

# The Impact of Financing Structure on Common Stock Prices

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**Abstract.** The pricing of common stock is significantly influenced by the financing structure. The cost required for businesses to secure outside funding in order to support their operations and projects is referred to as their financing structure. This expense could include interest on debt and investor returns on capital contributed to the business. A high cost of financing structure will raise the cost of capital and lower the value of common stock. The interest expenses incurred on debt mean that the cost of the financing structure will have an impact on the profits of the company. The required return will rise in the event that financing costs are high, which will lower the valuation of the company and possibly lower the price of common stock. Through its effects on the cost of capital, the profits of the company and valuation, and the demand for stocks, the cost of financing structure has a direct and indirect impact on the price of common stocks. It should be mentioned that other elements, such as political and economic ones, business performance, and rivalry in the market, also have an impact on the price of common stock.

**Keywords.** Financing structure, common stocks, capital, company, interest

## 1. Introduction

Regular stock markets, where investors trade, buy, and sell stocks, are among the most significant financial markets globally. Since investors analyze and assess stock prices in order to make wise investment decisions, ordinary stock prices are among the most significant factors influencing traders' decisions.

The cost of the financing structure is one of the key elements that influence the price of common stock. The expenses incurred by businesses to secure the funding required to operate and grow their enterprise are referred to as the financing structure cost. This includes the price of common stock in addition to expenses related to debt and outside funding. The price of the common stock of the company will be directly impacted by the cost of the financing arrangement. For instance, if the cost of the financing structure goes up, the company may need more capital, which would raise the price of issuing common stocks. When investors lose faith in the company and decide not to invest in it, this could result in a drop in the price of the common stock of the company.

It is evident that common stock prices are significantly impacted by the cost of the financing structure. It thus becomes imperative to investigate this impact and gain a deeper understanding of it through a variety of studies and research projects. Clarifying the relationship

between financing structure and common stock prices is the goal of this study's analysis and evaluation.

In order to comprehend how the cost of financing structure impacts common stock prices, the researcher will examine financial structure statements and data for various companies. A review of earlier studies and literature on the relationship between stock prices and financing structure will also be included in the study.

By means of this research, investors, corporations, and financial structure analysts can acquire a comprehensive comprehension of the variables impacting stock prices and subsequently make astute investment choices. Businesses can also gain from this research by strengthening their financial guidelines and making plans to lower financing structure costs and raise stock values. To assess the effect of the cost of financing structure on common stock prices, this study will rely on the analysis of quantitative financial data and information, in addition to the use of statistical models and financial analysis techniques. To obtain comprehensive understanding of this subject, surveys and interviews with investors and financial specialists will also be undertaken.

## **2. Research Methodology**

### **A. Research problem**

The issue of how financing structure costs affect common stock prices is addressed in this study. Concerns about the high cost of financing structures for businesses are warranted because they can raise capital costs for them and negatively affect the price of common stock. For financial analysts, businesses, and investors, this issue is crucial because they must comprehend the elements influencing the price of common stock and assess how financing costs affect that price.

### **B. Research Importance**

1. The research contributes to our understanding of how stock prices are set and assessed by investors. In general, our ability to assess stocks and make more wise investment choices can be enhanced by a deeper comprehension of the implications of financing structure costs.
2. Comprehending how financing structure expenses affect common stock prices encourages businesses to choose the right kind of financing. Businesses can assess how debt and common equity expenses affect their cost of capital and company valuation, enabling them to choose the best financing structure and options.
3. The study contributes to the identification and comprehension of the risks related to financing costs and how they affect stock prices. An increase in the cost of financing structure could put the business at greater risk financially and present new difficulties. As a result, businesses are able to determine the best risk management techniques for handling financing costs.
4. Investment decisions can be made better by conducting research on how financing structure costs affect the price of common stock. To make well-founded investment decisions, investors must understand how financing costs impact stock prices and company valuations.
5. It is possible to enhance government and regulatory policies pertaining to finance and financial markets by comprehending how financing structure costs affect stock prices. Based on the data and conclusions from these kinds of studies, the research can help direct laws and economic policies pertaining to financial market regulation.

