Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

THE EFFECT OF EARNING POWER ON THE FAIR VALUE OF THE SHARE: AN APPLIED STUDY OF INDUSTRIAL COMPANIES LISTED ON THE IRAQ STOCK EXCHANGE (2015–2024)

Ali Abdul Amir Flifel[1], Sajad Ali Hassoun[2]*

[1]University of Kufa, College of Administration and Economics, Najaf, Iraq. E-mail: Alif.kadhim@uokufa.edu.iq

[2]University of Kufa, College of Administration and Economics, Department of Financial and Banking Sciences, Najaf, Iraq.

E-mail: sajjada.mktomei@student.uokufa.edu.iq

*Corresponding author E-mail: sajjada.mktomei@student.uokufa.edu.iq

Abstract *This study addresses earning power and its role in achieving the fair value of shares for a sample of industrial sector companies listed on the Iraq Stock Exchange. During the study period, the Iraqi economy experienced unstable economic and financial conditions that directly affected corporate performance and the level of share pricing in the market. These conditions were accompanied by multiple challenges that influenced the efficiency of industrial activity, corporate profitability, and the stability of dividend distributions, which contributed to widening the gap between market value and fair value of shares.*

These changes were reflected in companies' ability to achieve sustainable profits, thereby affecting investors' expectations, the volume of financing and investment, and consequently the fair value of shares. Accordingly, this study seeks to highlight earning power as an indicator that reflects operational and financial performance efficiency and to clarify its role in explaining changes in the fair value of shares.

The study relied on annual financial data for the sample companies covering the period (2015–2024). Earning power was measured using the earning power model, while the fair value of shares was estimated based on the Dividend Discount Model. The study reached a set of results demonstrating that earning power plays a role in achieving the fair value of shares and concluded with a number of conclusions and recommendations relevant to the study topic.

Keywords:*Earning Power, Fair Value of Shares, Dividend Discount Model.*

1. INTRODUCTION

Earning power is one of the fundamental financial indicators that reflects a company's efficiency in generating profits through the effective utilization of its available resources. It represents the firm's ability to produce sustainable operating and financial returns, which makes it a core pillar in evaluating financial performance and supporting investment decision-making. In this context, the fair value of a share emerges as a central concept in financial markets, as it aims to reflect the intrinsic value of the stock, independent of temporary fluctuations and inefficient market prices.

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

The importance of examining the relationship between earning power and the fair value of shares becomes more pronounced in emerging markets, particularly the Iraq Stock Exchange, which is characterized by distinctive environmental and economic conditions. These conditions stem from political and economic volatility, weak market efficiency, and varying levels of financial disclosure, factors that may constrain investors' ability to make rational and well-informed investment decisions.

Accordingly, the present study seeks to analyze the effect of earning power on the estimation of the fair value of shares through an applied study of industrial companies listed on the Iraq Stock Exchange. The study aims to identify the nature of the relationship between the two variables and to assess the extent to which earning power contributes to explaining changes in the fair value of these companies' shares. This, in turn, provides an analytical framework that supports decision-makers and investors in enhancing the efficiency of their investment decisions.

2. MATERIALS AND METHODS

2.1. THEORETICAL MATERIALS

2.1.1 The problem of the study

The Iraq Stock Exchange faces significant challenges in accurately estimating the fair value of shares, largely due to the excessive reliance on reported accounting profits, which may not adequately reflect companies' true ability to generate stable and sustainable revenues. In this context, there is a growing need to employ financial indicators that capture the quality of earnings and the efficiency of financial performance, such as earning power, given its potential role in enhancing the accuracy of stock valuation and reducing the gap between market prices and fair values.

Accordingly, the research problem is centered on the following question: Does earning power have a significant effect on determining the fair value of shares of industrial companies listed on the Iraq Stock Exchange?

Equation must be written in the equation editor of Microsoft Word and should be placed flush-left with the text margin. Equations are numbered consecutively starting from 1 as follows:

2.1.2 Objectives of the study

This study aims to achieve the following objectives:

1. To determine the level of earning power of the sampled industrial companies, estimate the fair value of their shares, and identify the gap between fair value and market value.
2. To analyze the effect of earning power on explaining the fair value of shares and its role in reducing cases of stock mispricing in the Iraq Stock Exchange.

2.1.3 The importance of the study

The significance of this study stems from its focus on highlighting the role of earning power in explaining the fair value of shares by linking earnings quality and financial performance efficiency with stock valuation mechanisms in the Iraq Stock Exchange. The study contributes to providing an

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

analytical framework that supports investors and decision-makers in improving the accuracy of valuation and reducing the risks of stock mispricing, particularly for industrial companies listed on the market.

2.1.4 Study hypothesis

Based on the research problem, the following hypothesis can be formulated:

1. **Main hypothesis:** Earning power has a significant effect on the fair value of shares of industrial companies listed on the Iraq Stock Exchange.

2.1.5 study Methodology:

adopted to examine the relationship between earning power and the fair value of shares. The descriptive approach was used to review and organize the theoretical concepts related to earning power and fair value, while the analytical approach was applied to analyze the financial data of the sampled companies.

The applied aspect of the study relied on financial data obtained from industrial companies listed on the Iraq Stock Exchange during the period (2015–2024). Earning power indicators were calculated using financial ratios derived from the income statements and balance sheets, whereas the fair value of shares was estimated using the Dividend Discount Model (DDM). The analysis focused on identifying the effect of earning power on the fair value of shares through comparative financial analysis across the study period.

2.1.6 study References:

To cover the theoretical aspect of the study, the researcher relied on a variety of Arabic and foreign academic sources, including books, scientific journals, theses, and dissertations related to earning power, financial performance, and fair value measurement. In addition, official reports and publications issued by the Iraq Stock Exchange and other relevant financial authorities were utilized to support the applied aspect of the research.

The practical analysis was based on published annual financial statements of the sampled industrial companies, which provided the necessary data for calculating earning power indicators and estimating the fair value of shares. These sources ensured the reliability and consistency of the data used in achieving the objectives of the study.

