

COMPARATIVE ASSESSMENT OF VIABILITY OF STOCKS
LISTED ON THE SECOND-TIER SECURITIES MARKET

BY

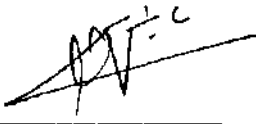
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DECLARATION

I declare that no part of this work has been submitted for an Award of a Degree or Diploma of any University, that it is a record of my own research efforts. All quotations are distinguished either by quotation marks and all sources of information are acknowledged by means of references.



C.O. Obieje

09/11/97
Date

DEDICATION

This project is dedicated to my Wife - Doris and my children, Okechukwu (Jnr) and Chiobi, and to my Parents, Deacon Maxwell U.E. and Priscilla O. Obieje.

CERTIFICATION

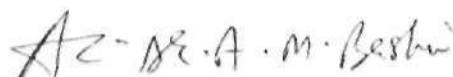
This Project Report /Thesis /Dissertation, entitled **COMPARATIVE ASSESSMENT OF STOCKS LISTED ON THE SECOND-TIER SECURITIES MARKET** by **C.O. OBIEJE** meets the regulations governing the Award of the Degree of Masters in Business Administration of AHMADU BELLO UNIVERSITY, Zaria and is approved for its contribution to knowledge and literary presentation.



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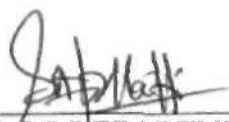
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ABSTRACT

The study - COMPARATIVE ASSESSMENT OF VIABILITY OF STOCKS LISTED ON THE SECOND - TIER SECURITIES (SSM), is one of the comparative analysis of potentialities of those securities classified under small to medium enterprises in Nigeria - with the aim of provoking the Investors' attitude and interest towards the available investment opportunities or otherwise.

Seven securities out of twenty quoted in the Fact Book of Nigerian Stock Exchange (NSE) were selected. The study wished to carry out a comparative assessment of their viability within the period spanning from 1991 to 1995. The financial tools used were the financial ratios. The relevant test were carried out using their past performances in the context of the Nigerian Economy. The extrapolation of the trend of events/experiences of the securities was aimed at stimulating the interest of internal and foreign investors towards SSM as well as to guide their portfolio selection/decisions.

The result of this work showed that the securities were highly viable with strong potentials particularly if their funding would be largely by equity than debt. It is the opinion of this research findings that it becomes imperative to maintain internally consisted and dynamic policy environment to promote investment friendliness and to encourage domestic and foreign investment. In other words, given a good economic condition and additional equity capital, the securities will experience tremendous stable returns on investments and consequently enhance national industrialization.

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CHAPTER ONE

1.0 INTRODUCTION

Few business enterprises can develop beyond a rudimentary stage unless they can supplement the resource of the working proprietors by finance - in the form of loans and shareholdings- provided by the wider public. Such finance will not be forthcoming on any extensive scale unless the investors are satisfied that, whenever the need arises, they can turn their investment back into cash, or borrow against them promptly or at a 'fair' valuation. At the same time, Entrepreneurs must be sure that finance they employ in business development will not be suddenly withdrawn because of personal needs and caprices of those who furnish it. These divergent requirements cannot be met, except by the development of a market in securities - stocks or shares, debentures or bonds which entrepreneurs or other borrowers issue to those who first provide the finance

Evidently, it suffices to say that whenever companies finance long-term needs externally, they may use three primary methods: a public issue of securities placed through investment bankers; a privileged subscription to company's own shareholdings and a private placement to institutional investors. All these function within the framework of an organised market, referred to as capital market.

A well co-ordinated capital market within the financial structure is highly needed to ensure efficient capital allocation between competing ends and also to channel savings into investment for economic growth and development. Where this institutional framework is absent, savings will be channelled into unprofitable

more than trebled between 1960-1970, from 12% to 37% and declined sharply to less than 15% by early 1980s (Dike, 1991, p.1-5). This decline was attributed mainly to the high import dependence of the manufacturing sector which became a serious liability on the economy.

By this time too, government had invested heavily in a diversified portfolio of industrial projects including salt, Iron, steel, cement, sugar, pulp and paper and fertilisers. The poor returns from these projects, however, could not justify the enormous public funds that had been committed to their execution. In fact, many industrial projects, in which huge amounts had been expended, remained largely uncompleted.

To date, the nation is still struggling to effect industrial expansion. The major point to achieve industrial expansion as a whole, lies on expansion in capital investment, (also in employment). The bulk of the capital formation in the economy (77% - 84%), has originated in industry.

