IJRD International Journal of Research & Development Organisation

ISSN: 2455-6661

Journal of Business Management Science

AN EMPIRICAL DETERMINANT OF EQUITY SHARE PRICE OF SOME QUOTED COMPANIES ON THE NIGERIAN STOCK EXCHANGE

OLOIDI, Gabriel Adebayo[Corresponding Author][1]

Tel: [+234][0]8039158228 E-mail: oloidiadebayo@gmail.com

BOLADE, S. K.[2]

[1,2]Department of Accountancy Rufus Giwa Polytechnic

Owo, Ondo State, Nigeria

The study analyzed the major variables that determine the equity share price of listed companies on the Nigerian Stock Exchange [NSE] publication as at 2011/2012 edition. Eighty companies were examined. The quoted price of the shares on 4th January 2011 was estimated by other explanatoryvariables.OLS regression was used to analyse cross-sectional [non– time series] data. Findings revealed that the previous year share price significantly and positively influenced equity share price at α=0.000 and earnings per share was negatively significant at α=0.05. The last was dividend per share, positively and significantly influenced equity share price at α=0.014. The combined three variables explained the variation in equity share at an adjusted R – square value of 0.969. This showed that about 97 percent of the determinants of equity share price had been explained by these three explanatory variables.

Key words: Equity share price, Listed Companies previous year share price, earning per share dividend per share.

1. Introduction

A study of the few quoted companies in the Nigerian Stock Exchange [NSE] showed that most companies share prices were subject to volatility. The range between high share prices and low share prices in the year was high. Equity shares have long been recognized as a major source of investment that has the potential of yielding considerable returns to investors. Nirmala, Sanju and Ramachandran [2011:12] had earlier observed the variability in the returns on equity investments depending upon various factors such as the performance of the particular stock, the market condition etc. It is important that an investor is not naïve about determinants of share prices and the possible impact they incited. These factors could be controllable (within the firm) or uncontrollable (outside the influence of the firm). Dividend, earning per share, share price in previous year for example, are internal while government policy, interest rate and economic performances e.t.c are external. Dividend had been a focus of attention in determining market price of shares to the extent that there had been hot argument on its irrelevance or otherwise, on affecting share prices. Most models developed to evaluate the influence of dividend (dividend per share and dividend yield) are accompanied with control variables such as earning per share, price-earnings ratio etc. Several such factors` had been identified by previous empirical researches; Collins (1957) had been the pioneer research work on his inquisitiveness in share price determinants. Today, avalanche of research works on the same topic are available. Some of these are summarized in table i below:

Table 1: Summary of current studies focusing on share price determination and the respective Stock Markets.

Research Authors	Determinants of Share prices	Market Studied
Infan and Nishat 2002	Dividend yield, Leverage, Payout ratio, Size.	Pakistan
Padham [2003]*	Dividend has strong relation, but retainedearnings had weak relationship with stock price	Nepal
Nishat and Irfan [2003]	Dividend yield and payout ratio positively related	Karachi

Adetifa, Oladapo and Adeoti [2004]	Correlate dividend and share price but not significance	Nigeria
Al- Omar and Al-Mutari [2008]*	Book value per share, EPS	Kuwait
Somoye, Akintoye and Oseni [2009]*	Earnings pershare, foreign exchange rate, GDP, lending interest rate	Nigeria
Khan S.H.[2009]*	Dividend ,price/earnings ratio,previous year share price	Bangladesh
Adesola and Okwong [2009]	Dividend irrelevant to stock prices	Nigeria
Sunde and Sanderson [2009]*	Analyst reports, availability of substitutes, earnings, Govt. policy, investors sentiments, law suits macro – economic fundamentals, management, market liquidity and stability, mergers and take overs, technical influence	Zimbabwe
Uddin [2009]*	Dividend, EPS, net asset value per share	Bangladesh
Akba and Baig [2010]	Positive relationship with cash dividend	Karachi
Nirmala, Sanju and Ramachandran [2011]	Dividend, Price-earnings ratio, and Leverage	India
Sharma [2011]	EPS, DPS, book value per share	India
Khan M.N. [2012]	Book value Market value ratio, EPS, Dividend payout ratio, GDP, and Interest rate.	Pakistan
Hashemijoo, Ardekani and Younesi [2012]	Dividend yield, size, earning volatility	Malaysia

Table 1 shows that there were various factors that influenced the market price of shares. The asterisked authors were from Nirmala et al [2011 :4]. Various models of interest eventually determine the factor variables to be used. This paper aims at reviewing major share price determinants model and applying a blended model entirely, depending on the

extent to which the characteristics of the selected quoted companies on the Nigerian Stock Exchange can innovate the determining factors. As the characteristics of companies differ in terms of size, amount of capital employed, number of shareholders, nature of businesses [in various sectors] the appropriate model shall be applied.