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

2.1.7 Previous studies

1- Study [1]

Study Details	Details	Seq.
[Biplob et al., 2018]	Researcher and Year	-1
DuPont Analysis of Return on Common Stockholder's Equity in the Pharmaceutical Industry of Bangladesh	Study Title	
Quantitative analytical study published in a scientific journal, l financial statement analysis.	Type of study	
The study sample consisted of (10) pharmaceutical companies Bangladesh, relying on annual financial data for the period (2011–2015).	Study sample	
The study aimed to evaluate the financial performance of pharmaceutical companies in Bangladesh by measuring Return on Equity (ROCE) using the extended DuPont analysis model, in order to assess companies' efficiency in generating profits profitability, asset turnover, financial leverage, tax burden, and interest burden.	Study Objective	
The results indicated that the components of the DuPont model—particularly profit margin, asset turnover, and financial leverage—contribute at varying levels to explaining changes in return on equity. The findings also revealed significant variation in financial performance among the studied companies, with GlaxoSmithKline achieving the highest return on equity due to efficient use of financial leverage and a high operating profit margin.	Key Findings	
Both the previous study and the current study focus on analyzing financial performance indicators and their role in explaining profitability and value-related measures of companies.	Similarities	
The previous study concentrated on explaining return on equity using the DuPont model within the pharmaceutical sector in Bangladesh, whereas the current study examines the effect of earning power on the fair value of shares of industrial companies	Difference	

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

listed on the Iraq Stock Exchange, relying on stock valuation models rather than profitability analysis alone.	

2- Study: [2]

Study Details	Details	Seq.
[Salman & Al-Hashemi, 2025]	Researcher and Year	-2
The Effect of Fair Value on the Relevance of the Book Value of the Stock: An Applied Study on a Sample of Iraqi Banks	Study Title	
Applied analytical study adopting a descriptive–analytical approach, using statistical analysis (SPSS) to test the relationships between variables.	Type of study	
The study population consisted of Iraqi private banks listed on the Iraq Stock Exchange (ISX). A sample of Iraqi banks was selected and analyzed over a specific time period based on the availability of financial data.	Study sample	
The study aimed to examine the effect of fair value measurement and disclosure on enhancing the relevance of the book value of shares, as well as to clarify the role of fair value in improving the quality and explanatory power of accounting information in valuing Iraqi banks' shares.	Study Objective	
The results revealed a significant positive effect of fair value measurement on improving the relevance of the book value of shares. The findings also indicated that fair value enhances the explanatory power of accounting information, making it more useful for investors in making informed investment decisions.	Key Findings	
Both the previous study and the current study focus on fair value measurement and its role in improving stock valuation and supporting investment decision-making in the Iraq Stock Exchange.	Similarities	
While the previous study examined the impact of fair value on the r of book value in the banking sector using statistical analysis, the current study focuses on industrial companies and analyzes the effect of earning power on estimating the fair value of shares using financial analysis and valuation models.	Difference	

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

The selection of previous studies in this research includes both classical and recent contributions to provide a comprehensive and balanced theoretical foundation. While earlier studies offer well-established analytical frameworks, more recent studies reflect contemporary developments in financial analysis and valuation techniques. This combination enhances the depth and relevance of the research despite differences in publication periods.

2.2. METHODS

2.2.1 Concept of Earning Power

Earning power can be defined as the firm's ability to generate sustainable and recurring profits through the efficient utilization of its resources over time.

From the researcher's perspective, earning power represents an integrated financial indicator that reflects the combined effect of profitability, operational efficiency, and financial leverage in achieving stable returns and enhancing the intrinsic value of the firm.

Earning power is considered one of the core concepts in financial analysis, as it reflects a company's ability to generate sustainable operating profits through the efficient utilization of its available resources. It provides a comprehensive view of financial performance by linking profitability with operational efficiency and capital structure, thereby offering a more accurate assessment of a firm's long-term value creation potential [3].

The concept of earning power is closely associated with the DuPont analytical framework, which decomposes overall performance into key components, including net profit margin, asset turnover, and financial leverage. This decomposition enables analysts and investors to identify the sources of profitability and assess how operational efficiency and financing decisions jointly influence returns [4]. By integrating these components, earning power serves as an effective tool for evaluating management efficiency in converting revenues into sustainable returns while balancing risk and profitability [5].

From a valuation perspective, earning power plays a critical role in bridging accounting-based performance measures and market-based valuation outcomes. Firms with strong and stable earning power are more likely to achieve higher intrinsic values, as their ability to generate consistent earnings enhances the reliability of fair value estimates and reduces the likelihood of stock mispricing [6]. Consequently, earning power has become a key indicator relied upon by investors and decision-makers when assessing financial strength, earnings sustainability, and future growth prospects [7].

2.2.2 Importance of Earning Power

traditional financial indicators when used individually, such as profit margin or asset turnover, as profit margin does not reflect the efficiency of asset utilization, while asset turnover alone does not indicate the level of profitability achieved. Earning power integrates these elements within a unified framework that combines profitability, efficiency, and financial leverage, providing a more comprehensive and accurate assessment of a firm's ability to generate revenues and returns [8].

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

Earning power analysis enables stakeholders to better understand the fundamental drivers of corporate profitability by revealing the level of operational efficiency and the firm's capacity to generate sustainable earnings over time. This contributes to a clearer evaluation of earnings quality and long-term financial performance [9].

From an investment perspective, earning power represents a valuable analytical tool for financial analysts when assessing the attractiveness of common stock investments. By decomposing return on equity into its underlying components, earning power analysis allows analysts to identify the sources of shareholder returns more precisely and to track performance drivers more effectively [10].

Moreover, earning power enhances the credibility of investment valuations by providing a reliable framework for assessing the quality of earnings and operating cash flows, thereby offering a more accurate reflection of the true financial position of shareholders and reducing the risk of misleading valuations [10].

Earning power also serves as an early diagnostic tool for detecting potential operational inefficiencies within firms. It facilitates professional dialogue between analysts and management by highlighting the root causes of performance weaknesses that may affect the firm's ability to generate revenues and sustain profitability [11].