### **C. Research Objectives**

When researching how financing structure costs affect common stock prices, a number of goals can be accomplished, chief among them being:

1. The goal of the study is to comprehend how the value of the company is impacted by the cost of the financing structure. The impact of the total cost of financing on the value of the company

and common stock prices is assessed by using corporate financial statement analysis and stock valuation models.

2. The study attempts to comprehend how the cost of debt affects the price of common stocks. To ascertain the effect of the cost of debt on company valuation and stock prices, companies that heavily rely on debt can be examined and contrasted with companies that have a different financial structure.

3. Analyzing the impact of common stock costs on stock prices is part of the research. The impact of the cost of common stock on a valuation of the company and stock prices can be ascertained by looking at the financial statements of companies that have issued new stocks and by analyzing price changes that have occurred after the stock was issued.

4. The study intends to investigate how common stock prices are impacted by the total capital cost. To assess their effect on stock prices, a number of variables that influence the overall financing cost structure of the company -such as the cost of debt, the cost of common stock, and other expenses - can be examined.

### **E. Research Hypotheses**

1. The price of common stock decreases as the cost of financing structure increases.

2. An increase in the cost of financing structure leads to an increase in common stock prices.

3. The cost of financing structure affects the valuation of the company in general, and thus affects the prices of common stocks.

4. The cost of financing structure affects the investment trends of the company, and thus affects the prices of common shares.

### **3. The Concept of Financing Cost**

The financial management in the business organization is concerned with two important decisions, which are the investment decision and the financing decision. The investment decision is directly linked to the financing decision, as the acceptance of the proposed investment project depends on how it is financed. Choosing a specific investment project depends not only on the expected return from it, but also on the estimated cost of the money invested or the sources of financing for that project. The financial management provides its investment funds from two main sources: borrowing and owned funds (property rights). Within the framework of the financial management's decision, to accept these investments (in terms of their economic feasibility), the return achieved from implementing these investments must be appropriate. This means when evaluating investment proposals, by comparing the expected return on these investments with their cost [6], accepting these investments essentially requires knowing the cost of financing of these investments. An investment that does not guarantee an expected return higher than its cost must be rejected, as accepting it means a decrease in its returns expected, and thus a decrease in the profitability of the business organization as a whole, which causes a decrease in the earnings per stock and thus in its market value, which is considered the strategic goal around which all financial management decisions revolve [11]. It is noted regarding studies specialized in the cost of financing that many researchers and specialists in economic, accounting, and financial sciences have differed in their opinions regarding defining the concept of the cost of financing, despite giving it exceptional importance when making investment decisions, which are considered among the most important decisions for a business organization.

### **4. The Importance of Financing Cost**

The importance of the cost of financing structure as a financial concept emerges for several reasons, including that maximizing the value of a business organization includes minimizing the cost of its inputs, including financing. The cost of funds is also included in the financing

budget, in addition to the financial management benefiting from calculating the cost of financing in many financial decisions [21]. Decisions related to capital budgets have a significant impact on the business organization, and therefore the correct decisions related to budgets Capitalism requires an estimate of the cost of financing structure [2], and the importance of the cost of financing structure, which is considered at the same time as the discount rate, appears in that it is the basis for calculating the present value of the cash flows associated with each investment project, on the basis of which the investment decision is made, either to accept this investment project or he rejected it, and the cost of financing structure is considered one of the variables that must be determined before by using any method of evaluating investment projects that takes into account the change in the time value of money, whether in the case of certainty or uncertainty. The cost of financing structure also affects the level of the interest rate. The prevailing financial market varies from one business organization to another, from one investment project to another, and from one period of time to another within a single business organization, as the cost of financing structure is important for a wide range of decisions for the business organization, the most important of which are the investment decision and the financing decision. Regarding the investment decision, the cost of financing structure works to maximize property rights by accepting investments whose expected returns are greater than the cost of financing structure for them. As for the financing decision, the cost of financing structure will provide the appropriate measure to measure the effectiveness of the financing structure combination, whether that is through comparison between the available sources of funds and the acquisition of the most appropriate ones, or by choosing the financing structure configuration that is limited to the financing cost of the business organization [16].

