The Predictive Power of Interim Financial Reports for The Future Performance :An Empirical Evidence from Palestine

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Abstract

Purpose – This study investigates the predictive and reliability power of interim financial reports (IFRs), whether quarterly or semi-annual, in forecasting future performance. It focuses on the relevance of interim financial ratios and their effect on stock returns, given that users often emphasize annual reports and general assembly meetings typically prioritize annual results over interim disclosures.

Design/methodology/approach – A descriptive-analytical approach was employed, utilizing a sample of 20 Palestinian industrial and service firms listed on the Palestine Exchange (PEX). A multiple regression model was used to examine the relationship between stock return (R) and four key independent variables: earnings per share (EPS), sales per share (SPS), firm size (FS), and operating cash flow per share (OCFPS).

Findings – The results indicate that: (1) there is no statistically significant relationship at the 5% level between stock return and either EPS or SPS; (2) a statistically significant relationship exists at the 10% level between stock return and OCFPS; and (3) firm size shows a statistically significant relationship with stock return at the 5% level.

Practical implications – The findings highlight the relevance of IFRs to regulators, policymakers, and corporate managers, underscoring their role in enabling timely decision-making.

Originality/value – To the best of the author's knowledge, this is the first empirical investigation of the influence of interim financial reports on stock returns within the Palestinian market. It fills a research gap and underscores the need to re-evaluate the role of IFRs in investment and corporate decision-making.

Keywords: *Financial Disclosure; Financial Information Quality; Information Disclosure.*

1. Introduction

Interim Financial Reporting (IFR), as outlined in International Accounting Standard 34, refers to the preparation of complete or condensed financial statements on a quarterly or semiannual basis. Although the standard does not mandate which entities must issue such reports, interim disclosures are increasingly viewed as an important complement to annual reporting. Prior studies (Sulaiman & Ahmad, 2016; Oberholster et al., 2017; Tran et al., 2020) demonstrate that timely and high-quality accounting information enhances the decision-making process, particularly when investors require more current data than what annual reports alone can provide.

The academic debate continues regarding the relative importance of interim versus annual information, especially in terms of whether book value or earnings respond more strongly to interim disclosures. From a user perspective, several studies (Qabajeh et al., 2012; Alsharairi et al., 2015) suggest that interim reports may carry greater informational value due to their timeliness. However, interim statements also involve higher estimation and approximation because they are prepared within shorter reporting cycles (Joshi & Bremser, 2003), which may influence their reliability and predictive power.

Evidence from emerging markets, including Palestine, reveals mixed reactions to interim announcements. For example, Qabajeh et al. (2012) found that interim earnings per share (EPS) were associated with trading activity, though not consistently with trading volume. Such findings illustrate the nuanced and context-dependent nature of market responses to interim information.

Despite the practical relevance of IFRs, the benefits of increased reporting frequency, such as improved liquidity or enhanced market efficiency, remain empirically inconclusive. Kajüter et al. (2020) argue that while more frequent reporting can strengthen monitoring mechanisms, it may also encourage short-term managerial behavior and delay the timely release of information due to increased preparation demands.

Researchers have also explored how specific financial indicators contained in interim reports relate to market outcomes. Martani and Khairurizka (2009) reported that profitability ratios, activity measures, and market-based indicators show strong associations with interim EPS, underscoring the need to examine whether such relationships hold in different market environments. Interim reports thus serve as an

important decision-making tool, providing more up-to-date insights for investors, although their usefulness may vary depending on firm characteristics and market conditions.

Within this context, market-based accounting research plays a central role in assessing the value relevance of interim disclosures. This line of research focuses on the extent to which financial information is reflected in security prices and on how this information helps users form expectations about future performance (Tambun et al., 2018). Building on this framework, the present study investigates whether interim financial indicators—EPS, SPS, OCFPS, and firm size—possess predictive power for stock returns in the Palestinian market, an emerging setting where empirical evidence remains limited.

2. Research Background

International Accounting Standards mandate that publicly traded entities disseminate thorough and periodic financial disclosures, thereby facilitating investor evaluation of financial and economic circumstances and projection of prospective market valuations. The foundational work of Ball and Brown (1968) definitively demonstrated that accounting data lacks inherent relevance for corporate valuation purposes, serving instead as formalized documentation with predominantly administrative rather than evaluative applications. This seminal contribution initiated extensive scholarly inquiry into the nexus between financial markets and accounting information.

