Effects of Information Relevance of Market Share Price of Quoted Companies in Nigerian Exchange Group: Basic Materials Sector

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Abstract

The purpose of this study is to analyze the impact of financial data on the stock prices of listed firms in the basic materials sector of the NGX. The particular goals are to analyze the market share price of basic material companies listed on the floor of the Nigeria Stock Exchange from 2010 to 2017 in relation to EPS, dividends per share, and return on assets. Secondary information was gathered from the NGX's audited financial statement disclosures. E-view statistical software was used to do regression analysis for inferential statistics on the hypotheses. The results of this analysis indicate that at the 5% level of statistical significance, Return on Assets has a positive and statistically significant influence on the market share price. Market share price is correlated with earnings per share and dividends per share to a lesser extent, although not directly. Overall, there was a positive correlation between the dependent and independent variables due to the significant impact of Return on Asset on Market Share Price. Therefore, it is advised that basic material enterprises in Nigeria enhance the quality of their financial reporting and increase the transparency of their accounting practices because of the substantial impact that accounting information has on market price.

***Key Words**: Accounting Information, share price, investment decision*

1. Introduction

Firms' financial conditions are communicated to users via yearly financial statements, and these statements are written in the "language of business," accounting. For these financial statements to serve their intended function in accordance with GAAP, they must exhibit a number of defining qualitative qualities. Everyone who dabbles in the stock market does so with the hopes of achieving financial success. According to Vishnami and Krisha (2008), referenced in Paul and Juliana (2015), the value of accounting data is measured by how well it explains stock market metrics. Thus, investors need sufficient knowledge about the stock market to make educated investment decisions, making trustworthy accounting information a necessary pre-requisite for stock market growth (Oyerinde,2006).

According to the IASB framework (2011), users only find accounting information useful when it helps them assess past, present, and future occurrences in order to make economic decisions. The significance of the research is in its ability to provide a concise summary of accounting information that impacts values, allowing investors to make well-informed decisions about the company.

Relevance and dependability are two qualitative aspects that must be present in accounting data if it is to be viewed as acceptable and valuable by investors (Adaramola and Oyerinde, 2014). For this reason, financial statement accounting information is useless if none of these conditions holds.

For better liquidity and less adverse selection in stock market transactions, accounting information is useful (Kyle, 1985; Nicholas, George, Eleftheriou, and Sorros, 2011). The purpose of an organization's accounting information system is to meet the needs of a wide variety of information users by translating economic data into accounting information using the organization's physical resources and other components (Dey, 2007).

Statement of the problem

It is widely held that financial statements accurately reflect the value of a company's shares on the market. Therefore, the purpose of this research is to determine how much of a factor the presence of these Basic material firms on the Nigerian Stock Exchange actually is in determining market share price. While one may save data and programs, one cannot store knowledge (Chloe, 1996). Knowledge, in Chloe's view, resides in a person, who may then pass it on to others or make poor use of it. Management can benefit from the objectivity of accounting data like inventory turnover ratios, liquid ratios, return on assets, dividends per share, and earnings per share.

The issue, however, is whether or not the information is accurate, up-to-date, and easy to understand. EPS, DPS, and returns on assets are only a few examples of accounting data used to predict and prevent market share price fluctuations and keep businesses one step ahead of the competition. It's a fact that most businesses fail to reach their objectives because of the erroneous information provided by inexperienced accountants. Due in large part to these issues, businesses are unable to make informed decisions based on accounting data or track stock prices in a way that is beneficial to their bottom line. In light of the preceding, it is important to look into the role that accounting data plays in setting stock prices for basic materials businesses trading on the NGX.

Objective of the study

The main objective of the study is to determine the relevance of accounting information on market share price (MSP) of quoted companies in Nigeria: Basic Material sector. The specific objectives on the identified problems are to:

a. Evaluate the effects of EPS on MSP of firms quoted in Basic Material sector.
b. Determine the effect of return on asset per share (ROA) on the market share price (MSP) of firms quoted in the Basic Material Sector.
c. Assess the effects of dividend per share (DPS) on MSP quoted in the Nigerian Basic Material Sector

Significance of the study

Despite the importance of the Basic Material Sector to Nigeria's economy and technology, little is understood about how accounting data might provide light on why certain companies' reported costs for these materials fluctuate over time. The United States and Western European countries, whose marketplaces are more developed than those in most underdeveloped countries, provided the scant evidence that was available.