In addition, earning power analysis supports operational decision-making by enabling managers to assess the impact of changes in asset utilization, cost structures, and inventory levels on overall profitability. The analysis demonstrates that return on investment can improve significantly when profit growth coincides with more efficient use of invested resources, provided that operational revenues are not adversely affected [12].

Finally, understanding the core components of earning power—profit margin, asset turnover, and financial leverage—allows analysts and investors to identify areas requiring improvement and to evaluate the trade-off between risk and return. This holistic view strengthens strategic planning, performance sustainability, and informed financial decision-making across different sectors [13].

2.2.3 Indicators of Earning Power

analysis, as they provide an integrated approach to interpreting return on equity by decomposing it into its core components. This decomposition enables analysts to identify the sources of financial strength or weakness within a firm's performance and to distinguish between operational efficiency and financial structure effects. The earning power framework is primarily based on the three-factor DuPont model, which links operating profitability, asset utilization efficiency, and financial leverage, making it a powerful tool for comprehensive financial performance evaluation [14].

The relationship underlying earning power can be expressed as follows:

Return on Equity (ROE) = Net Profit Margin × Total Asset Turnover × Equity Multiplier

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

This analytical breakdown allows the transition from an aggregate measure of return to a detailed assessment of its underlying drivers, thereby enhancing the economic interpretation of a firm's earning power.

1. Net Profit Margin

Net profit margin is one of the key components of earning power, as it measures a company's ability to convert revenues into net profits after covering all operating and financial expenses. It reflects management's efficiency in controlling costs and expenses, as well as the firm's pricing power within its market. A high net profit margin indicates strong cost management and favorable pricing conditions, whereas a low margin may signal operational pressures or excessive financial burdens [15].

This indicator captures the profitability dimension of earning power, since achieving higher net profits is a fundamental requirement for enhancing return on equity, particularly in industries characterized by intense competition and demand volatility. Net profit margin can be expressed as:

Net Profit Margin = Net Income / Net Sales

2. Total Asset Turnover

Total asset turnover measures the efficiency with which a company utilizes its total assets to generate revenues. It serves as a direct indicator of management's effectiveness in exploiting available resources. A higher asset turnover ratio reflects the firm's ability to generate greater sales relative to its asset base, while a lower ratio may indicate underutilization of assets or the presence of idle productive capacity [16].

This component highlights the operational dimension of earning power, as strong profitability alone is insufficient to achieve superior performance without efficient asset utilization. The total asset turnover ratio is calculated as:

Total Asset Turnover = Net Sales / Total Assets

3. Equity Multiplier

The equity multiplier represents the financial leverage dimension of earning power, as it measures the extent to which a company relies on external financing relative to shareholders' equity. A higher equity multiplier indicates greater use of debt financing, which can magnify return on equity when operating profits are sufficient. However, it simultaneously increases financial risk and exposure to leverage-related instability [17].

This component is particularly important in explaining differences in return on equity among firms with similar operating profitability, as variations may stem from differences in capital structure rather than operational efficiency alone. The equity multiplier is expressed as:

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

Equity Multiplier = Total Assets / Total Equity

2.3.1 Concept of the Fair Value of Shares

Fair value of shares is one of the core concepts in financial valuation, as it represents the benchmark used to assess pricing efficiency in financial markets. The concept aims to determine the intrinsic value of a share based on the financial and economic fundamentals of the firm, rather than relying on temporary market fluctuations or speculative pricing. Accordingly, fair value estimation constitutes a fundamental step for investors in making rational buy and sell decisions grounded in systematic financial analysis [18].

Fair value is commonly defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, willing, and independent market participants under normal market conditions. This definition emphasizes the absence of forced sales, liquidation, or abnormal circumstances, ensuring that the valuation reflects realistic economic conditions rather than distressed situations [19].

Within the framework of international accounting standards, fair value measurement focuses on market-based assumptions and observable inputs whenever possible. The International Accounting Standards Board (IASB) emphasizes that fair value represents an exit price rather than an entry price, highlighting the perspective of market participants and reinforcing the objectivity of valuation outcomes [20]. Similarly, the Financial Accounting Standards Board (FASB), through Statement No. 157, established a comprehensive framework for fair value measurement by defining it as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date [21].

From an investment perspective, fair value serves as a critical link between accounting information and market valuation. It reflects the discounted value of expected future cash flows, adjusted for risk and growth expectations, and thus provides a more accurate representation of a firm's economic worth. When market prices deviate from fair value, mispricing occurs, creating potential opportunities or risks for investors depending on the direction of the deviation [22].

In efficient markets, market prices tend to converge toward fair value as new information becomes available. However, in emerging markets characterized by information asymmetry and market inefficiencies, such as the Iraq Stock Exchange, deviations between market value and fair value may persist for longer periods. This underscores the importance of fair value estimation as a tool for correcting market mispricing and enhancing the quality of investment decisions [23].

2.3.2 Indicators of the Fair Value of Shares

Several models are commonly used to estimate the fair value of shares, including the Dividend Discount Model (DDM), the Discounted Cash Flow Model (DCF), and the Residual Income Model (RIM). These models differ in their underlying assumptions and data requirements, but they all aim to estimate the intrinsic value of shares based on future expected returns.

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

However, the current study adopts the Dividend Discount Model (DDM) due to its suitability for the sampled industrial companies, particularly those characterized by relatively stable dividend distributions and the availability of dividend-related data.

Measuring the fair value of shares is a central issue in contemporary financial analysis, as it aims to estimate the intrinsic value of a stock based on the characteristics of the assets or liabilities being valued and the prevailing market conditions at the measurement date. Fair value measurement requires consideration of the attributes that market participants take into account when determining prices, such as the condition and location of assets, as well as any restrictions that may affect their sale or use. The measurement assumes that the exchange of assets or transfer of liabilities occurs in an orderly transaction between knowledgeable and willing parties under normal market conditions at the measurement date [24].