Broadly speaking, financial statement disclosures fulfill dual objectives: quantifying organizational worth and overseeing managerial execution (Chandra & Ro, 2008). Numerous empirical investigations have validated the significance and efficacy of annual accounting disclosures and their analytical interpretation for enterprise assessment, subsequently influencing equity valuations. Research by Kubik-Kwiatkowska (2012), Honggowati and Aryani (2015), and Dyduch (2017), for instance, produced comparable yet occasionally divergent conclusions, attributable to variations in valuation frameworks employed and their respective explanatory capacities. Such discrepancies may additionally arise from the omission of other determinative elements, particularly the qualitative attributes of disclosed information.

Given these empirical observations, the research problem crystallizes into several fundamental inquiries:

1) Does quarterly financial information exert substantial influence on equity returns as a proxy for enterprise valuation among industrial corporations traded on the Palestine Exchange and Jordan Stock Exchange?
2) Does the forecasting capability of quarterly disclosures diverge from that of aggregated annual information, particularly concerning sales volume, market penetration, and evaluation of executive leadership's goal attainment capacity?
3) Does quarterly information contribute meaningfully to organizational valuation assessment?
4) Does the influence of quarterly financial data on stock valuations, serving as an enterprise value indicator, differ from the corresponding impact of annually prepared accounting information?

This investigation endeavors to analyze and validate the pertinence of accounting information—specifically interim disclosures generated by accounting frameworks for sub-annual financial periods—and to establish these reports' capacity to furnish valuable intelligence for decision-makers within industrial enterprises listed on Palestinian and Jordanian securities markets.

The publication of interim financial statements furnishes evidence affecting investor speculative conduct and identifies the precise temporal point at which such evidence maximally influences investor decision modifications. Al-Tahat (2015a) suggests that prioritizing financial disclosure, provided it delivers dependable evidence to users, signifies a transition from historically oriented comprehension toward prospective-focused perspectives. Within this framework, financial reporting functions as a communication mechanism through which management conveys performance outcomes to equity holders. Given that investors operate in uncertainty-laden environments, IFRs acquire heightened significance by providing consistent inputs aligned with investors' dynamic requirements and decision-making frameworks (Elsayed, 2021).

The relevance of such evidence constitutes a fundamental characteristic of IFR, as Opong (1988) observed. Enterprises demonstrating superior profitability frequently correlate with expedited IFR issuance, particularly semiannual statements, surpassing less profitable counterparts. These high-performing organizations tend to communicate financial accomplishments more promptly to stakeholders. Nevertheless, corporations generally do not correlate interim report publication velocity with organizational magnitude or engagement of prominent auditing firms for account examination (Vedd & Yassinski, 2015).

This research possesses scholarly significance, given that most antecedent studies concentrated on assessing annual accounting information without addressing interim disclosures or their concordance and divergence with annual reports regarding evaluative capability. This indicates a pronounced research lacuna within this domain. Consequently, a scientific imperative exists to examine the appropriateness of cumulative financial information within Middle Eastern nations, many of which represent emerging economies insufficiently explored through empirical research, particularly within Palestinian accounting and regulatory contexts. Prior investigations confirm that interim accounting information valuation remains a subject of sustained scholarly interest. This study aspires to address this gap and advance accounting scholarship regarding the suitability of accounting data for value measurement, which proves essential for decision-makers, especially concerning investment determinations.

The investigator posits that the generalizability of results will depend upon multiple considerations, including sample selection parameters, data characteristics, and methodological approaches adopted. Accordingly, this investigation will examine the evaluative capacity of interim accounting information, specifically the book value of stock return (R), utilizing the Ohlson model (Juan Román DBA, 2018, Figure 2) alongside other pertinent valuation frameworks. The analysis additionally incorporates supplementary financial metrics, including sales per share and operational cash flows per share. The study accounts for certain control variables—predominantly firm size—while excluding specific non-accounting elements incorporated within the Ohlson model, such as auditor designation, capital market speculation, macroeconomic indicators, and legislative frameworks.

2.1. Interim financial reporting

Discourse regarding interim statements typically presumes quarterly reporting frequency. Nevertheless, periodicity may alternatively correlate with an organization's sales volume and production capacity. Substantial critique has been directed toward the presumption that all accounting disclosures are exclusively formulated at the fiscal year conclusion (Pointer et al., 1975).