2. Review of Related Literature

Researchers on corporate dividend policy over the years have optioned for one of the two different approaches commonly applied: the behavioural approach through survey research design. This ranges from interview to use of questionnaires on the opinions of corporate managers on determining those factors that matter when handling dividend policy issues. The other approach is the popular Linter [1956] empirical analysis based on partial adjustment model of dividend. Linter [1956] expressed the mathematical model as $DIV_t = a + bpEPS_t + [1 - b]\ DIV_{t-1} + e_t$ showing that changes in dividends is a function of the difference between targeted payout [P] ratio the last period's payout times the adjusted factor speed [b, whereby $0 \leq b \leq 1$], DIV_t is the dividend for next period; **a** is the intercept, DIV_{t-1} is the previous period dividend and $\mathbf{e}_t$ is the error term.

Studies conducted on dividend policies based on behaviouralapproach include Baker and Farrelly (1985), Prutt and Gitman (1991), Baker and Powell (2001), Mainoma (2001), Baker, Powell and Veit (2002), Baker, Makherjee and Paskelian (2006), andBaker and Powell (2012) among others.

On the other hand proponents of Linter's [1956] model include Fama and Babiak [1968] who confirmed the robustness of the earlier Lintel's model. Several other empirical studies in developed and developing economics have modified and/or improve on Linter's [1956] model. These include the empirical researches of Darling [1957], Pogue [1971], Jose and Stevens [1989], Simons [1994], Adelegan [2003] and others.

Many studies have been conducted on dividend policies and the effect on share prices. The researches were in a different pedestal from studying dividend policy in distract. There were also two dimensions to empirical studies on the relationship between dividend policy and share prices.

The irrelevance theory of Modigliani and Miller (1961) was based on no traceable relationship between dividend policy and share prices. Many researchers gave credence to these dividend irrelevance theory, among these were Black and Sholes (1974);Adetifa, Oladiipo and Adeoti (2004), Denas and Osobov [2008], Adesola and Okwong [2009].

Gorden [1963] developed a model which supports dividend relevance theory. This theory; that is dividend policy affects the value of firms and market price of shares. . Gorden's dividend relevance theory was further confirmed by Samuels and Wilkes [1975], Baskin [1989], Travlos, Trigeorgis and Vafeas [2001], Baker, Powell and Veit [2002] with positive correlation but not significant, Myers and Franks [2004], Somoye, Akintoye and Osem [2009], Senand Ray [2003], Srinivasan [2012].

The link between fundamental factors and share price changes had been extensively investigated in the fundamental literature [Srinivasan 2012:46]. This is evident from table i that various factors had emerged as determinants of share prices for different markets. These include dividend per share [DPS], Retained Earnings [RE], Size, Earning Per Share [EPS], dividend yield, leverage, payout ratio, book value per share, foreign exchange rate, gross domestic product, lending rate, analyst reports, government policy, investors sentiment, return on equity, profit after tax, net asset value per share, law suits, macro-economic fundamentals, management, market liquidity and stability, mergers and take overs, and technical influences.

2.1 Classification

The above factors can be classified under internal and external factors as in table 2 . External factors are under four columns-stock market, economic, political and environmental. The lists of course, are not exhaustible.

Table 2: Factors Influencing Share Price according to classification

INTERNAL	**EXTERNAL**			
	Stock Market	***Economic***	***Political***	***Environmental***
EPS	Growth of Industry	GDP	Change in Govt.	Regulatory
Cash Dividend	Price hike of stock dealing	Interest rate	Political connections	Socio-cultural

Change in Management	Analyst reports	Inflation	Political instability	Tech advancement.
Earnings	Agents	Exchange rate	Global political situation	
Retained earnings	General NSE market situation	National economic policies		
Price-earnings ratio		Activities of organized private sector		
Return on investment		Global economic demand		
Goodwill/age of company				
Company size				
Growth of company				