The fair value of shares relies on a set of financial models and valuation measures that link current value to expected future cash flows or returns. Among these models, the Dividend Discount Model (DDM) is widely used due to its direct linkage between share value and expected dividend distributions [25].

1. Dividend Discount Model (DDM)

The Dividend Discount Model is one of the most commonly applied models for estimating the fair value of shares. It is based on the fundamental assumption that the intrinsic value of a stock is determined by the present value of the future dividends expected to be received by investors. The model originates from dividend policy theories that examine the relationship between dividend decisions and firm value, which are generally classified into two main perspectives.

The **dividend relevance theory** assumes that dividend policy has a direct impact on firm value, arguing that dividend decisions are among the most important financial decisions due to their immediate effect on shareholders' wealth. In contrast, the **dividend irrelevance theory** suggests that dividend policy does not affect firm value, asserting that market value is primarily driven by the firm's ability to generate earnings, regardless of the size or pattern of dividend distributions [26].

Despite these theoretical differences, the Dividend Discount Model remains a practical valuation tool, particularly for firms that follow stable and predictable dividend policies. The model assumes that investors evaluate shares based on the present value of future dividend payments, making it especially suitable for estimating fair value in mature and dividend-paying companies [27].

The application of the Dividend Discount Model depends on several key assumptions that ensure its validity, the most important of which include: a constant long-term growth rate of dividends, a stable required rate of return (cost of equity), and a growth rate that remains lower than the required rate of return [28].

Based on these assumptions, the fair value of a share can be estimated using the following formula:

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

$$\mathbf{P_0 = \frac{D\,(1+g)}{K_E - g}}$$

P_0: Fair value of the share

D : Expected dividends

g :Dividend growth rate

K_e: Required rate of return (cost of equity)

3. Applied study

3.1 Overview of the research sample

Research Sample: The research sample was selected from a group of industrial companies listed on the Iraq Stock Exchange. The sample includes a number of industrial firms for which complete and continuous financial data were available during the study period (2015–2024). The selected companies represent the industrial sector and were chosen in a manner that ensures consistency and comparability of financial information.

The applied analysis relied on the annual published financial statements of the sampled companies, including the income statement and balance sheet, which provided the necessary data for measuring earning power indicators and estimating the fair value of shares. In addition, data related to dividends and other relevant financial indicators were used to support the valuation process in accordance with the adopted analytical framework.

3.2. Measurement of Earning Power

In order to achieve the objectives of the study, earning power was measured using a set of financial indicators derived from the DuPont analytical framework. This framework decomposes return on equity into its main components, allowing for a detailed assessment of profitability, operational efficiency, and financial leverage of the sampled industrial companies.

The earning power indicators were calculated based on data extracted from the annual financial statements of the companies included in the research sample during the study period (2015–2024). The indicators used in measuring earning power are presented as follows:

1. Net Profit Margin (NPM)

Net Profit Margin measures the company's ability to convert revenues into net profit after covering all operating and financial expenses. It reflects management efficiency in controlling costs and pricing policies. The indicator is calculated as:

$$\textbf{Net Profit Margin} = \frac{net\ Income}{net\ Sales}$$

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

2. Total Asset Turnover (TAT)

Total Asset Turnover indicates the efficiency with which the company utilizes its total assets to generate revenues. A higher ratio reflects better utilization of available resources. It is calculated as:

$$\textbf{Total Assets Turnover} = \frac{\boldsymbol{Net\ Sales}}{\boldsymbol{total\ Assets}}$$

3. Equity Multiplier (EM)

The Equity Multiplier represents the financial leverage dimension of earning power and reflects the extent to which the company relies on external financing relative to shareholders' equity. It is calculated as:

$$\textbf{Equity multiplier} = \frac{\boldsymbol{Assets\ total}}{\boldsymbol{Equity}}$$

4. Return on Equity (ROE)

Based on the DuPont model, Return on Equity was calculated as a comprehensive measure of earning power by integrating the previous three indicators, as follows:

$$\textbf{ROE=Net Profit Margin×Total Asset Turnover×Equity Multiplier}$$

This analytical decomposition enables a clearer interpretation of the sources of return on equity and enhances the understanding of earning power dynamics within the sampled industrial companies.

3.3. Measurement of the Fair Value of Shares

The fair value of shares in this study was estimated using the Dividend Discount Model (DDM), which is one of the most widely applied valuation models in financial analysis, particularly for companies that distribute dividends on a regular basis. The model is based on the principle that the intrinsic value of a share equals the present value of its expected future dividend payments, discounted at the required rate of return.

The application of the Dividend Discount Model is appropriate for the industrial companies included in the research sample, as it allows for linking dividend distributions with earning power and providing a realistic estimation of the fair value of shares. The required data for applying the model were obtained from the annual financial statements and dividend reports of the sampled companies during the study period (2015–2024).

The fair value of a share was calculated according to the Gordon Growth Model, which assumes a constant growth rate of dividends over time, as expressed by the following formula:

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

$$P_0 = \frac{D\,(1+g)}{K_E - g}$$

The dividend growth rate was estimated based on historical dividend data of the sampled companies, while the required rate of return was determined in accordance with the adopted financial framework of the study. This approach enables a consistent and comparable estimation of fair value across companies and years.

The estimated fair values were subsequently compared with the corresponding market prices of shares in order to identify the extent of deviation between market value and fair value. This comparison provides insight into potential cases of underpricing or overpricing and supports the analysis of the relationship between earning power and fair value in the following section.

3.4. Analysis of Results

3.4.1. Analysis of Earning Power of the Sampled Iraqi Companies (2015–2024)

level of each industrial company included in the research sample, based on annual financial data for the period (2015–2024). Earning power was measured using the earning power model, while the fair value of shares was estimated using the Dividend Discount Model (DDM), with the objective of identifying the gap between fair value and market value for each company and explaining the role of earning power in determining the fair value of shares.

Accordingly, tables are presented and the results are analyzed for each company individually, in a manner consistent with the objectives of the study.