The importance of the research is huge. The purpose of this research is to provide empirical proof of the connection between MSP and accounting data in the Nigerian context. Individual and corporate investors will benefit from the evidence since it will help them make more informed investment decisions and aid in their investment planning.

Research hypothesis

The following null hypotheses were evaluated in order to verify the accuracy of the data analysis:

Ho_1: MSP in quoted companies, Basic Material Sector are not significantly affected by their EPS.

Ho_2: MSP of quoted companies, Basic Material Sector are not significantly affected by their return on assets (ROA).

Ho_3: Market share prices (MSP) are not significantly affected by their DPS.

Scope/limitation of the study

This research work is restricted to examining the effect of accounting information relevance on market share price of quoted companies in Nigeria: Basic Materials Sector. Just like any other research work in Nigeria, the major limitation to this research is finance. Inadequate finance did not permit the researcher to extensively carry out the research process in all ramifications.

Definition of terms

Market Share Price (MSP)

Investors in Nigerian naira pay a price per share of stock that is known as the share price or stock market price.

Dividend Per Share (DPS)

This is calculated by dividing the total dividend by the total number of common shares. It represents the total amount of dividends a firm has paid out in the form of ordinary shares.

Earnings Per Share (EPS)

This is the share of a company's earnings that is distributed to the holders of common stock.

Return On Assets (ROA)

Profits from assets after taxation are displayed below. It's a measure of how well a business is doing financially.

2. Review of Related Empirical Literature

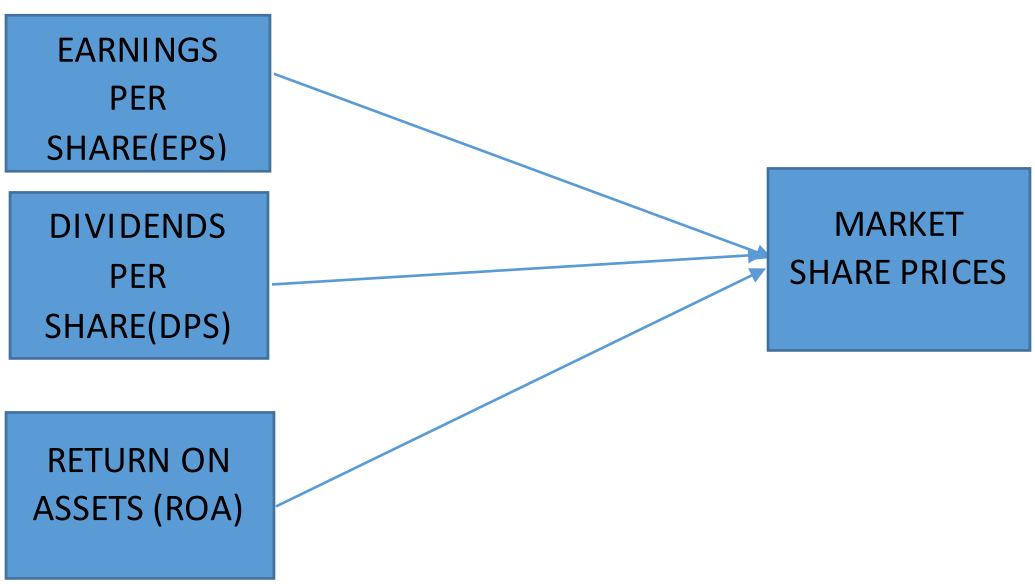
Accounting information's usefulness as a decision-making tool has been studied extensively throughout the years. Most of the research examined the combined effect of two or more pieces of accounting data, hence this evaluation does not break out the factors individually. Investors can utilize accounting data to estimate values and risks of securities returns, according to Ball and Brown (1968). Value may be derived from profits, as demonstrated by their findings.

Similar research conducted by Chen, Young, and Zhuang (2013) found that the spillover effect of a firm's Return On Asset (ROA) difference compared to its foreign counterparts, but not domestics counterparts, on the firm's investment efficiency increases after IFRS adoption.

To help answer the question of whether or not accounting information can capture data that affects the share prices of businesses listed on the NSE, Oyerinde (2011) conducted a two-year research into the value relevance of accounting data on the NSE. The study analyzed the importance of accounting numbers by gathering both secondary and primary data. The information came from the NSE's annual financial reports, included in the Exchange Fact Book. Accounting information (earnings, book value, and dividends per share) was found to have a substantial association with the share price of NSE-listed corporations.