Some indicators of Nigerian Industrial Growth based on Central Bank of Nigeria Annual Report and Federal Office of Statistics show that the industrial sector development can be achieved, if there is a developed Capital Market in the nation to give it the boost it needs.

1.2 OVERVIEW OF THE NIGERIAN CAPITAL MARKET

The development of Capital Market in Nigeria started in 1946, when the government securities were floated. The institutional facilities for the operation of the market were not present, until fifteen years later, when the Lagos Stock

Exchange (now the Nigerian Stock Exchange) was established in 1961, with the initial listing of six government loan stocks and three Equities.

Only fourteen companies were listed in, at the end of 1971 due to dull activities experienced during the first ten years of the exchange. As at that 1971, Securities transaction by volume and value stood at 952 and N18.1 million, government Securities dominated the market in terms of value, accounting for 90.1% of the total, while industrial Securities accounted for 78.1% of trading volume.

The Nigerian Enterprises Promotion Acts for 1972-1977 marked the first and second major steps by the Federal Government to indigenise the companies. Indigenisation was designed as a strategy for getting Nigerians to determine their own economic fortune by using equity ownership, as a spring board on where policies are discussed and determined and the management where they are implemented. The catalyst for the growth of the Capital Market lies greatly on the implementation.

The government intervention through indigenisation obviously resulted in the recorded growth of Securities Exchange. However, the market still lacks the depth and breadth characterised by low trading activities. A survey had shown that the number of quoted companies in relation to the total number of registered companies is very low. Besides, the level of transaction still leaves much to be desired, due to the buy-and-hold investment attitude of Nigerians.

The history of the Securities and Exchange Commission dates back to 1962 following an 'ad hoc' committee which had no legal status. The committee's function

was to see to the orderly development of the Capital Market through regulation of share prices and the determination of the timing of issues. The committee functioned essentially as an advisory body under the umbrella of the Central Bank of Nigeria. The Federal Government promulgated the Capital Issues Act in 1973. This established the Capital Issue Commission (CIC). CIC superseded the capital issue committee and was vested with the power to determine,

- (i) the price at which shares or debentures of a company are to be sold to the public, either through offers for sale or direct issue;
- (ii) the timing and amount of sales and
- (iii) in the case of quoted company the price, amount and time any subsequent or supplementary offer of shares or debentures are to be sold.

As a matter of fact, the Nigerian Capital Market was set up under the Security and Exchange Commission Decree, 1979 (effective from 1st April, 1978) basically to protect the interest of investors and supervise the efficient and effective development of the Capital Market. Nigerian Securities Exchange Commission is the apex regulatory body for the Nigerian Capital Market.

Directly functioning in the Capital Market is the Nigerian Stock Exchange organisation (NSE), which is a non-profit making organisation, limited by guarantee, incorporated through the inspiration and support of the Federal Government and Businessmen. The formation members who signed the memorandum of association of the exchange include.

- (i) C.T.BOWRING AND COMPANY (NIG) LIMITED
- (ii) CHIEF THEOPHILUS ADEBAYO DOHERTY
- (iii) JOHN HOLT (NIG) LIMITED
- (iv) SIR ODUMEGWU OJUKWU
- (v) AKINTOLA WILLIAMS
- (vi) ALHAJI SHEHU BUKA

The NSE is owned by 136 shareholders which include Financial Institutions, Stockbrokers, and Individual Nigerians. The Exchange is composed of the President and Council Members, a Chairman and a Board of Directors elected during each Annual General meeting by the Exchange members. The post of the President expires after one year. The Council makes policies for the Exchange, whereas the Director-General sees to the day-to-day running of the affairs of the exchange.

The rule of the NSE is to see to the orderly conduct of the market and it has the responsibility for the listing and delisting of securities. Presently, NSE has six branches located in Lagos, Kano, Port- Harcourt, Onitsha and Ibadan. As at December 1996, 250 Securities (including 20 Second-Tier Securities) with a market capitalisation of about N20 billion; about 60 issuing houses, over 75 Stockbroking Houses, over 120 floor dealers several registrars, many experienced and skilled staff and computerised communication system.

1.3 THE GENESIS OF SECOND-TIER SECURITIES' MARKET

By early 1980s, when the country's foreign exchange earnings declined

significantly, it became clear that a restructuring of the manufacturing sector was required. To cope with problems of this sector and economy in general, Nigeria embarked on a Structural Adjustment Programme (SAP) in July, 1986. Having recorded Nigeria's credit rating dropping from about 55% in 1980 to about 24% by March, 1986, SAP has important implications for Government and Industry alike. It brought about government's re-appraisal of the regulatory environment, the structure of protection for local industries and package of incentives available.