### **5. Factors Affecting the Cost of Financing Structure**

The cost of financing is the cost of the mix that makes up the financing structure, which includes borrowing and equity. The cost of one of these elements is affected by general factors that affect all the components of the financing structure, and by special factors related to each element separately. The following is a presentation of the factors affecting the cost of financing:

#### **a. Influence of General Factors**

Investors who provide a business organization with funds expect to receive a return sufficient to compensate them for merely depriving them of exploiting their money to achieve present benefits, given that these investments are directed to the field of investment. They also expect to receive a return to compensate them for the risks to which the investment may be exposed. The first part of the return is considered compensation to the investor for the time element, as it is a return he receives as compensation for postponing obtaining satisfaction from money he owns. The value of this compensation is estimated at the return that the investor could obtain if he invested his money in areas that are not exposed to any risks, which is equivalent to the expected return on a government security with a maturity date similar to the planned period of investment, determined by the financing source, which is called the rate of return on investment. Risk Free Rate Investment, and this return, which for a business organization is considered part of the cost of any source of financing, depends on the general economic situation. The greater the demand for funds or the higher the inflation rate, the higher the rate of return on risk-free investment, and vice versa [3]

As for the second part of the return, which the investor receives to compensate him for the risks to which the expected return from the same investment is exposed; it is called the risk premium. As for inflation risk, it affects the required rate of return on investment, as the rate of return on risk-free investment includes, in part, a return to compensate the investor for the risk of a decrease in the purchasing power of the invested funds. As for the risks related to the

investment itself, which are operational risks and financial risks, they are compensated with risk allowance. In other words, the rate of return on risk-free investment does not include any compensation for the risks of the investment itself, and this, of course, does not change the nature of this return, as it is still compensation about the element of time and the hidden risks that the returnee may be exposed to [9].

**B. The Influence of Factors Specific to each Element**

Funding sources vary in terms of the risks to which they are exposed. Lenders are less exposed to risks than stockholders, as they have the right to receive periodic interest regardless of whether the business organization achieves a profit or not, and they also have priority in obtaining their dues from liquidation funds in the event of bankruptcy. Next come holders of preferred stocks, as they are more exposed to risks than creditors, but they are less exposed to risks compared to holders of ordinary shares. Preferred stockholders have priority over common stockholders, whether in obtaining their share of profits (if they are decided to distribute them) or in obtaining their dues from liquidation funds in the event of bankruptcy. Ordinary stockholders bear greater risks than others, and since the cost paid by the business organization (the return that investors receive) depends on the risks to which the various sources of financing are exposed, it is therefore expected that borrowing is the least expensive source of financing, and that shares Common stocks are more expensive, while preferred stocks come in middle of the road [20]

**6. Financing Structure Cost Components**

The business organization obtains the funds it needs from two main sources: borrowing and equity. Each source has its own cost and risk that differs from the other source. These two sources constitute the cost of financing structure or what is called the cost of funds.

**A. Cost of Debt**

The cost of debt is defined as the rate of return that must be achieved on investments financed by loans so that the returns associated with owners of equity are not affected. Therefore, it can be said that the cost of borrowing is the interest rate paid on loans because if a business organization borrows and then invests the borrowed money to obtain a return equal to the interest rate, the profits accruing to owners of equity will not be affected [4]. The cost of debt at the effective interest rate, in which the present value of the loan principal and interest equals the net amount received from the business organization [7]. (Hindi) defined the cost of debt as the actual interest rate that the business organization pays to the investor, after adjusting it for tax purposes, that is, after excluding tax savings, as the cost of borrowing results in inflows that the business organization obtains when it obtains the value of the loan, and it results in outflows that are The interest you pay annually, in addition to the value of the borrowed funds that must be repaid on the due date. Given the varying dates of cash outflows, the idea of the internal rate of return can be used to estimate the cost of borrowing, meaning that the cost of borrowing is represented by the discount rate at which the net proceeds of the borrowed funds equal With the present value of the flows paid by the business organization to the lender, according to the following model [12]:

$$H = \sum_{i=1}^n c * \left(\frac{1}{1+8m}\right)^i + a \left(\frac{1}{1+8m}\right)^n \dots\dots\dots (1)$$

Whereas:

H: The value of the loan minus the loan expenses, after deducting the tax savings resulting from those expenses.

