

FINANCIAL VARIABLES AND SHARE PRICES OF QUOTED FIRMS IN NIGERIA: AN EMPIRICAL EVIDENCE

NWOKOYE, G. A. (Ph.D) & OGBEIDE, S. O.

Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Nigeria

Corresponding Author's email: awuliam@yahoo.com



DOI:

ABSTRACT

This paper examines the impact of selected financial variables on the behaviour of share prices in Nigeria. Ex-post facto method was adopted to facilitate dependence on the strength of historical data available in the annual financial statements of the sampled quoted firms over the reference period. To achieve the major objective, we specified and estimated an empirical model in which we related share prices to such determining financial variables as cash flow from operating activities, earnings per share, returns on equity and dividend per share. The result obtained showed that earnings per share and returns on equity impacted negatively but not significantly on share prices. While only cash flow from operating activities was found to impact positively and significantly on share prices behaviour. Dividend per share though was found to exert positively on share prices, but it failed the statistical significance test. In light of the findings of the study, we suggest that firms' policy options that are capable of curtailing their earnings per share as well as return on equity have the tendency to be beneficial to stock prices and therefore should be explored by policy makers in the Nigerian quoted companies. However, in doing so, caution should be taken in exercising the control of earnings per share as a strategy to help checkmate stock prices so as to avoid policy options that have the tendency to make the equity investors react irrationally. We therefore recommend that quoted companies' policy makers to constantly keep a watch on the news impact of the key financial variables especially earnings per share on stock prices / returns shortly after their annual financial reports are made public.

Keyword: Share prices, return on equity, dividend per share, earnings per share, cashflow