In totality, SAP was expected to focus on four major areas:

- to find the fine value of naira;
- to overcome public sector inefficiencies through improved public sector inefficiencies through improved public expenditure programme and speedy rationalisation of parastatal;
- relieving the debt burden through a comprehensive rescheduling of nations medium and long-term debts;- and encouraging a net inflow of foreign capital, while keeping a lid on foreign loans.

In pursuance of these objectives, some of the steps taken by Government were to establish the import licensing system, liberalised trades remove control in the economy, tightened monetary and fiscal policies, deregulate interest rates, commercialisation and privatisation of industries. This welcome development in 1985 established the Second-Tier Securities Market with less stringent listing required for the small and medium companies, is a boost, not only to the economy

but also to the overall Capital Market of the nation.

In 1985 only one Security was registered in Second-Tier Security Market. As at September 1997, there were about 20 firms classified under Second-Tier securities of NSE FactBook with total capitalisation of about N615 million.

Given the fact that most Nigerian promotes business fall within the small scale business category, it is evident that the Stock Market has not been a source of financing for such business. It is against this background that the idea of SSM was conceived as an avenue through which small-businesses can have access to Stock Market facilities.

1.4 LISTING REQUIREMENTS OF SECOND-TIER SECURITIES

Terms and conditions for entry to the Second-Tier Securities Market (SSM) are:

- (i) The company must have been trading for at least three years, and the trading results support the market capitalisation;
- (ii) The date to which the latest audited figures referred to in the prospectus must not be more than nine months;
- (iii) The marketing of Securities will be by any of the following methods:
 - (a) Introduction
 - (b) Placing
 - (c) Offer for sale
 - (d) Offer for subscription
- (iv) At least 10% of the equity capital must normally be in public hands

when dealings start. No single shareholder either directly or indirectly should have beneficial interest in more than 75% of the issued share; capital of the company.

- (v) A flat rate annual charge of N2,000 be payable.
- (vi) All contract notes must bear a statement in the form stipulated by council of The Exchange indicating that the security is not listed.
- (vii) All companies admitted into Second-Tier Securities Market will be expected to sign a General undertaking with The Exchange.
- (viii) The Company must have registered as or subsequently converted into a public limited company under the provision of the Companies Act 1968.

1.5 SIGNIFICANCE OF THE STUDY

The duty of any management of a business enterprise is to manage resources efficiently and effectively to achieve sound financial performance in order to encourage expansion. Performance should be an indication of achievement of good management of available resources. The investors in the business are interested in growth and profit which increase with returns. The shareholders and creditors seek adequate and stable return on investment. Higher returns consequently attract additional equity - capital for future investment.

The workers of the firms are concerned about their welfare and security within their companies. A buoyant firm will hold good future for the providers of labour.

The investors' choice of company to invest in is mainly determined by a number of factors, viz: viable earnings, and assets' statistics, earning power and sustainable dividend payments. They also want to be guided and stimulated with respect to their portfolio selections and decisions.

One of the consequences of the abortion of the Nigerian Structural Adjustment Programme (SAP) is the reduced investment climate. The market determined consequences of the underfunding encouraged policy-makers to abandon the market prices of foreign exchange and interest rates. The foreign investment flows as well as domestic saving levels of the nation declined sharply (Kalu, 1996, Pg.9). This resulted from the fact that the economic and social implications of these policies, created increasing function as resources become insufficient in real terms, to meet the real costs of capital infrastructure and other services required to keep the business moving. The small business enterprises become stunted in growth for lack of adequate equity funding. Their respective profit growth was not encouraging to many leaders. With the feeling that from 1995, the economy may in near future begin to return to the original track conceptualised by the SAP in August, 1984. The study becomes very significant in provoking an investment friendly environment and to cause investors to see the potentialities in the so-called small-scale businesses that are waiting to be exploited into giants - subsequently enhancing industrialisation.

1.6 PURPOSE OF STUDY

It could be noticed that there was limited success of economic transformation in the nation during 1985 to 1995. One of the strategies adopted by the nation, in the campaign to achieve industrialisation is to encourage and promote local manufacturing industries. this study is aimed at assessing the viability levels of the SSM companies so as to present a comparative performance level to creditors, shareholders, providers of labour and the management.

Profitability and cash solvency are part of the main determinants of good investment climate: It is the desire of this research work to provide clear indicators of stock viabilities that may be hidden in the securities listed under SSM. If industrialisation is to be achieved, investment into these companies should be promoted - which in turn would enhance local manufacturing and reduce dependence on importation of manufactured goods. This project will be labouring in futility, if these securities do not add to the economic growth and affluence of the nation.