All of the aforementioned research were carried out outside of Nigeria, thus a new study that takes into account the country's current condition is required.

Figure 2.1- Conceptual frame work of model of study



Conceptualized by the researcher

Theoretical frame work

The Efficient Market Hypothesis (EMH) serves as the theoretical foundation for this study's findings. The Efficient Market Hypothesis is a school of thought in finance that is largely based on the findings of economist Eugene Fama, as described in his book "Efficient Capital Markets" from 1970. He claims that beating the market averages, as shown by major stock and exes, by "betting the market" regularly is extremely unlikely.

The future market values of individual assets are determined by a large number of rational, profit-maximizing players in an efficient market where most relevant current information is easily available to participants. (Fama, 1970) identified three distinct variations of this theory, each assuming a different level of market efficiency. These were the weak, semi-strong, and strong forms.

Weak form

Under the weak form of EMH, market prices for securities are taken to reflect all publicly available market information. It also assumes that past price, volume, and return information is useless for projecting into the future. This implies that the price follows a random walk in its development and that any change in the share price in response to new information cannot be predicted from the previous change or price.

Semi-strong form

In its moderate version, the idea discredits both technical and fundamental analysis. Fundamental analysis is rendered useless since it combines the weak form assumptions and adds the assumption that prices swiftly react to any new public information that becomes available.

Strong form

According to the robust version of EMH, market prices fully represent all available information. Everything is covered, from the most recent developments to previously unknown material and even insider knowledge. Since no amount of insider information can offer investors a prediction edge large enough to regularly create returns that beat the market average, the strong form of the EMH states that the market is efficient.

If the market is semi-strong efficient, the current market price is the best unbiased forecast of a fair price, given that all information about an investment's risk and return is publicly available. Researching public data (not just historical pricing) cannot produce reliable alpha. That implies investors can never expect to obtain rewards commensurate with the dangers they face.

Considering all relevant information, whether or not it is publicly available, the present market price is the best possible impartial projection of a fair price if the market is strong-form efficient. This indicates that even with insider information, it is not possible to obtain excess profits on a constant basis. However, this raises the intriguing thought that someone must be the first to trade on the inside information and make a surplus profit. Unfortunately, rigorous academic testing of this in practice is not well impressible.

Accounting information's worth was first put to the test by Ball and Brown (1968). Prior to the advent of computers, studies of the capital markets focused on how useful accounting data was to specific individuals. Ball and Brown kept to the assumption of the Efficient Market Hypothesis. The semi-strong variant of EMH valuation proposed by Ohlson (1995) was selected because of the fragile character of the Nigerian Capital Market.

3. METHODOLOGY

Research design

It is very necessary for every research work to have a clear method that will respond to the intensions of undergoing the research. On the basis of this study, a regressing analysis research design was adopted to describe the connection between the explained and explanatory variables of the study.

Population and sampling of the study

The population of the study constitutes ten quoted Basic Materials Firms on the NGX. In view of finance being a limitation of the study, one company among the ten were used as a sample of study. The researcher used B.O.C Gases Nigeria PLC (BOCGAS) as the case study.

Sources and methods of data collection

The researcher employed the use of secondary source of data. Data of both the explained and explanatory variables were collected from the audited financial statements of BOC Gases Nigeria PLC in the Nigeria Stock Exchange bulletin. The explained variable (Market Share Price) and the explanatory variables (EPS, DPS and ROA) figures were obtained from the period of six years, from December 31 2010- December 31 2017.

Data Analysis Technique

In this study, regression analysis model was used to analyze the data collected.

Model Specification

The model by Ohlson (1995) is adopted to examine the value of relevance of link between the dependent and independent variables.

The equations are as follows

$MSP_{it} = B_0 + B_1 EPS_{it} + \varepsilon_{it}$ ………... (1)

$MSP_{it} = B_0 + B_2 DPS_{it} + \varepsilon_{it}$ ………... (2)

$MSP_{it} = B_0 + B_3 ROA_{it} + \varepsilon_{it}$…………. (3)

Where

MSP_{it} = MSP for firm i at the end of year t.

EPS_{it} = EPS for firm i at the end of year t.

DPS_{it} = DPS for firm i at the end of year t.

ROA_{it} = ROA for firm i at the end of year t.