*AGM = Annual General Meeting, EGM = Extra ordinary Gen Meeting

3. Methodology

3.1 Data Collection

The preset study investigates the determinants of equity share prices of some selected companies quoted on the Nigerian Stock Exchange market. The data employed was derived from the financial statements [Income Statement, Balance sheet, Retained earnings and the Cash flow] of 80 listed companies covering 2006 to 2010.Total listed companies were about two hundred and thirty [230] on the NSE 2011/2012 edition. Most of these companies lagged two or more years in their financial statements. Only the companies that can make up to 2010 financial statements were prima – facea selected. Further investigation revealed that some companies reported negative earningsper share. These were also dropped; the final selection was based on companies which can meet the availability of the market price of their shares as

quoted as at 30th December 2009 for previous year's share price and 4th January, 2011 for the target share price. The target share price quoted on 4th January 2011 was chosen because January 1st was Saturday. The next working day after New Year holiday was Monday 3rd January. By January 4th, stock exchange trading must have been stabilized. The pattern of sample composition is presented in table iii below.

Table 3: Pattern of sample composition

Industrial sectors	Number of companies with financial statements up to 2010 shares quoted Dec 2009 – Jan 2011	Sampled companies shares quoted on 30th Dec, 2009 and 4th Jan, 2011.
1 Agriculture	5	4
2 Conglomerates	6	2
3 Construction/real estate	10	3
4 Consumer	23	16
5 Financial [Banks]	16	15
6 Insurance	27	13
7 Health	10	3
8 ICT	7	1
9 Industrial goods	21	7
10 Natural resources	4	1
11 Oil & gases	9	4
12 Services	19	11
Total	157	80

Model Specification

The general form of the model to be used is in the form:

$Y_t = b_0 + b_i X_{it} + e_t$

where Y_t = the independent variable

X_i = Contains the set of explanatory variables

e_t= error term

b_0 = Intercept and

b_i= Contains the set of the coefficient of the explanatory variables to be estimated by the model.

The econometric model for this study is therefore:

$$\text{SHARE PRICE}_t = b_0 + b_i\text{EPS}_t + b_2\,\text{SHARE PRICE}_{t-1} + b3\text{EARN-YIELD}_t + b4\text{PRICE-EARN RAT}_t + b_5\text{AGE}_t + b_6\,\text{PROFITABILITY}_t + b_7\text{INVEST}_t + b_8\text{DPS}_t + b_9\text{GDP}_t + b_{10}\text{DUMMY} + e_t$$

Eq [1]

where:

SHARE PRICE$_t$= Independent variable representing company's share price quotations on the NSE market on 4th January, 2011.

EPS$_t$= Earnings per share which is [profit after tax]/ [ordinary shares outstanding]

SHARE PRICE$_{t-1}$= Share price of individual listed company as quoted on 30th December, 2009 representing the previous year share price

EARN - YIELD$_t$= Earning yield is [earning per share]/[market price of share]

PRICE – EARNINGSRAT$_t$= This is price-earnings ratios and is calculated as [Market price of share]/[EPS]

AGE$_t$= This is the difference betweenthe year that individual company was listed on NSE and period t [i e 2010]

PROFITABILITY$_t$= This is calculated as [Profit after tax]/[Turn over]

INVEST$_t$= This is the change in equity represented by [Equity – Equity$_{t-1}$] divided by [Equity$_{t-1}$]

DPS_t= Dividend per share represented by [Dividend paid] divided by[Ordinary shares outstanding]

GDP_t= Gross domestic product attributable to each of the sectors/industry according to NSE classification in the 2011/2012 edition.

DUMMY = Dummy variable representing non-financial = 1, otherwise, 0

e_t= Stochastic error term

4. Results and Discussion

Equation [1] is the econometric equation used to estimate the coefficients of the explanatory variables i.e $b_1$to b_{10},and b_o as the constant,in evaluating the determinants of share price of the 80 companies listed on the NSE [2010 – 2011] issue.

Table [1] contains the descriptive statistics of all the regression variables both dependent and explanatory. The average indicators of the variables are presented using the mean, standard deviation and number of companies.

The resultant model for estimating share price from equation 1 is:

$$\text{SHARE PRICE}_t = 10.824 - 0.158\text{EPS}_t + 1.387\ \text{SHARE PRICE}_{t-} + 0.326\ \text{PRICE-EARN RAT}_t + 0.000458\text{AGE}_t + 0.112\ \text{PROFITABILITY}_t - 0.128\ \text{INVEST}_t + 0.0234\text{DSP}_t + 0.0088\ \text{GDP}_t + 1.092\ \text{DUMMY} \quad \text{.Equation [2]}$$

Table 2a illustrates the model summary for the regression. The Adjusted R square is 0.968 which means that the explanatory variables can explain the variations in the model up to about 97 percent. The Durbin-Watson statistics [D.W] was 1.872.