CHAPTER TWO

2. REVIEW OF RELEVANT LITERATURE

2.1. INTRODUCTION

Evidence coming from recent research on capital market can give a big boost to economic development. But the market may only affect economic activity through the creation of liquidity. Ross Levine (1996) Pg.9 said that "many profitable investments require a long-term commitments of capital, but investors are often reluctant to relinquish control of their savings for long periods." Liquid equity markets make investments less risky - and more attractive - because they allow savers to acquire an asset-equity- and to sell it quickly and cheaply if they need access to their savings or want to alter their portfolios. Similarly, companies enjoy permanent access to capital raised through equity issues. By facilitating longer-term, more profitable investments, liquid markets improve the allocation of capital growth. Furthermore, by making investment less risky and more profitable, stock market liquidity can also lead to more investment. Put succinctly, investors will come if they can leave. That is to say that the investors' decision will be highly influenced if the stock/security valuation are clear to them; they can divest or invest if there is an attractive market which offers clear assessment of securities' viabilities.

Then, the questions needed to be asked are:

- What are measures for determining the viability of securities?

- What are the parameters for measuring the strength of companies which the investors have selected to invest in?

The review of similar work done by other researchers will hopefully answer some of the questions raised.

2.2 SOME RESEARCHES ON VIABILITY OF SECURITIES

There are only few published studies on the profitability, liquidity and/or financial Stock Exchange. The general belief in finance literature is that market values of companies are determined by the profitability of their operations including operating risk; and other times, the financial leverage is considered. To some people, the liquidity aspect was added because it represents a dimension of financial performance or viability which is different from profitability and financial risk, but which affects both.

It should also be noted that market valuation aspect is cocooned in the analysis of viability (profitability, liquidity and financial risk).

2.2.1 PROFITABILITY OF COMPANIES

One of the first published studies was reported by IYIEGBUNIWE²: (1979) He attempted to examine the profitability of the companies listed on the Nigerian Stock Exchange. This study, examined the profitability of 40 companies over the period of 1972 - 1977. The paper used four measures of profitability viz- the annual growth rate in net income, before tax profit margin on sales, rate of return on capital and rate of return on equity (both measured on before tax basis).

In general analysis, this report showed that the companies observed were "highly profitable (p. 35), of Iyegbuniwe (1979), p.35 earning average annual growth rate in net profit of about 40.9%. The corresponding estimates of before tax profit margin on sales, rate of return on capital and rate of return on equity were 11%, 16% and 67% respectively.

The ultimate measure used for profitability is the rate of return on equity over the study period. According to the author, industries such as textiles and leather had the lowest rate of return on equity of 37% whereas the chemical industry was reported to have the highest average amount rate of return, which was 82%.

The study revealed that, the chemical manufacturing companies appear to be the most viable sub-section while the textile manufacturing companies appear to be the least viable sub-section of the Nigerian economy as at the period covered by the study.

2.2.2 VIABILITY WITH RESPECT TO SIZE OF COMPANY

Inanga and Soyibo (1982) reported another study on viability of securities with respect to profitability. This study examined the influence of company's size on profitability as a measure of viability of U.A.C., over the period, 1971-1980. The study used two fold measures of size viz: Net assets and sales, together with three measures of profitability, namely; rate of return on capital employed, profit margin on sales and assets turnover. The regression technique was used in estimating the influence of size on profitability/viability of a U.A.C.- given by the formula:

$$r_t = \alpha + \beta \log S_t + e_t$$

where,

r_t = profitability in period t

S_t = size measure in period t

e_t = random error term

α, β = least squares co-efficient

The report of the study indicated that the influence of the size of the company or its viability over the period of the study was inconclusive. Instead, it appears to change with the measures of profitability and size used.

Though this report addressed some important issues, the reported result is of limited value due to the fact data used for the study was based on one company (UAC). Obviously nothing can yet be inferred about the influence of size on profitability of companies in Nigeria.

2.2.3 PROFITABILITY GROWTH AND INFLATION

Another study which was undertaken by Umoh (1988) also focused on profitability. The study attempted to determine whether growth rates of profitability of companies in Nigeria adequately compensates for inflation or not. That is, the study tried to examine the effect of inflation on profitability of companies in Nigeria.

The study adopted the Annual growth rate of the consumer price index as a measure. Profitability was represented by annual growth rate of profits. Data of 39 Companies quoted were used by the study which consist of 4 companies from the

Banking sector, 9 from the Service Sector and 26 companies from the Manufacturing and Commercial sector for the period 1975 - 1983. The report of this study showed that the average annual rate of inflation over the study period was 18.08%, while the estimated average annual growth rates of profit were 26.9% for the manufacturing sector, 21.04% for the Banking sector, 15.01% for the Service sector and 13.19% for the commercial sector. Therefore, the manufacturing sector had the best viability record in terms of real rates followed by the Banking sector, then the Service and Commercial sectors in that order.