Interim Financial Reports (IFRs) serve to furnish current information concerning an entity's financial performance while identifying material developments transpiring throughout the reporting interval. These disclosures facilitate assessment of an organization's profit generation and cash flow production capabilities and illustrate its financial standing, particularly considering heightened market fluctuations and escalating demand for contemporaneous information supporting investment determinations. Consequently, the temporal dimension of

interim disclosure constitutes a pivotal consideration. Alsharairi et al. (2015) emphasize that postponements in IFR publication can adversely affect the interests of decision-makers and stakeholders requiring prompt financial intelligence.

According to Al-Tahat (2015b), organizations endeavor to communicate their profitability through the release of substantive evidence within interim disclosures as a mechanism to encourage investor participation. This commitment to voluntary disclosure frequently correlates with robust corporate governance frameworks and competent implementation. Elements, including board compensation structures, auditing firm scope, and governmental ownership concentration, substantially influence voluntary disclosure extent, which, regarding semiannual statements, can beneficially affect an organization's market capitalization.

Albawwat and Basah (2015) underscored that variables such as liquidity positions, profitability metrics, sales expansion, and organizational magnitude represent principal determinants positively influencing interim disclosure comprehensiveness. To enhance interim reporting efficiency and credibility—particularly considering insufficient stringent timeliness enforcement—regulatory authorities implementing corporate governance standards should intensify oversight of interim financial disclosures and impose sanctions, potentially including commercial registry delisting for non-compliant entities. Conversely, financial statement users must meticulously examine and interpret these disclosures, concentrating on liquidity indicators, sales growth trajectories, return on equity measures, and overall firm dimensions (Nguyen, 2015).

Consequently, the qualitative attributes of accounting information fulfill a crucial function in augmenting interim reporting quality. These disclosures must demonstrate fundamental properties, including relevance and faithful representation, to inform decisions and precisely portray interim operational activities. They should manifest enhanced characteristics, encompassing comparability, verifiability, comprehensibility, and timeliness. Ultimately, the utility stakeholders' extract from these disclosures depends upon information quality, as decisional effectiveness advances proportionally with input data quality (Al-Shatnawi, 2017).

2.2. Stock return

Extensive scholarly investigations have explored how financial metrics extracted from financial disclosures influence equity returns. Ou and Penman (1989), for example, evaluated diverse financial statement components to derive financial ratios. Their analysis revealed that although numerous ratios demonstrated favorable effects on equity returns, others exhibited negligible explanatory capacity.

In a separate investigation, Fraser and Power (1997) determined that weekly variations in stock returns were not predominantly attributable to financial disclosure, but rather to market mechanisms, volatility patterns, speculative activities, and information dissemination within financial markets. Their examination, encompassing five markets across the United Kingdom and the United States throughout six years, indicates that exogenous factors frequently exert greater influence than financial statements on short-term valuation fluctuations.

Research conducted by Iltas et al. (2017) investigated 24 industrial sectors comprising 204 publicly traded corporations and established that both financial and non-financial determinants affect equity returns. Sales expansion, investment proportions, and liquidity demonstrated favorable influences, whereas sovereign risk and firm-specific risk exhibited adverse impacts. Furthermore, operational diversification manifested a positive correlation with stock returns, suggesting that expanded business portfolios strengthen operating cash flow generation and investor sentiment.

Additional scholarship, including work by Hertina and Saudi (2019), demonstrates that financial ratios' impact on earnings per share fluctuates across geographical regions and industrial sectors. Within the East Asian real estate sector, for instance, equity returns experienced significant influence from debt-to-equity and profitability measures. Conversely, return on assets and equity metrics revealed statistically insignificant effects.

The industrial sector specifically has attracted scholarly attention through studies such as those conducted by Julianto and Syafarudin (2020), who investigated both financial and technical determinants affecting stock returns. Their conclusions suggested that financial variables derived from financial disclosures exert a moderately positive influence, whereas technical parameters—including currency exchange rate movements relative to the United States dollar—demonstrate more pronounced effects on equity returns. These observations correspond with the architecture of the Ohlson valuation framework, which incorporates both accounting-based and non-accounting variables.

According to Miller (1988), stock return computation follows this formulation:

$$\text{Stock Return} = ((P_1 - P_0) + D) / P_0$$

Where P_0 represents the initial stock valuation, P_1 denotes the concluding stock valuation, and D signifies dividends distributed.

$$sipi = \sum_{j}^{n} = 1xij\left(pi0 + mi(xij)\right)$$

$$si = \sum_{j}^{n} = 1xij$$

2.3. Earnings

Logical conduct in equity valuations and temporally variable returns receives explanation through three principal determinants: cash flow disruptions, production expansion, and informational modifications concerning market efficiency—whether favorable or unfavorable (Fama, 1990). Multiple determinants influence equity returns, encompassing macroeconomic circumstances distinctive to individual nations and currency exchange vulnerabilities, particularly for corporations that disclose or conduct transactions in foreign currencies. Empirical documentation demonstrates that currency risk exposure substantially affects stock returns throughout numerous countries.