C: Cash flows represented by periodic interest after deducting tax savings on accrued interest.

a: Borrowed money that must be repaid on the due date.

m: The discount rate, which represents the cost of borrowing for the business organization. In the same context defined the cost of borrowing as the effective interest rate after tax, and that the loan is issued at its nominal value and can be deducted when the loan is recovered, and they arrived at calculating the cost of borrowing through the following models: [19]

$$K_d = (1 - t) R \dots\dots\dots(2)$$

K<sub>d</sub>: The cost of borrowing.

t: Tax rate.

R: The interest rate on bonds.

When the loan is deducted, the cost of borrowing is calculated according to the following formula:

$$K_d = \frac{I}{N_p} (1 - t) \dots\dots\dots(3)$$

K<sub>d</sub>: The cost of borrowing.

I: The annual interest due.

N<sub>p</sub>: Net bond yields.

t: Tax rate.

The cost of borrowing is calculated after tax because the interest paid on the loan is treated as a financing expense in the income statement and therefore reduces the taxable profit of the organization. On this basis, the cost of borrowing is calculated before tax so that it is possible to determine the cost of borrowing after tax:

$$K_{db} = \frac{I + 1/n(p - N_p)n}{1/n(P + N_p)/2} \dots\dots\dots(4)$$

K<sub>d</sub>: The cost of borrowing before taxes.

I: The annual interest due.

P: The nominal value of the loan.

N<sub>p</sub>: Net bond yields.

n: The loan period until the maturity date.

In this case, the cost of borrowing after taxes can be found by multiplying the cost of borrowing before taxes by one minus the tax rate, according to the following model:

$$K_{da} = K_{db} \times (1 - t) \dots\dots\dots(5)$$

Whereas:

K<sub>da</sub>: The cost of borrowing after tax.

K<sub>db</sub>: Cost of borrowing before tax.

t: Tax rate.

**B. Cost of Ownership**

The cost of ownership rights is defined as the minimum return that a business organization must achieve on its investments, which are financed with the owners' money and which are already there [22]. Ownership rights consist of: common stocks, retained earnings, and preferred shares. The cost of ownership rights for each type is estimated according to the following:

**• Cost of Common Stock**

The business organization issues common shares to use their proceeds to finance investment projects. This type of financing is called financing through external equity, and this financing is from the money paid by the old or new owners from their own funds, in distinction from the internal financing that the business organization receives from the old owners, which is represented by the profits that It is decided to retain it instead of distributing it [15], and given that the cost of common stocks is estimated, as it is not paid directly upon obtaining financing structure, but rather it is the minimum rate of return that the investor who is looking forward

from the rate of return that must be achieved on these funds. Financing structure with ordinary stocks takes two forms: The first form is represented by retaining profits and then capitalizing them, and the second form is represented by issuing new stocks. The cost of common stocks represents the discount rate that investors use to calculate the present value of the dividend of periodic profits expected to be distributed in the future by the business organization [13].

**• Cost of Retained Earnings**

It is the opportunity cost of not distributing annual profits to shareholders, as the business organization withholds them until they are needed, and it is equivalent to the opportunity cost of those profits that were withheld, that is, it is equal to the return that the shareholders were supposed to receive if the profits were not withheld. In other words, the cost of retained earnings is equal to the cost of ordinary shares, but retained earnings have no issuance costs, and the cost of relying on these funds for financing is equal to the rate of return requested by the investor, as the estimate of the cost of retained earnings reflects the fact that shareholders are deprived of dividends. Because of the decision to retain profits, it means increasing their ownership in the business organization without this entailing the cost of issuance, and the business organization must pay them a return in return, and the return for the investor is in fact a cost from the point of view of the business organization, so the cost of retained profits is considered less than The cost of issuing common shares, although both of them are components of equity [8].