This study attempted to determine whether inflation had significant positive or negative effect on profitability or not (in other words, whether inflation affects market viability of companies). That is, to answer the question on how inflation affected the quoted companies viability, it is necessary to regress the annual growth rates of profit on corresponding inflation rates. This study reported no significant linear relationship between the two.

2.2.4 LIQUIDITY AND LEVERAGE OF SECURITIES

There are other studies which focus on liquidity and leverage of companies. This particular study on liquidity encountered in the course of this research was reported by Inanga (1985). The study attempted to determine the empirical values of the current ratio of U.A.C. within the period of 1973 - 83. The current ratio was measured as current assets divided by current liabilities and the quick assets less stock, divided by current liabilities. According to the results of this study, the current ratio value of the company increased from 1.15:1 in 1973 to 1.43:1 in 1981. It was

highest in 1976 when it rated 1.86:1. The quick assets ratio over the same period was similar to the current ratio. Its value decreased from 0.58:1 in 1973 to 0.48:1 in 1981. The highest ratio measured in 1976 0.74:1. With respect to the observations referred to above, it was suggested by the popular maxim that the current ratio of a company must be 2:1 and that of quick assets must be 1:1 before a company can be considered to be sufficiently liquid appears to be inconsistent with the realities in Nigeria.

2.2.5 TREND ON CAPITAL STRUCTURE OF COMPANIES

Another study that used some evidence on the debt ratios of companies in Nigeria was reported by Akintola Bello and Adedipe (1985). The concentration of the study was on determination of the trend in the capital structures of non-financial companies quoted in the Nigerian Stock Exchange (87 of them) covering 1974 - 81. The four measures of capital structure used were total debt ratio, debt-equity ratio, ratio of long term debt to net assets and ratio of short term debt to net assets. The observation reported showed that the total debt ratio values of companies increased over the study period - which indicated an upward trend in their capital structures. It was also observed that the reliance of the companies on external finance appeared to have increased over the study period. The increase in funds from external sources at the end of the study period vis - a - vis the corresponding proportion at the beginning of the study period gave a clear indication of this trend.

2.2.6 CHANGE IN FINANCIAL PERFORMANCE

Abimbola Adedipe (1989) published a study which focussed on changes on the financial performance of quoted companies in Nigeria. The study covered the period 1980 - 87, using profitability, liquidity and financial risk of the companies. Profitability was represented by only return on equity, liquidity was represented by current ratio only, where three measures were used to represent financial risk, they are the long term debt ratio, the borrowing ratio and the total debt ratio.

The result of the profitability aspect showed that for the entire economy, the rate of return on equity dropped by 6% between 1980 and 1987. The rate was 17% in 1980 but fell to 16% by 1987. Based on the report, it is evident that profitability seemed to be declining during the period under study.

For comparative purposes, the pattern of changes in the rates in the various sectors of the economy over the study period, indicate that the financial sector put together, recorded a decline of about 23% in the rate. Commercial sector indicated a decline of about 39% in the rate whereas service sector dropped in the rate by 64%. However, the manufacturing sector recorded an increase of 50% in the rate over the study period showing a different response compared to other companies.

According to the report of the study, two industries in the financial sector (that is, Banking and Investment companies) had decreases in their rates of return. Where three out of the four industries in the commercial sector [that is, Conglomerates, Machinery(market) and Petroleum (marketing)] had decreases in the rate. There was no change in the rate of return in Automobile and Tyre industry.

As reported by this study, the overall performance with respect to the level

of profitability indicated drops in ten out of thirteen industries examined. The three industries which had increased in their level of profitability were Cosmetics and Toiletries, Textile and Publishing. The study attributed this negative impact on the profitability as due to the various policies introduced by Government in recent years.

The liquidity position of the companies as at 1980 and 1987 showed that they deteriorated over the study period. The value of the current ratio as reported was 1.23 in 1980 which dropped to 1.16 in 1987, representing a decrease of 6% (excluding Banking Industry). However, the following Industries indicated increases in the level of liquidity position: Breweries, Cosmetics and Toiletries, Footwear, Automobile and Tyre and Publishing.

As observed by the report, at no time and in none of the industries was the estimated value of the current ratio near 2:1. The conclusion noted that the companies, in general, appear to be adjusting to the economic situation prevailing during the study period by cutting down their investment on inventories and/or debtors as well as possibly borrowing more on short-term or buying more on credit.