Table (1): Earning Power of the Sampled Companies

Year	Company for Carpets Iraqi and Furnishings			E.P	Soft Drinks Baghdad Company			E.P
	NPM	ATO	EM		NPM	ATO	EM	
2015	0.276	0.254	1.402	0.098	0.112	1.051	1.047	0.123
2016	0.208	0.321	1.460	0.097	0.128	0.995	1.110	0.141
2017	0.455	0.190	1.496	0.129	0.128	0.905	1.051	0.122
2018	0.635	0.177	1.463	0.164	0.131	0.946	1.052	0.131
2019	0.693	0.293	1.466	0.298	0.138	0.911	1.102	0.139
2020	0.676	0.225	1.499	0.228	0.147	0.866	1.121	0.143
2021	0.699	0.282	1.388	0.274	0.101	0.950	1.117	0.107
2022	1.037	0.229	1.283	0.305	0.080	1.213	1.127	0.109
2023	0.679	0.226	1.334	0.205	0.138	1.157	1.150	0.183
2024	0.697	0.217	1.403	0.212	0.182	1.162	1.140	0.241

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

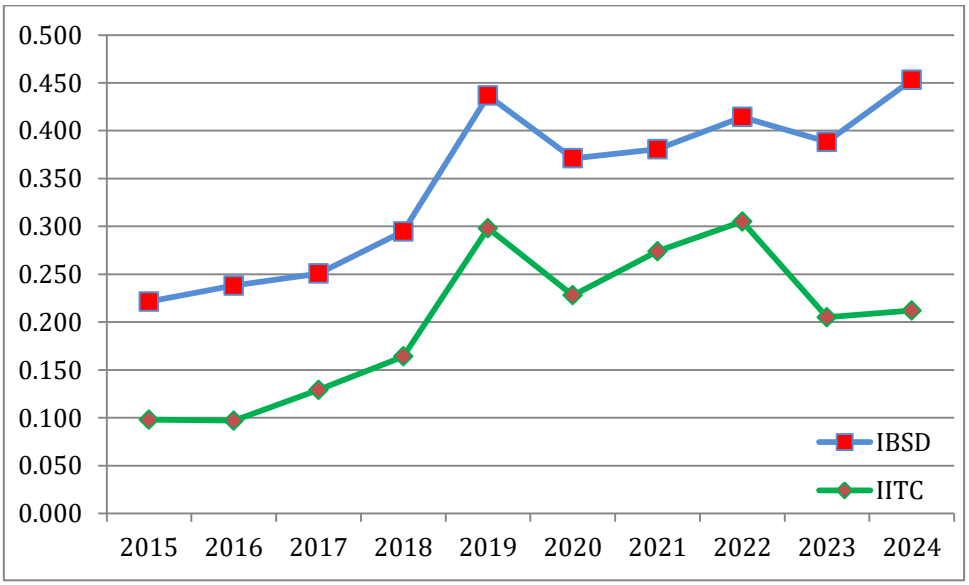
Source: Prepared by the researcher based on computer-generated outputs for data analysis.

Table (1) presents the results of calculating earning power and its components according to the earning power model for both the Iraqi Company for Carpets and Furnishings (IITC) and the Baghdad Soft Drinks Company (IBSD) during the study period (2015–2024).

The results indicate that the earning power of the Iraqi Company for Carpets and Furnishings (IITC) followed an upward trend over the long run, increasing from (0.098) in 2015 to (0.212) in 2024, with the highest value recorded in 2022 at (0.305). This improvement is mainly attributed to the increase in the Net Profit Margin (NPM), which recorded relatively high levels in most years of the study, in addition to the improvement in Total Asset Turnover (ATO). These factors positively reflected the company's ability to achieve a higher return on equity.

As for the Baghdad Soft Drinks Company (IBSD), it exhibited relatively higher earning power levels compared to the Iraqi Company for Carpets and Furnishings during most years of the study. Earning power increased from (0.1234) in 2015 to (0.2411) in 2024, showing a general upward trend despite some fluctuations. This increase is attributed to the gradual improvement in net profit margin and total asset turnover, along with relative stability in the equity multiplier, which reflects better operational and financial efficiency over the study period.

Overall, the table shows that earning power in both companies was more strongly influenced by changes in net profit margin and total asset turnover, while the effect of the equity multiplier was less pronounced. This indicates that operational performance was the most significant factor in explaining variations in earning power during the study period.



Source: Prepared by the researcher based on computer-generated outputs for data analysis.

Figure (1): Earning Power of the Sampled Companies

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

Figure (1) illustrates the time trend of earning power for both the Iraqi Company for Carpets and Furnishings and the Baghdad Soft Drinks Company over the study period. The figure clearly shows a general upward trend in earning power for both companies, with limited fluctuations in certain years.

The figure indicates that the Baghdad Soft Drinks Company maintained higher levels of earning power compared to the Iraqi Company for Carpets and Furnishings throughout almost the entire study period, particularly in the later years, reflecting a relative superiority in profit-generating efficiency. In contrast, the Iraqi Company for Carpets and Furnishings exhibited a gradual and continuous improvement in earning power, especially after 2018, which indicates a positive development in its operational performance.

The figure also highlights a relative convergence in the movement trends of the two companies in some years, suggesting that both were influenced by common economic and sectoral factors. Meanwhile, the differences in earning power levels reflect variations in operational and profitability policies between the two companies.

Based on the above, Figure (1) confirms the results presented in Table (1) and demonstrates that earning power for both companies followed a general upward trend during the study period, with a relative advantage for the Baghdad Soft Drinks Company. This reflects differences in financial performance efficiency among the companies included in the research sample.

3.4.2. Analysis of the Fair Value of Shares of the Sampled Companies

This section aims to analyze the fair value of shares of the companies included in the research sample, based on annual financial data for the period (2015–2024) and by applying the Dividend Discount Model (DDM) as one of the financial valuation models suitable for the nature of the studied companies. This analysis contributes to identifying the time trends of the fair value of shares and diagnosing cases of increases and decreases in their estimated values, reflecting the impact of financial performance and dividend distributions on determining fair value.