**• Cost of Preferred Stock**

Preferred stocks are inherently located between borrowed funds and owned funds (ordinary shares). Preferred stocks, like a loan, carry a specific obligation on the business organization to pay certain periodic amounts. Likewise, in the event of liquidation, they have a privilege over ordinary stocks, but they differ from a loan in that they do not take Interest in the event of financial hardship, and therefore failure to pay interest does not lead to bankruptcy as is the case with loan financing. In general, preferred stocks are considered less risky than loans [23].

The cost of preferred stocks is known to be similar to the definition of the cost of borrowing, as it is the rate of return that must be achieved on investments financed with preferred stocks in order that the returns associated with ordinary stockholders are not affected, and this rate is the distributed profit per preferred stock divided by the net amount collected (Net Proceed) achieved by the organization. Business results from the sale of new preferred stocks, and the cost of issuing preferred stocks is higher than the cost of issuing common stocks [17]. The cost of preferred stocks is calculated as follows:

$$\dots\dots\dots(6) \qquad K_p = \frac{D_p}{N_p}$$

Whereas:

K<sub>p</sub>: Cost of preferred stock.

D<sub>p</sub>: Share of profit.

N<sub>p</sub>: Net proceeds.

The net proceeds are calculated by subtracting the selling price of the share from the issuance cost. Therefore, the cost of preferred shares is calculated according to the following equation:

$$\dots\dots\dots(7) \qquad K_p = \frac{D_p}{(P_0 - \text{Cost Flotation})}$$

Whereas:

K<sub>p</sub>: Cost of preferred stock.

P<sub>0</sub>: The selling price of the stock.

Cost Flotation: The cost of issuing the stock.

**7. Returns on Common Stocks**

Investors in the stock market face many financial products through which they can make investment decisions, and one of the most important of these products is common stocks [26]. Given the high risks associated with starting a business, the initial financing structure of the company is usually what comes from its founders in the form of investment in common stocks [11]

An important activity in the field of investment is the optimal allocation of resources. At the same time, investors always seek to achieve the best performance using the financial resources available to them [14]. Therefore, diverse business activities require smart decisions to be made at the right time in light of the available information. It takes into account a wide range of factors in making investment decisions. One of the important issues that investors take into their consideration, when making appropriate and timely stock investment decisions, is stock returns [25].

Investing is defined as the current sacrifice of certain financial values in order to obtain uncertain values in the future, while the investor sacrifices part of his wealth or by freezing all of his money and using it in investments in the hope of increasing this money. Therefore, investment has two characteristics: Firstly, the investment must generate returns, and secondly, these returns are not certain and are subject to fluctuations.

Therefore, the return on investment is the amount expected to be added to wealth or is the returns during the coming period of time. As long as these returns are linked to the future, they are uncertain, in other words they carry an amount of risk that is usually quantified by the variance or standard deviation of the potential returns [16].

The return is defined as the net income resulting from the process of investing money, and the return is usually in absolute amounts, but what depends on whether the investment is effective or not is the rates of return, not the returns [8].

The return on common stocks refers to the reward that the investor receives when investing his money in common stocks [12]. Based on the above, stock returns can be defined as changes in stock prices in addition to other revenues generated during the period of purchasing stocks.

Stock returns are linked to several factors including financial ratios derived from accounting information that help investors predict future events. In addition, financial management scholars are often interested in studying financial ratios that can be used to predict future stock returns [9].

$$(R - g) = \frac{D_1}{P_0}$$

$$R = \frac{D_1}{P_0} + g$$

This confirms that the total return consists of two components. The first component is the dividend yield  $\frac{D_1}{P_0}$  because it is calculated as the expected dividends divided by the current price. The second component of the total return is the growth rate by the divisor  $g$ , which also represents the growth rate. The growth rate can be translated into the capital return per share  $\frac{P_1 - P_0}{P_0}$  [1].