A similar trend of performance was recorded by the companies examined by this study with respect to the Financial Risk. The estimates indicated that the overall aggregate total debt ratio value decreased by about 29% over the study period from 21% in 1980 to 15% in 1987. The study concluded that the level of financial risk of companies appeared to have increased over the study period and that the increase in the level of the risk appeared to be due to a general increase in the application of short-term loans/overdrafts and trade credits over the study period. The paper observed and reported that the two stated factors would have

contributed at least in part, to the deterioration in the liquidity of the companies as stated above.

2.2.7 FALLACY OF RETURN ON INVESTMENT

At this point, it becomes necessary to consider a critique as reported by B.E. Osaze (1996). The author titled this paper "The Fallacy of Return on Investment (ROI) as a Performance Measure". The author observed that as a measure of corporate financial performance, ROI stood out as one of the most informative of all profitability measures. In the opinion of the paper, ROI was said to present some of fallacy as a performance measure due to its attendant problem.

The concepts raised in this paper were to provide incentive for more profitable activities to grow and enable management to establish an absolute standard rather than try to maximize an index.

The critique warned that ROI as a profitability measure presents some conceptual and applicative difficulties and therefore has to be used with extreme caution. This was attributed to the result of constraints established by accounting aggregative rules and standards which require that the numerator of the measure be net profit and the denominator, total investments. According to Osaze, these rules provide tremendous freedom to the Finance manager of any corporate entity to manipulate the various financial statement items that go into the computation of the ROI to the advantage of his company and in the process, mislead investors. The paper listed the items subject to manipulation which included depreciation, inventory valuation methods, fixed assets valuation, leases and sunk costs from

past investments.

The critique noted that there was the problem of accounting depreciation in computing the ROI. That, "while conventional accounting rules require that the cost fixed assets with less than one year economic life be expensed against profits, longer term equipment are capitalised, thus distributing their historical costs over their economic lives." Similarly, wasting assets are depleted and intangibles amortised; all constitute depreciation. As observed by the critique, depreciation not only directly affects profits but also influences investments. Peters, (1974) also said "reported profits are influenced by charges for a share of depreciation expense and the amount of such charges is in turn influenced by the capital invested." The attitude whereby one company uses accelerated depreciation, while the others spread them evenly over time, and others determine what is to be expensed and what is to be depreciated, creates problems of comparability of corporate financial performance.

Looking also at the aspect of inventory/stock valuation, two methods are generally used here, viz, LIFO (last in, first out), which tends to lower operating profit during periods of rising prices as is the case today; and the FIFO (first in first out) which results in higher operating profits during inflationary periods. These tend to devalue the concept of net profits.

The paper further highlighted that the perennial problem of fixed assets was traced to their regular inclusion in the investment base which are valued at pre-depreciation of net book value. When they are valued at gross (pre-depreciation), it has been observed that a section manager might be expected to improve the ROI

by disposing of a fixed asset since the reduction will be in the gross amount. If valued at the net book basis, depreciation policies affect the ROI so also will there not be a significant reduction in the investment denominator. Also, in the face of original over-increasing rates of inflation, the use of original costs can misrepresent the return under present or future conditions when assets have to be replaced at their higher current values.

In an attempt to offer an alternative, the critique referred to an approach suggested by Sweeny and Wisner¹¹ - Residual Income Approach. The paper however sounded a caveat that there was no such thing as a universally acceptable financial panacea. But this approach suggested for ROI is the least faulty and would go a long way in assisting businessmen in achieving a proper monetary reward.

2.3 OBSERVATION

It appears that from the previous studies referred to above, no one showed any evidence on the estimate of viability (whether in terms of profitability, rates of return on equity or liquidity) of securities quoted on Second-Tier security market since its inception in 1985 to date.

suffice to say that no study has particularly reported on the comparative analysis on small and medium indigenous companies in Nigeria. That is to say that there is an important gap to be filled in this area. This present study is intended to make a contribution in respect to this.

CHAPTER 3

3. METHODOLOGY

3.1 INTRODUCTION

In order to justify the aim of this work, certain security valuation tools were used, bearing in mind the following assumptions:

- ◆ That under normal circumstances, growth in profit of any company/security increases with increase in returns;
- ◆ That investors are more interested in dividend
- ◆ That providers of funds to companies seek adequate and stable returns on investments. That is to say, that it is important for a business to maintain such a return in order to attract additional equity capital for its future investments.

Based on the foregoing, the study carried out the following measurements below in a comparative format. These include: **Profitability, Liquidity and Leverage levels.**

3.2 MEASUREMENT OF PROFITABILITY LEVELS OF THE SECURITIES

Some ratios which relate profits to sales and investments were used in the course of this study to measure and to compare the securities' profitability strengths, one with another.