Accordingly, the results of estimating the fair value of shares for each company are presented in tables and illustrative figures, followed by a detailed analysis, as a prelude to linking these results with the earning power findings in the subsequent section.

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

Table (2): Fair Value of Shares of the Sampled Companies

Year	Carpets Iraqi Company for and Furnishings	Baghdad Soft Drinks Company
2015	0.272	1.993
2016	0.594	5.153
2017	2.499	0.545
2018	2.042	2.254
2019	5.541	3.01
2020	0.344	7.733
2021	0.89	1.528
2022	0.477	10.204
2023	0.281	0.167
2024	0.882	3.177

Source: Prepared by the researcher based on computer-generated outputs for data analysis.

Table (2) presents the results of estimating the fair value of shares for both the Iraqi Company for Carpets and Furnishings and the Baghdad Soft Drinks Company over the study period (2015–2024), based on the Dividend Discount Model. The table reveals a clear variation in the levels of fair value and their time trends between the two companies.

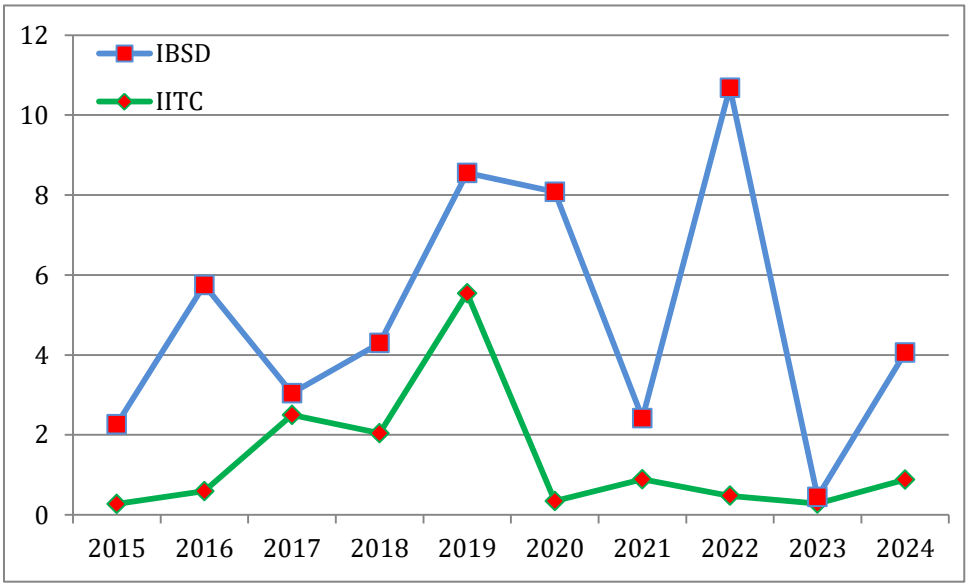
The Baghdad Soft Drinks Company (IBSD) recorded relatively higher fair values in most years of the study, particularly in 2019 and 2022, when the estimated fair values reached (8.541) and (10.204), respectively. This reflects a stronger ability to generate dividend distributions or more favorable expectations regarding future cash flows, which contributed to increasing the estimated present value of the share. In contrast, some years witnessed sharp declines in fair value, such as in 2023 when the value dropped to (0.167), indicating the sensitivity of fair value estimates to changes in dividend distributions or the required rate of return.

As for the Iraqi Company for Carpets and Furnishings (IITC), its fair value was characterized by lower levels and more pronounced fluctuations over the study period. The estimated fair value ranged from (0.272) in 2015 to (5.541) in 2019, before declining again in subsequent years. This pattern reflects the limited stability of dividend distributions and changes in growth expectations, which directly affected the estimated fair value of the share under the applied model.

Overall, Table (2) demonstrates that the fair value of shares in both companies is significantly influenced by fluctuations in dividend distributions and changes in discount parameters, with a relative advantage for the Baghdad Soft Drinks Company in most years of the study.

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973



Source: Prepared by the researcher based on computer-generated outputs for data analysis

Figure (2): Fair Value of Shares of the Sampled Companies.

Figure (2) illustrates the time trend of the fair value of shares for the two companies included in the research sample. The figure clearly shows a high degree of volatility in the fair values of both companies, with noticeable differences in the level and intensity of fluctuations.

The figure indicates that the fair value of the Baghdad Soft Drinks Company's share exhibited sharp and high peaks in certain years, particularly in 2022, accompanied by steep declines in other years. This pattern reflects a strong dependence on changes in dividend distributions and market expectations. In contrast, the Iraqi Company for Carpets and Furnishings shows a less stable trajectory but within a lower range, recording its highest fair value in 2019 before declining in subsequent years.

The figure also highlights clear differences in the movement patterns between the two companies, as each firm responds differently to the factors affecting fair value estimation. This reflects variations in their operational and profitability characteristics.

Accordingly, Figure (2) confirms the results presented in Table (2) and demonstrates that the fair value of shares estimated using the Dividend Discount Model is characterized by instability and volatility. This finding necessitates linking these results with the level of earning power of the two companies in order to explain the differences in the estimated fair values.

3.4.3. Analysis of the Relationship between Earning Power and Fair Value of Shares

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

This section aims to identify the nature of the relationship between earning power and the fair value of shares for the two companies included in the research sample during the study period (2015–2024). The analysis is based on comparative financial analysis, without relying on statistical methods, in a manner consistent with the nature and objectives of the study.

Accordingly, the relationship between earning power and the fair value of shares is presented and analyzed for the sampled companies, as shown in Table (3).