Within this investigation, attention concentrates on internal organizational factors, incorporating liquidity indicators, net share distribution, capital investment, and asset expansion (Hou et al., 2011).

Additional investigations within this domain, including Talamati and Pangemanan (2015), discovered that financial metrics, such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS), exert considerable influence on equity valuations of food processing enterprises. Among these indicators, EPS demonstrated the most substantial impact.

Jasman and Kasran (2017) proposed that EPS may not consistently derive from an organization's profitability, but rather from exogenous elements such as investor conduct and market perception, which can diverge from authentic financial performance.

Empirical scholarship additionally confirms that EPS maintains a close association with short-term investor conduct, encompassing equity purchasing and liquidation decisions, alongside corporate initiatives such as research and development expenditures, capital allocation,

employment strategies, and merger and acquisition activities. Over extended timeframes, these organizational behaviors are similarly shaped by anticipations connected to EPS (Almeida, 2019).

The computational formula for Earnings Per Share follows:

EPS = (Net Income – Preferred Dividends) / Average Outstanding Shares

2.4. Sales

Multiple American investigations have analyzed profit expansion by examining market penetration across varied industrial contexts. This approach frequently derives from microeconomic frameworks presuming that return rates converge in competitive marketplaces, thereby establishing market share as a critical indicator. These studies indicate that sales volume maintains enduring influence on equity returns, especially within intensely competitive industrial environments. However, within sub-competitive or fragmented markets, this relationship necessitates additional examination (Gale, 1972).

A prominent investigation by Thayer (1999) analyzed consolidations among pharmaceutical and biopharmaceutical corporations in the United States throughout the latter portion of 1999. The study documented considerable sales escalation for twelve enterprises participating in these consolidations, which subsequently generated significant gains in stock returns. These outcomes were not exclusively attributable to financial metrics but were additionally influenced by strategic diversification and the development of innovative pharmaceutical products.

Agarwal et al. (2021) identified that quarterly sales announcements, particularly those incorporating indirect distribution networks, can produce cumulative stock returns increasing by 1.5% over 60 days subsequent to IFR publication. This discovery reinforces the significance of investigating the association between sales and EPS-connected returns within financial markets.

Subsequent investigations have demonstrated that sales expansion in industrial corporations exhibits a positive correlation with equity returns. Rachmawati (2021) observed that larger industrial entities typically pursue elevated sales levels more vigorously than smaller organizations. This establishes a direct connection among organizational magnitude, sales volume, and stock return.

Mao (2023) furnished analytical evidence demonstrating that gross profit margin (GPM) experiences substantial influence from sales volume. As sales escalate, GPM characteristically improves. This phenomenon subsequently assists in mitigating the detrimental effects of diminishing net profits on stock returns. Zhang and Gong (2018) similarly underscored that managerial responsiveness to sales patterns fulfills a pivotal function in forming investor anticipations and returns.

2.5. Operating cash flow

Operational cash flows (OCF) maintain intimate connections with conventional performance indicators, including sales, working capital, and fundamental operational activities (Thode et al., 1986). When evaluating the association between OCF and equity returns, particularly concerning future performance forecasting, Luo (2008) identified that although cash flows may project future earnings, stock valuations may not precisely mirror these projections. This inconsistency can misguide investors who depend upon OCF to forecast equity returns.

Within industrial sectors, operational activities encompass covering operational and administrative expenditures, which frequently necessitate financial support, customarily obtained through equity capital. Consequently, investors rely upon cash flow statements when determining whether to allocate capital to such enterprises. Nevertheless, Santoso (2018) documented that operating cash flows do not substantially affect stock returns, as empirical data revealed statistically insignificant associations.

Despite this, equity returns persist as a vital metric for investors. Multiple researchers have investigated the connection between returns and financial indicators such as OCF. Although the correlation typically demonstrates weakness, operating cash flow persists as a significant variable when assessing the forecasting capacity of interim disclosures on stock performance (Anggara, 2020).