Table 2b shows the F – statistics which is significant at 1 percent [F = 239.93 and α=0.01], at 99 percent confidence level. This shows that the model is well fitted for the determinants of share price in the period t.

The result in equation [2] is further explained in table [3]. The table shows the coefficient and the significant level of the variables. Only the previous period share price [DPS_{t-1}] is positively significant at α=0.01. EPS_t, EARN – YIELD and $INVEST_t$are negatively related to share price. Others are positively related to the independent variables but not significant. The insignificance of the Dummy variable shows that both the non-financial and the financial sectors demonstrated the same characteristics in share price determinations.

4.1 Streamlining the Test – Step I

An econometric equation resulting from the streamlining is:

$SHARE\ PRICE_t = b_0 + b_1 EPS_t + b_2 SHARE\text{-}PRICE_t + b_3 PROFITABILITY_t + b_4\ INVEST_t$

$DPS_t + e_t$ Eq [3]

The five variables chosen were those whose **t** values were not lessthan 1.185 in table 3

Th model summary and ANOVA are in table 5a and 5b respectively. The Adjusted R^2 was 0.969 as against 0.968 in equation[2]. ANOVA was still significant at α=0.01 with F-ratio =502.03

Equation [4] is the result of the model in equation [3]

$SHARE\ PRICE_t = 6.82 - 2.02EPS_t + 1.405\ SHAREPRICE_{t-1} + 0.095PROFIT_t - 0.0767$

$INVEST + 0.267DPS_t$…… .Eq [4]

Table 6 illustrates the coefficient of each of the independent variables. Two variables are significant: EPS_t is negatively significant at 10 percent; $SHARE\ PRICE_{t-1}$ is positively significant at α = 0.01. $DPS_t$is positive and marginally significant at α=0.11.

4.2 Streamlining Further-Step II

This test will examine further the three variables including the marginally significant variables. The econometric model is

$SHARE\ PRICE_t = b_0 + b_1\ EPS_t + b_2\ SHARE\text{-}PRICE_{t-1} + b_3\ DPS_t + e_t$ Eq [5]

The result of the mode is:

$SHARE\ PRICE_t = -241 - 0.028EPS_t + 1422\ SHARE\ PRICE_{t-1} + 0.0377DSP_t$ Eq [6]

Table 8a and 8b are the model summary and ANOVA respectively. The adjusted R square is 0.969 which is the same thing as in equation [4]. The implication is that the two variables $PROFIT_t$and $INVEST_t$ havecontributed nil to the determination of the share price. Table 9 contains the coefficients of the three variables. SHARE $PRICE_{t-1}$ is positively significant at 1 percent. EPS and DPS are significant at 5 percent with negative and positive relationships.respectively.

4.3 General Interpretation of Coefficient

Taking the coefficient of the EPS as an example,the EPS_tcoefficient of -0.158 in equation [2] implies a partial regression coefficient of $EPS_t$and interpreted as: withtheinfluence of theother nine explanatory variables held constant; as EPSt changes, say by one percent, on the average, the market price of share[SHARE-PRICEt] changes by 0.158 percent in the opposite direction. If the coefficient of the explanatory variables is positively, then the depended variable changes in the positive direction; i.e. an increase.

5. Conclusion

This empirical study is set to analyse the determinants of equity share price of quoted companies in the Nigerian Stock Exchange. The results of this study show that companies earning per share, previous price of share and the payment of dividend have significant relationship with the companies' share price at the stock market. One may conclude that these three variables determine the equity share price of the companies in the Nigerian Stock Exchange Market.

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Appendix*

Table1 :Equation 2-Descriptive Statistics

	Mean	Std. Deviation	N
SHARE PRICE$_t$	23.6685	54.7254	80
DPS$_t$	126.1689	228.9324	80
SHARE PRICE$_{t-1}$	17.8078	38.0416	80
EARN YIELD$_t$	18.1129	56.7983	80
AGE$_t$	1.0988	4.4411	80
PROFITABILITY$_t$	36.4000	19.3388	80
INVEST$_t$	16.4964	17.5834	80
DPS$_t$	113.1838	23.6156	80
GDP$_t$	54.4194	147.4101	80
DUMMY$_t$	577.5750	726.9727	80
	6500	4800	80

Table 2(a)Equation 2- Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986[a]	.972	.968	9.8104

Table 2(a) (contd)

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.972	238.929	10	69	.000	1.872

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, GPSt, PROFITABILITYt, GDPtINVESTt, SHARE- PRICE$_{t-1}$EPSt,

b. Dependent Variable: SHARE- PRICEt.