As a result of the above, returns to ordinary shareholders come in two forms: (divisional return and capital return) [17]

The expected rate of return can be calculated using the following equation

$$Expected\ Total\ return = \frac{D_1}{P_0} + \frac{P_1 - P_0}{P_0} \dots\dots\dots(10)$$

$$R = \frac{D_1}{P_0} + g$$

**8. Sustainable Growth Rate**

It is the maximum growth rate achieved by the company without external equity financing (issuing additional common shares) while keeping the debt to equity ratio constant. The sustainable growth rate can be calculated [12] [22].

$$SGR = \frac{ROE \times b}{1 - ROE \times b}$$

Since:

SGR = Sustainable growth rate

ROE = Rate of return on equity

Sustainable growth potential analysis deals with ratios that indicate how fast a company should grow. Therefore, analyzing the growth potential of companies is important for both lenders and owners. The owners know that the value of the company depends on future growth in profits, cash flow, as well as dividends.

Creditors are also interested in the growth potential of the company because the future success of the company is the main determinant of its ability to meet its obligations, and the future success of the company is affected by its growth rate. Analysis of the potential for sustainable growth begins with the retention rate [19]

Therefore, how quickly the company grows depends on the following:

- The percentage of profits that the company retained and reinvested in new assets.
- The rate of return earned on these new assets.

Therefore, the growth rate (g) of the company without additional external equity financing (issuing common shares) for capital will equal the percentage of net retained earnings (RR) multiplied by the rate of return on equity (ROE), as follows:

$$g = ROE \times b$$

When a company retains profits, acquires additional assets, and achieves a positive rate of return on these additional assets, the company's overall profits will increase, due to the expansion of its asset base. Both the retention ratio and the return on equity change over time, and this means that a company with a high growth rate, but it is not the only source of growth, adds to that as well. [13]

Therefore, the company can increase its growth rate by increasing the retention ratio (reducing distribution ratios) and investing these added funds. In addition, the company can increase its growth rate by maintaining a stable retention rate by increasing the return on equity.

$$g = ROE (1 - PR) \tag{14}$$

- Since the growth rate in dividends is determined by the growth rate in profits and the proportion of dividends paid as a divisor (distribution ratio) (Brown and Reilly, 2009:345). Therefore, the growth rate increases inversely with the distribution ratio, as the higher the distribution ratio, the lower the growth rate (Ross, et.al, 2003:114).

Therefore, it can be said that the relationship is direct between the retention rate and the growth rate of the company, meaning that the higher the retention rate, the higher the growth rate [21]. According to Gordon's model, high growth rates lead to an increase in the share price and thus an increase in the value of the company.

It is worth noting that the retention ratio is a management decision, but changes in the return of the company on equity result from changes in its operating performance or financial leverage. The return on equity can be analyzed into its various components and because the return on equity clearly appears in determining the sustainable growth rate, it is clear that the important

factors that determine the return on equity are also important determinants of growth [10]. Therefore, the return on equity can be divided into three components, as follows:

$$ROE = \frac{Net\ Income}{Sales} \times \frac{Sales}{Total\ Assets} \times \frac{Total\ Assets}{Equity}$$

.....

= Profit Margin × Total Asset Turnover × *Financial Leverage*

**9. Rates of Return on Common Stocks**

**a. Realized (Actual) Rate of Return**

It is the rate of return that the investor actually obtained from his investment in common stocks over previous periods (Brigham and Houston, 2007:294). The total rate of return achieved is equal to the sum of the revenue and capital returns divided by the initial price of the share [7].

When there is no distributed dividend, the rate of return achieved per stock (R<sub>j</sub>) is equal to the capital return only [18].

$$R_j = \frac{P_1 - P_0}{P_0}$$

**b. The Required or Expected Rate of Return**

The rate of required return .....(17) its the return necessary to compensate the investor for the risk involved in the investment process. The capital asset pricing model is used to determine the required or expected rate of return on assets. The model takes into account the sensitivity of asset returns to non-diversifiable risks (known as systemic risk or market risk), which is represented by the beta coefficient, as well as the expected return from the market and the risk-free return [10].

