on the Bahrain Stock Exchange. Based on the findings, the stakeholders on the Bahrain Stock Exchange could ignore the effect of the EPS and changes in EPS on the stock prices while making their financial decisions. For forthcoming studies on the Bahrain Stock Exchange or GCC stock markets research, evaluating the factors influencing financial decisions in the different GCC stock markets will be important.

LIMITATION OF THE RESEARCH

This research has certain limitations which could be found in the short period of the study (nine years only) or in the limited number of the firms included in the sample of the study. It could also be the low volume of activities of the Bahrain Stock Exchange in terms of the number of transactions and the value of these transactions. All these factors could have an impact on the results of the study.

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