3.2.1 NET PROFIT MARGIN (NPM)

The net profit margin was used to measure the securities' profitability of sales after taking account of all expenses and income taxes. It would indicate the companies net income per Naira sales.

The Net profit margin (NPM) =

$$R_5 = \frac{\text{Net Profit after Taxes}}{\text{Net Sales}}$$

3.2.2 RETURN ON INVESTMENT (ROI)

The ratio was used in order to indicate the degree to which a firm employs assets to generate Naira (N) in sales. The ratio is expressed as:

$$R_6 = \frac{\text{Net Profit after Taxes}}{\text{Total Assets}}$$

The ratio was capable of telling the degree to which assets are managed to bring about profit - in turn the R_6 of the securities used were compared.

3.2.3 RETURN ON EQUITY (ROE)

Return on Equity would enable the study to compare amongst the securities under review; the Net profit after taxes (minus the preferred stock dividends, if any) to the equity that the shareholders had invested in the individual firms. The Return on equity is expressed as:

$$R_7 = \frac{\text{Net Profit after Taxes}}{\text{Shareholders' equity}}$$

The study would infer clearly by this ratio, the earning power on shareholders'

book-value investments. High return on equity often reflects the firms' acceptance of strong investment opportunities and effective expense management.

3.3 LIQUIDITY LEVEL OF THE SECURITIES

The study also employed two major ratios to measure the ability of the securities in meeting short-term obligations - comparing the short-term the short-term resources available to meet this obligations. Hence, by these ratios the study hoped to obtain a comparative present cash solvency of the securities under this study and their ability to remain solvent in the event of adversity.

3.3.1 CURRENT RATIO (R_1)

The ability with which firms cover their current liabilities with their current assets was measured by current ratio.

$$R_1 = \frac{\text{Current assets}}{\text{Current liabilities}}$$

3.3.2 QUICK RATIO (R_2)

Securities' ability to meet current liabilities with its most liquid (quick) assets were measured by the quick ratio, defined as:

$$R_1 = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

3.4 LEVERAGE LEVELS OF SECURITIES

The study also investigated comparatively, the extent to which the securities were financed by debt in the period spanned by the study. Two ratios were used for the measurements.

3.4.1 DEBT-TO-EQUITY RATIO (R_3)

To assess the extent to which the firms were using borrowed money, R_3 was used. The ratio was computed by simply dividing the total debt of the firm (including current liabilities) by the shareholders' equity.

3.4.2 DEBT-TO-TOTAL-ASSETS (R_4)

The ratio was used in order to highlight the relative importance of debt financing to the firms by also showing the percentage of the firms' assets that were supported by debt financing.

3.5 THE EARNING STRENGTH OF THE SECURITIES

This study believed that neither the NET PROFIT (R_{17}) MARGIN nor the TOTAL ASSET TURNOVER ratio, by itself, provides an adequate measure of overall effectiveness. The EARNING POWER of invested capital provides the answer. A comparative graphical analysis was displayed in order to show how the securities fared with one another within the period covered by this study.

$$\begin{aligned} \text{EARNING POWER} &= R_{17} \\ &= S \times A_e \\ &= \text{Net profit margin} \times \text{Total Asset turnover;} \end{aligned}$$

where

$$\begin{aligned} S &= \text{Sales profitability} \\ A_e &= \text{Asset efficiency} \end{aligned}$$

3.6 THE SELECTED COMPANIES

A total of Seven (7) companies were selected and considered for this study.

They include:

Newpak plc

Curtix plc

Adswitch plc

Rokana Industries

Aluminum Extrusion

Hallmark plc

Smurfit plc

The selection of the above securities was based on the availability of their data. The period covered by the study was 1991 - 1997.

The seven companies listed above are mainly manufacturing companies. As at the time of selection, 20 securities were listed in the Fact Book of the Nigerian Stock Exchange.

Two companies from the manufacturing and manufacturing;

Three companies from the marketing.

The Appendices give the details of the selected companies.

3.7 SAMPLING OF DATA

The data were collated from the Annual Reports for the various years made available in the Library of the Nigerian Stock Exchange (N.S.E) in Kaduna. It is imperative to note that it was not particularly necessary to apply a cut-off data to collate the figures obtained from the annual reports of various companies in the year-end dates. As a matter of fact, it could be established that, that 30th October 1997 is the optimal cut-off data that should be used to classify the accounts of companies quoted on the N.S.E. This cut-off data was strictly applied to collate the data for this study.

CHAPTER 4

DATA AND ANALYSIS

4.1 PROFITABILITY LEVEL

Here three major profitability measures were displayed - which spanned over the period of study for the seven

Second - Tier Securities under assessment.