**10. Data Analysis**

**A. Results of the Relationship of Proprietary Financing to Common Stock Prices**

<b>Table (1) Results of the Relationship of Proprietary Financing to Common Stock Prices</b>						
	2019	2020	2021	2022	2023	M
Coefficients	2.541	6.696	1.027	-0.043	0.064	2.541
T	2.023	3.938	1.750	-0.013	1.271	2.023
Sig (P)	0.044	0.001	0.023	0.041	0.105	0.044
R <sup>2</sup>	0.084	0.120	0.046	0.091	0.079	0.084
F	0.683	0.232	0.921	1.898	0.134	0.683

Based on the results of Table (1), the relationship of owned financing with ordinary stock prices is positive for the years during the study period, with the exception of the year 2022, as the results for this year showed negative.

When conducting a T- test for the independent variable (owned financing) on the dependent variable (common stock prices) in the Iraqi Stock Exchange, the results indicated statistical

significance at a significance level of 0.05 and with a degree of confidence of 95%, respectively (0.044, 0.001, 0.023, 0.041, 0.105).

Also, the power of explaining owned financing for the coefficient of determination R<sup>2</sup> is small, as it is less than (10%). The reason for this low percentage is that the year 2021 reached 0.046, meaning that the cost of owned financing can be explained by approximately 10% of the variables that occur in ordinary stock prices.

Table (1) shows that the relationship is direct and has a statistically significant effect on owned financing, measured by the degree of owned financing to common stock prices. Therefore, the researcher rejects the null hypothesis and accepts the alternative hypothesis, as it takes a downward direction at times and upward at other times. This can be explained by the fact that whenever the cost of owned financing structure increases by one 'True', the prices of ordinary stocks increase by (2,539).

**B. Results of the Relationship of Borrower Financing to Common Stock Prices**

<b>Table (2) Results of the Relationship of Borrower Financing to Common Stock Prices</b>						
	2019	2020	2021	2022	2023	M
Coefficients	0.345	0.206	0.591	0.331	0.214	0.345
T	4.941	4.189	5.925	6.403	3.731	4.941
Sig(P)	0.000	0.000	0.000	0.000	0.001	0.000
R <sup>2</sup>	0.173	0.154	0.121	0.165	0.176	0.173
F	0.568	1.621	0.171	0.083	0.302	0.568

Based on the results of Table (2), the relationship of borrowed financing with ordinary stock prices is positive for the years during the study period, as the results indicated statistical significance for borrowed financing.

When conducting a T- test between the independent variable (borrowed financing) and the dependent variable (common stock prices), there is a positive relationship for all years for the five-year study period, and it is statistically significant at a significance level of 0.05, that is, with a degree of confidence greater than 95%, so we reject the null hypothesis. The researcher accepts the alternative hypothesis, and this relationship is direct, meaning that whenever the degree of the cost of borrowed financing increases by one integer, the prices of ordinary stocks will increase by (345.0). Also, the power of explaining the degree of the cost of borrowed financing for the coefficient of determination R<sup>2</sup> is small, as it is less than (16%), it means that the cost of borrowed financing explains approximately 16% of the variables that occur in public stock prices, which is a low percentage.

**11. Conclusion**

Based on the results obtained, it became clear that the financing structure affects the costs of the company significantly, as the interest rate, loan terms, and external financing are affected by the percentage of debt used. If a company relies heavily on debt, it may face high interest costs, which negatively affects its earnings and thus affects the value of the stock. The financing structure can also affect the structure of return to stockholders. For instance, if a company relies heavily on stocks owned by existing stockholders (rather than issuing new stocks), this will increase the return to existing stockholders and positively impact the value of the stock. The financing structure is one of the factors affected by the profitability structure. If a company

relies heavily on debt, financial risks and interest obligations will increase, and thus the net profit available to stockholders will decrease and negatively impact the stock price. In addition, the financing structure can affect the ability of the company to distribute profits to stockholders. If a company is highly indebted, it will face ongoing interest payment obligations and therefore the ability to pay dividends will be reduced and this affects investors' appreciation of the value of the stock.

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