Table (3): The Relationship between Earning Power and the Fair Value of Shares of the Sampled Companies

Year	Iraqi Company for Carpets and Furnishings		Baghdad Soft Drinks Company	
	E.P	F.V	E.P	F.V
2015	**0.098**	0.272	**0.123**	1.993
2016	**0.097**	0.594	**0.141**	5.153
2017	**0.129**	2.499	**0.122**	0.545
2018	**0.164**	2.042	**0.131**	2.254
2019	**0.298**	5.541	**0.139**	3.01
2020	**0.228**	0.344	**0.143**	7.733
2021	**0.274**	0.89	**0.107**	1.528
2022	**0.305**	0.477	**0.109**	10.204
2023	**0.205**	0.281	**0.183**	0.167
2024	**0.212**	0.882	**0.241**	3.177

Source: Prepared by the researcher based on computer-generated outputs for data analysis.

Table (3) and Figure (3) show the existence of an irregular directional relationship between earning power and the fair value of shares in both companies. The movements of fair value do not fully correspond with changes in earning power in all years of the study. However, the general trend indicates that earning power plays an explanatory role in interpreting variations in the fair value of shares.

In the Baghdad Soft Drinks Company, the significant increases in the fair value of shares—particularly in 2019 and 2022, when the estimated values reached (7.733) and (10.204), respectively—were not accompanied by similar increases in earning power, which remained at relatively close levels throughout the study period. This suggests that the fair value of shares in this company was influenced to a greater extent by other factors, such as dividend distributions and changes in the required rate of return, in addition to earning power.

In contrast, the Iraqi Company for Carpets and Furnishings exhibits a relatively clearer convergence between the movements of earning power and the fair value of shares, particularly in 2019 and 2022. During these years, improvements in earning power coincided with higher estimated fair values of shares, reflecting greater sensitivity of stock valuation to operational performance efficiency and profit generation in this company.

Al-Furat Journal of Innovations in Management Sciences

ATU- AFJIMS, Volume: 5, March 2026
ISSN : 3106-4973

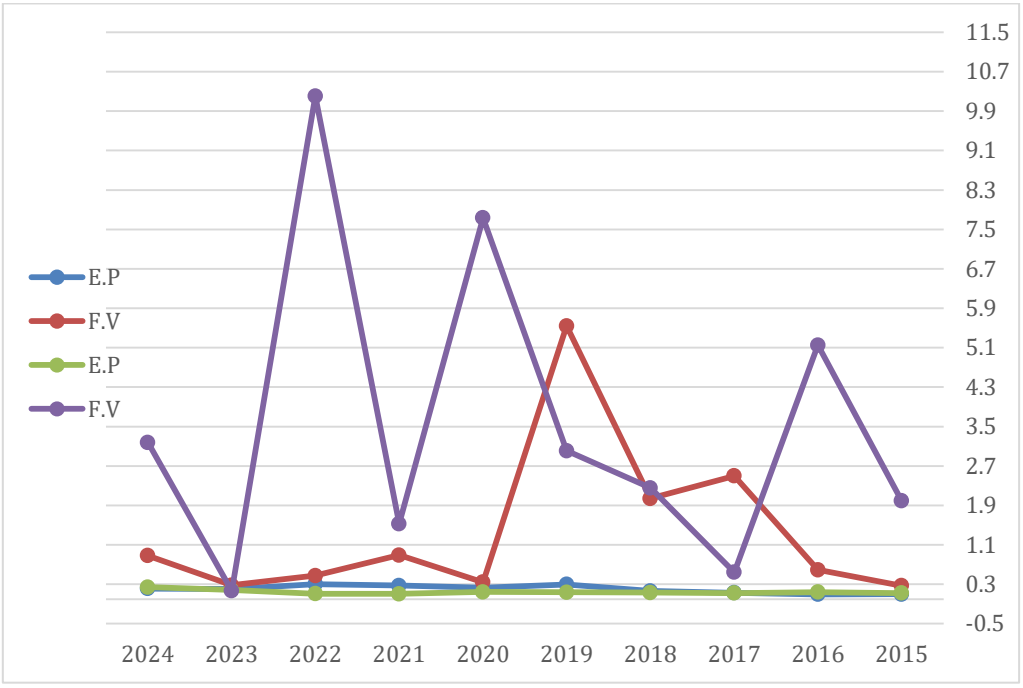


Figure (3): The Relationship between Earning Power and the Fair Value of Shares of the Sampled Companies

Source: Prepared by the researcher based on computer-generated outputs for data analysis.

Figure (3) shows that the trajectories of earning power and fair value are characterized by a degree of variation and volatility, which is expected given that fair value is influenced by multiple factors not limited to earning power alone, such as the stability of dividend distributions, growth expectations, and the required rate of return. Nevertheless, the general trend of the data highlights that earning power contributes to explaining part of the changes in the fair value of shares, particularly when analyzed within a comparative time framework.

Based on the above, the research hypothesis stating that earning power plays a role in achieving the fair value of shares can be accepted, relying on the results of comparative and time-based financial analysis, without claiming the existence of a causal relationship or statistical significance. This conclusion is consistent with the nature and objectives of the study.

5.Conclusions and Recommendations

5.1Conclusions

1. The results of the financial analysis indicate that earning power plays an important role in explaining changes in the fair value of shares.
2. The analysis shows that improvements in earning power are often associated with increases in the fair value of shares, while declines in earning power are reflected in decreases or fluctuations in the estimated fair value.

3. The findings reveal a clear variation in earning power levels between the two companies included in the research sample, which contributed to differences in the estimated fair values of their shares.
4. The application of the Dividend Discount Model demonstrates that the fair value of shares is sensitive to the efficiency of profit generation and the stability of dividend distributions.
5. The comparative analysis indicates the acceptability of the research hypothesis stating that earning power plays a role in achieving the fair value of shares, based on financial analysis results without relying on statistical methods.

5.2 Recommendations

1. Industrial companies should give greater attention to improving earning power by enhancing operational efficiency and strengthening the ability to generate stable profits.
2. Company managements are encouraged to adopt earning power as a supportive indicator when making financial and investment decisions related to stock valuation.
3. It is important to adopt more stable dividend distribution policies due to their direct impact on enhancing the fair value of shares according to financial valuation models.
4. Investors are advised not to rely solely on market prices, but to take earning power into consideration when evaluating industrial stocks.
5. Future studies are recommended to employ statistical methods to more accurately measure the strength and direction of the relationship between earning power and the fair value of shares.