2.6. Firm size

Multiple investigations have determined that variables including employee count, profit allocation policies, diversification approaches, remuneration frameworks, incentive mechanisms, and board configuration constitute primary determinants of organizational magnitude. Kumar et al. (1990) contended that firm size is determined through three fundamental dimensions: total assets, aggregate sales, market capitalization, and the financing volume necessary to sustain operations. Within this investigation, total assets serve as a proxy representing organizational size (Dang & Li, 2015).

In most scholarly literature, organizational size is measured by total assets. Certain studies have conceptualized firm size as an independent variable when examining the influence of both annual and interim financial disclosures on stock returns through financial ratio analysis. Alternative research—including investigations by Leledakis et al. (2004) and Astakhov et al. (2019)—positioned firm size predominantly as a control or moderating variable rather than a direct independent determinant.

The association between organizational magnitude and equity returns has yielded heterogeneous outcomes. Whereas certain studies found that firm size is negatively correlated with stock returns, others, such as Yuliarti and Diyani (2018), found that this relationship is weak and fails to substantially explain return variation.

2.7. Research hypotheses

Drawing upon the scholarly literature examined previously, this investigation endeavors to validate the following hypotheses:

- H_1: Interim Earnings Per Share (EPS) exerts a statistically significant influence on Stock Return (R).
- H_2: Interim Sales Per Share (SPS) demonstrates a statistically significant impact on Stock Return (R).
- H_3: Interim Operating Cash Flow Per Share (OCFPS) exhibits a statistically significant effect on Stock Return (R).
- H_4: Interim Firm Size, quantified through total assets, manifests a statistically significant influence on Stock Return (R).

3. Methodology

3.1. Firm selection

The investigation's sampling framework encompasses all industrial and service enterprises traded on the Palestine Exchange (PEX) (www.PEX.ps) for which interim disclosure data remained accessible throughout the 2012–2022 period. Enterprises that demonstrated incomplete or absent interim report data during this timeframe were excluded. Consequently, the ultimate sample incorporates 10 among 11 industrial corporations and 9 among 10 service corporations.

3.2. Sampling and data collection

The ultimate sample comprises 19 enterprises, monitored over a decade, with 4 interim disclosures annually (including the annual report, conceptualized as the fourth-quarter disclosure). This generates 836 aggregate observations. Beyond primary data, the investigation employed secondary sources, including prior literature on the variables under examination.

Table 1: Descriptive Statistics of the Study Sample

Firms	Interim Reports	Frequency	Percent	Valid Percent	Cumulative Percent
Industrial	10	44	440	52.6%	52.6%
Service	9	44	396	47.4%	47.4%
Total	19	88	836	100.0%	100.0%

The statistical software application EViews was utilized to analyze the influence of independent variables—Sales per Share (SPS), Earnings per Share (EPS), Operating Cash Flow per Share (OCFPS), and Firm Size (FS)—upon the dependent variable, Stock Return (SR).
The investigator extracted primary financial data from income statements, balance sheets, and cash flow statements, consistent with the designated analysis variables.

3.3. Variable symbols, descriptions, and types

The subsequent table displays the independent and dependent variables, their corresponding symbols, descriptions, and classifications:

Table 2: Measurement of Variables

Variable	Symbol	Description	Variable Type
Operating Cash Flow Per Share	OCFPS	Cash Flow from Operations / Outstanding Shares	Independent
Earnings Per Share	EPS	(Net Income – Dividends on Preferred Stock) / Average Outstanding Shares	Independent
Sales Per Share	SPS	Total Sales / Outstanding Shares	Independent
Firm Size	FS	Logarithm of Total Assets	Independent
Stock Return	R	$((P_1 – P_0) + D) / P_0$, where P_0 = Initial Stock Price, P_1 = Ending Stock Price, D = Dividends	Dependent

3.4. Study model

The study adopts the following multiple linear regression model to test the stated hypotheses:

$$R_t = a + ß1(EPS_t)it + ß2(SPS_t)it + ß3(FS_t)it + ß4(OCFPS_t)it + eit$$

Where:
(R_t) = stock return at time t.
(a) = regression equation constant.
(EPS_t) = N. Income minus Dividends on P. Stock / Average Outstanding Shares, at time t.
(SPS_t) = total sales / outstanding shares at time t.
(FS_t) = algorithm of total asset at time t.
$(OCFPS_t)$ = cash flow from operations / average outstanding shares at time t.
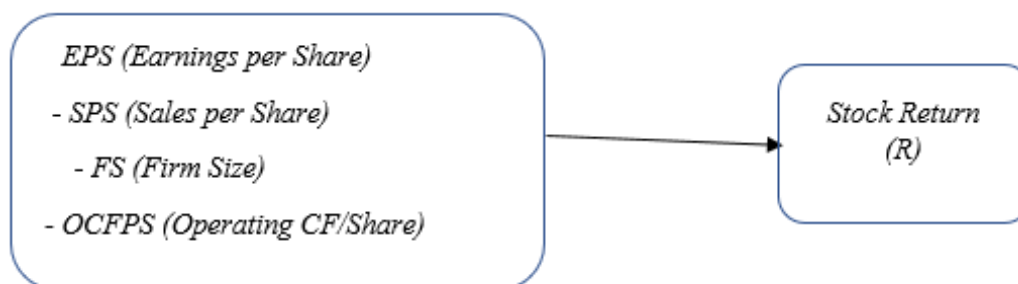The Research Model: Independent Variables, Dependent Variable

EPS (Earnings per Share)
- SPS (Sales per Share)
- FS (Firm Size)
- OCFPS (Operating CF/Share)

Stock Return (R)

Fig. 1: The Research Model.

4. Results and Discussion

4.1. Descriptive analysis

Descriptive statistical examination was implemented, as illustrated in Table 3. Conventional descriptive measures were utilized to characterize the dataset, incorporating mean values, standard deviation, minimum, and maximum values for each numerical variable.

Table 3: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Sales per Share (SPS)	836	-0.0200	4.5500	0.362835	0.3980172
Operating Cash Flow per Share (OCFPS)	836	-1.0000	1.1300	0.040622	0.2012425
Earnings per Share (EPS)	836	-0.2900	1.0600	0.055167	0.1136803
Firm Size (FS)	836	5.870	9.450	7.417640	0.630585
Stock Return (R)	836	-0.3500	4.3100	0.016926	0.1848631

The complete set of 836 observations demonstrated validity and underwent incorporation within the analytical framework.

4.2. Normality test

To verify the suitability of applying the linear regression model, a normality assessment was conducted for the study variables. Although linear regression does not strictly require normally distributed raw data, assessing normality helps ensure the reliability of estimators and the validity of statistical inference.

The Skewness and Kurtosis indicators were first examined to evaluate the extent of deviation from a normal distribution. According to Kim (2013), absolute z-values for skewness and kurtosis within the ±3.29 range indicate an acceptable level of normality. As shown in Table 4, the dataset clearly departs from these thresholds, with a skewness value of 16.04 and kurtosis of 354.7, both far exceeding conventional limits. The Jarque–Bera statistic also yields a p-value below 0.05, confirming rejection of the null hypothesis of normality.

Despite this deviation, the large sample size (n = 836) provides strong justification for proceeding with regression analysis. Based on the Central Limit Theorem (CLT), when the sample size is sufficiently large, the sampling distribution of the regression estimators approaches normality even if the underlying variables themselves are not normally distributed. This ensures the consistency and asymptotic normality of OLS estimates.

Therefore, although the variables exhibit non-normal raw distributions, the substantial sample size mitigates this concern, allowing the application of the OLS regression model with confidence in the validity of the statistical results.
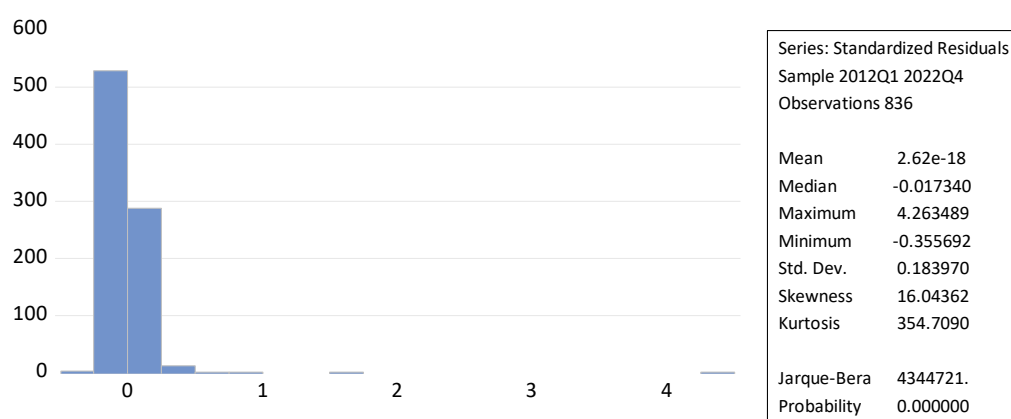

Fig 4: Normality Test

Fig 4 demonstrates conclusively that variables fail to satisfy standard distribution prerequisites, evidenced by a Skewness value of (16.04 > 0) and Kurtosis value of (354.7 > 3). Nevertheless.