Ɛ =Error term

i = Individual firm

t = Time dimension

B_0 = Constant or intercept

$B_{1\text{-}3}$ =Explanatory variable

Table 1

Year	**MSP**	**EPS**	**DPS**	**ROA**
2010	9.20	0.89	0.30	0.304
2011	6.85	0.80	0.36	0.148
2012	6.25	0.73	——	0.115
2013	6.33	0.63	0.20	0.091
2014	5.48	0.55	0.10	0.066
2015	3.79	0.29	0.10	0.038
2016	3.52	0.18	0.05	0.021
2017	4.58	0.56	0.05	0.055

Source: Nigerian Stock Exchange bulletin (2010-2017)

4 Data Presentation and Results

Market share price and the study's independent variables (earnings per share, dividends per share, and return on assets) were subjected to a regression analysis, the findings of which were provided in this section. The (SPSS) regression coefficient model 20 was used to examine each independent variable in relation to the dependent variable. The results obtained are presented and discussed below.

Table 2 Model summary

Model	R	R sq.	Adj. R sq.	Std. error	Durbin-Watson
1	.983	.967	.942	.44464	.1.682

a. Predictors: (Constant), ROA, DPS, EPS
b. Dependent variable: MSP

Table 3

Model	Unstand. Coeff.		Stand. Coeff.	T	Sig.	95.0% confidence interval for B	
	B	Std. error	Beta			Lower Bound	Upper Bound

Constant	2.580	.495		5.210	.006	1.205	3.955
EPS	3.025	1.266	.398	2.389	.075	-.490	6.540
1 DPS	.945	1.763	.066	.536	.620	-3.950	5.839
ROA	12.071	3.763	.579	3.208	.033	1.624	22.518

a. Dependent variable: MSP
b. Windows SPSS version 20

As revealed from table 3 above, the impact of EPS (Earnings per share) of 0.075 is positive and significant to market share price. But they are closely related. Therefore, reject the null proposition.

Again, as revealed from the table, DPS (Dividend per share) of 0.620 is negative and not significant. The results of the coefficient is higher than 0.05 (the degree of error or significance level). It shows there was no substantial bond between the MSP and DPS. Therefore, the null hypothesis is accepted.

Finally, the 0.33 ROA (Return on Assets) is extremely significant and directly correlated with market share price. This means that a higher asset value for the company will result in a higher share price. As a result, we cannot accept the null hypothesis. The null hypothesis will be tested instead.

Overall, the dependent and independent variables have a strong correlation. On the while, the coefficient of determination as revealed by R- square (R^2) 0f 0.967 indicates that the variables have a positive relationship. The adjusted R- square of 0.942 show that dependent variable (MSP) is strongly affected by the independent variables; other factors being held constant.

From the result above, return on asset (ROA), Earnings per share (EPS), are stimulants to market share price.

The essence of the regression analysis is to give credibility to the claims of the hypothesis either to refuse or to accept. Market share prices are the dependent variable, while earnings per share (EPS), dividends per share (DPS), and return on investment (ROI) are the independent variables. The findings show a favorable and statistically significant relationship between EPS and ROA (return on assets) and market share price. This indicates that the accounting information system has significantly boosted the share prices of NGX-listed firms.. From all indicators and the test, the null hypothesis could not stand the test of empirical findings, thus it is rejected.

5 Summary and Conclusion

Based on the empirical findings, the following conclusions can be established.

a. Based on the findings, the authors conclude that accounting variables like return on assets have a substantial effect on the MSP of quoted firms of NSE, the basic material companies using B.O.C gases as a case study.
b. Dividend per share does not play an important role from the finding. Therefore, it is not seen as a motivating factor to attract investors in the basic material companies.

c. It is also evident from this research that earnings per share of quoted basic material firms though closely related does not have strong relationship with market share price.
d. By and large, the overall conclusion of the study is that accounting information of listed companies in the Nigeria stock exchange has significant effect on share price.

In line with the above conclusions of the study, it is deemed necessary to proffer some recommendations.

1. The management of quoted companies in the basic material Sector in Nigeria should maintain stability and consistency in their Earnings. This is by employing uniform accounting policy in accordance with relevant standards.
2. Basic material companies in Nigeria should boost the eminence of their financial reporting and increase the transparency of their accounting practices because the market value of their shares is affected by their earnings per share as well.

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