REFERENCES

[1] Biplob, M. N. K., Alam, S., & Hossain, M. M. (2018). DuPont analysis of return on common stockholder's equity in pharmaceutical industry of Bangladesh. Global Journal of Management and Business Research: C (Finance), 18(1), 1–15.

[2] Salman, N. H., & Al-Hashemi, A. M. (2025). The effect of fair value on the relevance of the book value of the stock: An applied study in a sample of Iraqi banks. Al-Furat Journal of Innovations in Management Sciences, 1(1), 26–38.

[3] Djojo, V. M., & Astuti, C. D. (2023). The Effect of Tax Planning, Capital Intensity and Earning Power On Earning Management with Institutional Ownership As A Moderating Variable. Devotion: Journal of Research and Community Service, 4(2), 534-545.

[4] Paniran, P., & Baharudin, A. (2021). Pengaruh Kepemilikan Manajerial, Laverage, Dan Earning power Terhadap Manajemen Laba Pada Perusahaan Sektor Industri Dasar dan Kimia. Jurnal Studia Akuntansi dan Bisnis (The Indonesian Journal of Management & Accounting), 9(1).

[5] Rachdian, R., & Achadiyah, B. N. (2019). Pengaruh Basic Earnings Power (BEP), Market Value Added (MVA), Dan Return On Investment (ROI) Terhadap Return Saham. Nominal: Barometer Riset Akuntansi Dan Manajemen, 8(2), 239-254.

[6] Fatma, N., & Hidayat, W. (2020). Earnings persistence, earnings power, and equity valuation in consumer goods firms. Asian Journal of Accounting Research, 5(1), 3-13.

[7] Setijaningsih, H. T., & Merisa, M. (2022, May). The Effect of Leverage, Earning Power, and Sales Growth on Earnings Management Moderated by Corporate Governance. In Tenth International Conference on Entrepreneurship and Business Management 2021 (ICEBM 2021) (pp. 379-386). Atlantis Press.

[8] Paniran, P., & Baharudin, A. (2021). Pengaruh Kepemilikan Manajerial, Laverage, Dan Earning power Terhadap Manajemen Laba Pada Perusahaan Sektor Industri Dasar dan Kimia. Jurnal Studia Akuntansi dan Bisnis (The Indonesian Journal of Management & Accounting), 9(1).

[9] Rachdian, R., & Achadiyah, B. N. (2019). Pengaruh Basic Earnings Power (BEP), Market Value Added (MVA), Dan Return On Investment (ROI) Terhadap Return Saham. Nominal: Barometer Riset Akuntansi Dan Manajemen, 8(2), 239-254.

[10] Robinson, Thomas, Elaine Henry, Wendy L. Pirie, Michael A. Broihahn, (2015), International Financial Statement Analysis, Printed in the United States of America.

[11] Setijaningsih, H. T., & Merisa, M. (2022, May). The Effect of Leverage, Earning Power, and Sales Growth on Earnings Management Moderated by Corporate Governance. In Tenth International Conference on Entrepreneurship and Business Management 2021 (ICEBM 2021) (pp. 379-386). Atlantis Press.

[12] Hill, Arthur V. (2012), The Encyclopedia of Operations Management, Printed in United States of America.

[13] Marco, Pasquale De. (2025), Analyze Financial Statements Like a Pro: A Step-by-Step Guide for Understanding Your Business's Financial Health, USD.

[14] Paniran, P., & Baharudin, A. (2021). Pengaruh Kepemilikan Manajerial, Laverage, Dan Earning power Terhadap Manajemen Laba Pada Perusahaan Sektor Industri Dasar dan Kimia. Jurnal Studia Akuntansi dan Bisnis (The Indonesian Journal of Management & Accounting), 9(1).

[15] Mihola, J., Kotěšovcová, J., & Wawrosz, P. (2016). Intensity and extensity of firm development and dynamic DuPont analysis. European Research Studies Journal, 19(4), 53–63. Mihola, J., Kotěšovcová, J., & Wawrosz, P. (2016). Intensity and extensity of firm development and dynamic DuPont analysis. European Research Studies Journal, 19(4), 53–63.

[16] Robinson, Thomas, Elaine Henry, Wendy L. Pirie, Michael A. Broihahn, (2015), International Financial Statement Analysis, Printed in the United States of America.

[17] Hill, Arthur V. (2012), The Encyclopedia of Operations Management, Printed in United States of America.

[18] Harris, R. S., & Chaplinsky, S. (2003). The dividend discount model. Darden Graduate School of Business, University of Virginia.

[19] Internal Revenue Service (IRS). (2007). The value of donated property. United States of America.

[20] International Accounting Standards Board (IASB). (2009). Fair value measurement. London.

[21] Financial Accounting Standards Board (FASB). (2007). Statement of Financial Accounting Standards No. 157: Fair Value Measurements. Norwalk, CT.

[22] Damodaran, A. (2012). Investment valuation: Tools and techniques for determining the value of any asset (3rd ed.). John Wiley & Sons.

[23] Bueno, L. A., Sigahi, T. F. A. C., Rampasso, I. S., Leal Filho, W., & Anholon, R. (2024). Impacts of digitization on operational efficiency in the banking sector: Thematic analysis and research agenda proposal. International Journal of Information Management Data Insights, 4, Article 100230.

[24] Applying IFRS ,Ernst & Young Global Limited. (2012): IFRS 13 fair value measurement. EYGM Limited.

[25] Harris, R. S., & Chaplinsky, S. (2003). The dividend discount model. Darden Graduate School of Business, University of Virginia.

[26] Bhutani, K., & Kaur, G. (2004). Dividend decision. Bharati College, University of Delhi.

[27] Damodaran, A. (2012). Investment valuation: Tools and techniques for determining the value of any asset (3rd ed.). John Wiley & Sons.

[28] Quiry, R., Dallochio, M., Fur, Y., & Salvi, A. (2009). Corporate finance: Theory and practice (2nd ed.). John Wiley & Sons