4.3. Interpretation of the insignificance of EPS and SPS

The empirical results indicate that both Earnings per Share (EPS) and Sales per Share (SPS) do not have a statistically significant impact on stock returns during interim periods. Several explanations may account for this outcome within the context of the Palestinian Exchange (PEX), particularly given its structural characteristics and market dynamics.

First, interim earnings figures often contain higher estimation noise due to shorter reporting cycles. Interim EPS includes accrual-based components that may not fully reflect a firm's underlying performance or cash-generating ability. As a result, investors may discount interim earnings information because it is perceived as less reliable than annual results.

Second, the Palestinian market is characterized by low liquidity and thin trading, which may weaken the responsiveness of stock prices to earnings announcements. In markets with limited trading activity, price adjustments to new accounting information are typically slow or incomplete, reducing the observable relationship between EPS and short-term stock returns.

Third, investors in emerging markets tend to rely more on cash-based indicators rather than accrual measures when evaluating firm performance. Since cash flow–related metrics are often viewed as more resistant to managerial discretion and accounting manipulation, investors may attribute greater weight to operating cash flows than to interim earnings figures. This behavioral tendency aligns with the finding that OCFPS exhibited marginal predictive significance, while EPS did not.

Fourth, the insignificance of SPS may stem from the limited informativeness of sales figures during interim periods, especially in sectors where revenues fluctuate seasonally or are influenced by short-term market shocks. Interim sales may also fail to capture profitability or efficiency, leading investors to consider them insufficient indicators of firm value on their own.

Finally, the results may reflect the broader market inefficiency typical of small and emerging exchanges, where the process of incorporating public financial information into stock prices is slower and less systematic. In such environments, price movements are often driven by investor sentiment, market speculation, or macroeconomic events rather than fundamental performance metrics such as EPS and SPS. Overall, these findings suggest that interim earnings and sales disclosures in the PEX may lack the value relevance commonly observed in more developed markets. They also underscore the need for stronger reporting practices and greater investor awareness to enhance the role of interim financial indicators in investment decision-making.

4.4. Correlation matrix

This analytical procedure evaluates whether variables in the multiple regression framework exhibit elevated correlations, potentially indicating multicollinearity. To accomplish this assessment, the Pearson correlation coefficient was computed from the correlation matrix of the investigated variables. According to Gujarati (2009), an elevated correlation is defined as a coefficient surpassing 0.80 between two or additional variables, which could distort the interpretation of individual predictor influences within the regression framework.

To ensure the absence of multicollinearity, a cross-correlation matrix was constructed, as displayed in Table 5.

The outcomes reveal the following patterns:

- A statistically significant positive correlation emerged between Stock Return (Rt) and Firm Size (FSt), with r = 0.072, significant at the $P < 0.05$ threshold.
- No statistically significant correlation manifested between Stock Return (Rt) and remaining independent variables (SPSt, OCFPSt, and EPSt) at the $P < 0.05$ threshold.
- However, statistically significant positive correlations materialized among all remaining independent variables at the $P < 0.01$ threshold.

These findings suggest that although certain variables are interrelated, no extreme multicollinearity exists that would compromise the validity of the regression model.

Table 5: Correlation Matrix

	S R	SPS	OCFPS	FS	EPS
S R	1.000				
t-Stat	------				
p-Value	------				
SPS	0.002840	1.0000			
t-Stat	0.082003	------			
p-Value	0.9347	-------			
OCFPS	-0.004802	0.12063	1.0000		
t-Stat	-0.138691	3.50928	------		
p-Value	0.8897	0.0000	------		
FS	-0.072001	0.188557	0.115754	1.0000	
t-Stat	-2.084724	5.544817	3.343236	-----	
p-Value	0.0374	0.00000	0.00008	------	
EPS	0.044354	0.218594	0.11450	0.243387	1.0000
t-Stat	1.282165	6.469240	3.343236	7.24670	------
p-Value	0.2001	0.0000	0.00009	0.0000	------

4.5. Multiple regression analysis (for stock return – rt)

To evaluate the value relevance of interim disclosures for industrial and service enterprises traded on the Palestine Exchange (PEX), a multiple linear regression analysis was conducted using Ordinary Least Squares (OLS). The dependent variable in this framework is Stock Return (Rt), while the independent variables include Earnings per Share (EPSt), Sales per Share (SPSt), Operating Cash Flow per Share (OCFPSt), and Firm Size (FSt). The regression outcomes are presented in Table 6.