Table 2(b) Equation 2-ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	22995.353	10	22995.353	238.929	.000[a]
Residual	6640.790	69	96.243		
Total	1716236594.32	79			

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, DPSt, PROFITABILITYt, GDPtINVESTt, SHARE- PRICE$_{t-1}$EPSt,

b. Dependent Variable: SHARE- PRICEt.

Table 3;Equation 2- Coefficients

Model	Unstandardised coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
1 [constant]	10.824	8.003		1.352	.181
EPSt	-0.0158	.013	-.066	-1.223	.225
SHARE- PRICEt–	1.387	.048	.964	.28.914	.000
EARN – YIELDt	-0.005794	.021	-.006	-.275	.784
PRICE–EARN RAT_t	0.326	.404	.026	.805	.423
AGEt	0.000458	.062	.000	.007	.994
PROFITABILITYt I	0.112	.094	.036	1.185	.240
INVESTt	-0.128	.078	-.055	-1.648	.104
DPS_t	0.023	.018	.063	1.314	.193
GDPt	0.00088	.002	.012	.477	.635
DUMMYt	1.092	2.783	.010	.392	.696

Table 4Equation 4- Descriptive Statistics

	Mean	Std. Deviation	N
$SHARE\ PRICE_t$	23.6285	54.7254	80
DPS_t	126.1689	228.9324	80
$SHARE\ PRICE_{t-1}$	17.8078	38.0416	80
$PROFITABILITY_t$	16.4964	17.5834	80
$INVEST_t$	113.1838	23.6156	80
DPS_t	54.4194	147.4101	80

Table 5(a);Equation 4- Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986[a]	.971	.969	9.5685

Table 5(a); (contd)

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.971	502.025	5	74	.000	1.788

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, GPSt, PROFITABILITYt, GDPtINVESTt, SHARE- $PRICE_{t-1}$EPSt,

b. Dependent Variable: SHARE-PRICEt.

Table 5(b) Equation 4-ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	229819.12	5	45963.824	502.025	.000[a]
Residual	6775.202	74	91.557		
Total	236594.32	79			

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, GPSt, PROFITABILITYt, GDPtINVESTt, SHARE- $PRICE_{t-1}$EPSt

b. Dependent Variable: SHARE- PRICEt.

Table 6Equation 4- Coefficients

Model	Unstandardised coefficients	Standardized coefficients		t	Sig.
	B	Std. Error	Beta		
1 [constant]	6.818	5.548		1.229	.223
EPSt	-0,0217	.011	-.084	-1.909	.060
SHARE- PRICEt–	1.405	.039	.977	.25.629	.000
PROFITABILITYt	0.0950	.086	.031	1.102	.274
$INVEST_t$	-0.0768	.052	-.033	-1.482	.143
DPS_t	0.0267	.016	.072	1.635	.106

Table 7Equation6-Descriptive Statistics

	Mean	Std. Deviation	N
$SHARE\ PRICE_t$	23.6285	54.7254	80
EPS_t	126.1689	228.9324	80
$SHARE\ PRICE_{t-1}$	17.8078	38.0416	80
DPS_t	54.4194	147.4101	80

Table 8(a) Equation 6-Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985[a]	.970	.969	9.6218

Table 8(a) (contd)

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.970	826.529	3	76	.000	1.903

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, GPSt, PROFITABILITYt, GDPtINVESTt, SHARE- $PRICE_{t-1}$EPSt,

b. Dependent Variable: SHARE- PRICEt.

Table 8(b)Equation 6-ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	229558.32	3	76519.434	826.529	.000[a]
Residual	7036.023	76	92.579		
Total	236594.32	79			

a. Predictors: (Constant), DUMMYt, EARN-YIELDt, PRICE-EARN RATt, AGEt, GPSt, PROFITABILITYt, GDPtINVESTt, SHARE- $PRICE_{t-1}$EPSt,

b. Dependent Variable: SHARE- PRICEt.

Table 9 Equation 6-Coefficients [a]

Model	Unstandardised coefficients	Standardized coefficients		t	Sig.
	B	Std. Error	Beta		
1 [Constant]	-.241	1.291		-0.187	.852
EPSt	-0.0278	.010	-116	-2.894	.005
SHARE-PRICEt–	1.422	.032	.989	44.11	.000
DPSt	0.0376	0.15	.101	2.507	.041

***Tables 1 to 9 were SPSS 16 Outputs or Extracts thereof.**