Table 6: Regression Analysis Results for Value Relevance of Interim Reporting

Variable	(Coefficient)	(Std. Error)	t (t-Statistic)	(Prob.)
Cc	0.202883	0.077376	2.622038	0.0089
SPS	0.002629	0.016664	0.157760	0.8747
EPS	0.105809	0.059098	1.790398	0.0738
FS	-0.025964	0.010576	-2.454949	0.0143
OCFPS	-0.002483	0.032151	-0.077235	0.9385
Indicator	Value	Indicator	Value	
R-squared	0.009289	Durbin-Watson stat	1.853516	
Adjusted R-squared	0.004520	Mean dependent var	0.016965	
S.E. of regression	0.184413	S.D. dependent var	0.184831	
Sum squared resid	28.26068	Akaike info criterion	-0.537313	
Log likelihood	229.5990	Schwarz criterion	-0.509037	
F-statistic	1.947804	Hannan-Quinn criterion	-0.526476	
Prob(F-statistic)	0.100606			

Note: Actual table contents should be inserted here.

4.6. Hypotheses testing summary

The empirical examination yielded the following hypothesis validation outcomes:

- H_1: No statistically meaningful association exists between Rt and EPSt at the 5% significance threshold. H_1 is rejected.
- H_2: No statistically meaningful association exists between Rt and SPSt at the 5% significance threshold. H_2 is rejected.
- H_3: A statistically meaningful association exists between Rt and OCFPSt at the 10% significance threshold. H_3 is accepted.
- H_4: A statistically meaningful association exists between Rt and FSt at the 5% significance threshold. H_4 is accepted.

These outcomes demonstrate that operational cash flows and organizational size provide substantial forecasting capacity for equity returns across interim periods. Conversely, earnings per share and sales per share fail to manifest substantial influence within this framework.

5. Conclusion and Discussion

This investigation empirically examined the value relevance of interim financial reporting (IFR) for forecasting stock returns, using a sample of 19 industrial and service corporations traded on the Palestine Exchange (PEX) during 2012–2022. Employing a multiple regression framework, the research scrutinized the influence of four financial metrics—Earnings per Share (EPS), Sales per Share (SPS), Operating Cash Flow per Share (OCFPS), and Firm Size (FS)—upon interim stock returns (R).

5.1. Key findings

The analytical examination culminated in several pivotal discoveries:
1) EPS and SPS demonstrated the absence of statistically significant effects on interim equity returns at the 5% significance threshold. This observation suggests that, in the Palestinian context, these conventional profitability and revenue-oriented indicators may lack robust predictive power for short-term market responses when quantified quarterly or semiannually.
2) OCFPS exhibited a statistically significant positive influence at the 10% significance threshold, signifying that cash flow intelligence maintains specific predictive utility for interim stock returns. This reinforces the prominence of cash-based metrics within market-oriented accounting scholarship, particularly within less efficient or emerging marketplaces.
3) Firm Size (FS) manifested a statistically significant association at the 5% significance threshold with equity returns, implying that PEX investors may perceive larger enterprises as demonstrating enhanced stability or valuation, with organizational magnitude functioning as a performance indicator or diminished investment risk signal.

These outcomes advance the ongoing scholarly dialogue on the forecasting utility of interim financial data and substantiate that not all IFR components are equally informative to market participants. They also underscore the imperative for investors, regulatory authorities, and corporate management to reassess the emphasis placed on diverse financial indicators during interim periods.

6. Recommendations, Limitations, and Future Research

6.1. Recommendations

Drawing upon the empirical outcomes of this investigation, multiple practical and scholarly recommendations warrant articulation:
1) For Regulatory Bodies and Standard-Setting Institutions
- Prioritize the advancement of interim financial report quality and promptness, particularly concerning operational cash flow disclosure and firm-level fundamentals, which demonstrated forecasting capacity for equity returns.
- Establish more rigorous frameworks for interim financial disclosure aligned with international exemplary practices to enhance comparability, transparency, and investor assurance within emerging marketplaces.
2) For Corporate Management and Chief Financial Officers
- Enhance transparency and narrative communication within interim disclosures, specifically regarding cash flow statements and enterprise-level performance metrics.
- Recognize that investors may accord priority to organizational magnitude and cash flow indicators over profitability measures in interim assessments, thereby calibrating communication approaches correspondingly.

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