Table 1: AVERAGE PROFITABILITY RATIOS FOR THE PERIOD UNDER STUDY

SECURITIES	R5 NET PROFIT MARGIN (NPM)	R6 RETURN ON INVESTMENT (ROI)	R7 RETURN ON EQUITY (ROE)
ADSWITCH (ADS)	0.370	0.160	0.260
ALUMINIUM EXTRUSION (ALE)	0.100	0.130	0.336
CURTIX (CUT)	0.106	0.148	0.360
HALLMARK (HALL)	0.040	0.058	0.152
NEWPAK (NEW)	0.164	0.102	0.170
ROKANA (NEW)	0.096	0.084	0.176
SMURFIT (SMUR)	0.26	0.040	0.050

(Computed from Appendices I to VII)

The results displayed on Table 1 showed that Adswitch plc rated the highest in overall profitability performance. The company ranked the highest in Net Profit Margin (NPM - after tax), with 37% and 16% in Return on Investment (ROI); but occupied the 3rd position on Return on Equity (ROE) with 26%. Curtix plc followed closely with 10.6% NPM, 14.8% in ROI and topped the list in Return on Equity with 36%. Also, the results showed that Aluminum Extrusion performed comfortably occupying 3rd position on overall profitability performance, while Smurfit rated the least in the overall profit performance. Appendices give the detailed yearly performance.

4.2 THE FIVE-YEAR AVERAGE LIQUIDITY AND LEVERAGE LEVELS OF THE SECURITIES

4.2.1 LIQUIDITY LEVEL

The capability of firms meeting up with short-term financial obligations was measured using the first two column ratio shown on Table II.

The current ratios R_1 indicated that within the period under review, the cash solvency of ADS, HALL, CUT and ROKA remained high. But NEW from all indications was least in the ability to maintain solvency in the event of adversity.

The liquidity pattern maintained on Table II implies that ROKA occupies medium position both in current and quick ratios. ALE had higher current liability coverage than NEW, the latter had higher ability to meet up with current liability with its most liquid (quick) assets. The same analogy could be made of CUT and ROKA.

TABLE II: THE FIVE-YEAR AVERAGE LIQUIDITY AND LEVERAGE LEVELS OF THE SECURITIES.

SECURITIES	(R1) CURRENT RATIO	(R2) QUICK RATIO	(R3) DEBT-TO- EQUITY	(R4) DEBT- TO- TOTAL
ADS	2.44	1.53	0.568	0.342
ALE	1.398	0.458	1.486	1.054
CUT	1.514	0.644	0.906	0.368
HALL	2.214	1.066	0.638	0.298
NEW	1.148	0.484	1.044	0.498
ROKA	1.432	0.688	1.048	0.508
SMURF	1.214	0.704	0.708	0.406

Computed from Appendices I to VII

4.2.2 LEVERAGE LEVEL

Columns R_3 and R_4 were the major indicators of leverage level (Table II). ALE had an indication of high credit-worthiness than others as shown by the Debt-Equity Margin of 148.6%; whereas ADS ($R_3 = 56.8\%$) used less debt financing relative to Equity financing than other securities under review.

Similarly, ALE rated the highest under Debt-Total assets margin with 105.4% - indicating the extent to which the company was using borrowed money, whereas the other securities maintained seemingly close ratios with respect to the Debt-to-Total asset. HALL (with $R_4 = 0.298$) borrowed the least fund for financing during the period of review with respect to other seven securities. Also securities such as

ROKA and NEW had high financial level of risk with Debt-To-Equity ratios of 1.048 and 1.044 respectively.

4.3 EARNING STRENGTH OF THE SECURITIES OVER THE PERIOD OF STUDY

The Total Asset Turnover (R8) and the Earning per Share (R14) were the major tools used for measuring the Earning Power of the securities. The ratios were further ranked (see Table III below), and the highest being the most powerful in performance over the period of study. Curtix ranked the highest where Adswitch ranked the least in total.

TABLE III: EARNING STRENGTH OF THE SECURITIES OVER THE PERIOD OF STUDY

SECURITIES	TOTAL ASSET TURN-OVER (R8)	EARNING PER SHARE (R14)	RANK FOR (R8)	RANK FOR (R14)	TO-TAL RANK	PO-SI-TI-ON
ADS	0.718	0.0672	1	2	3	7th
ALE	1.346	0.1538	5	6	11	2nd
CUT	1.464	0.1838	7	7	14	1st
HALL	1.420	0.1068	6	4	10	3rd
NEW	1.188	0.023	4	1	5	6th
ROKA	0.982	0.1288	2	5	7	4th
SMURF	1.05	0.0712	3	3	6	5th

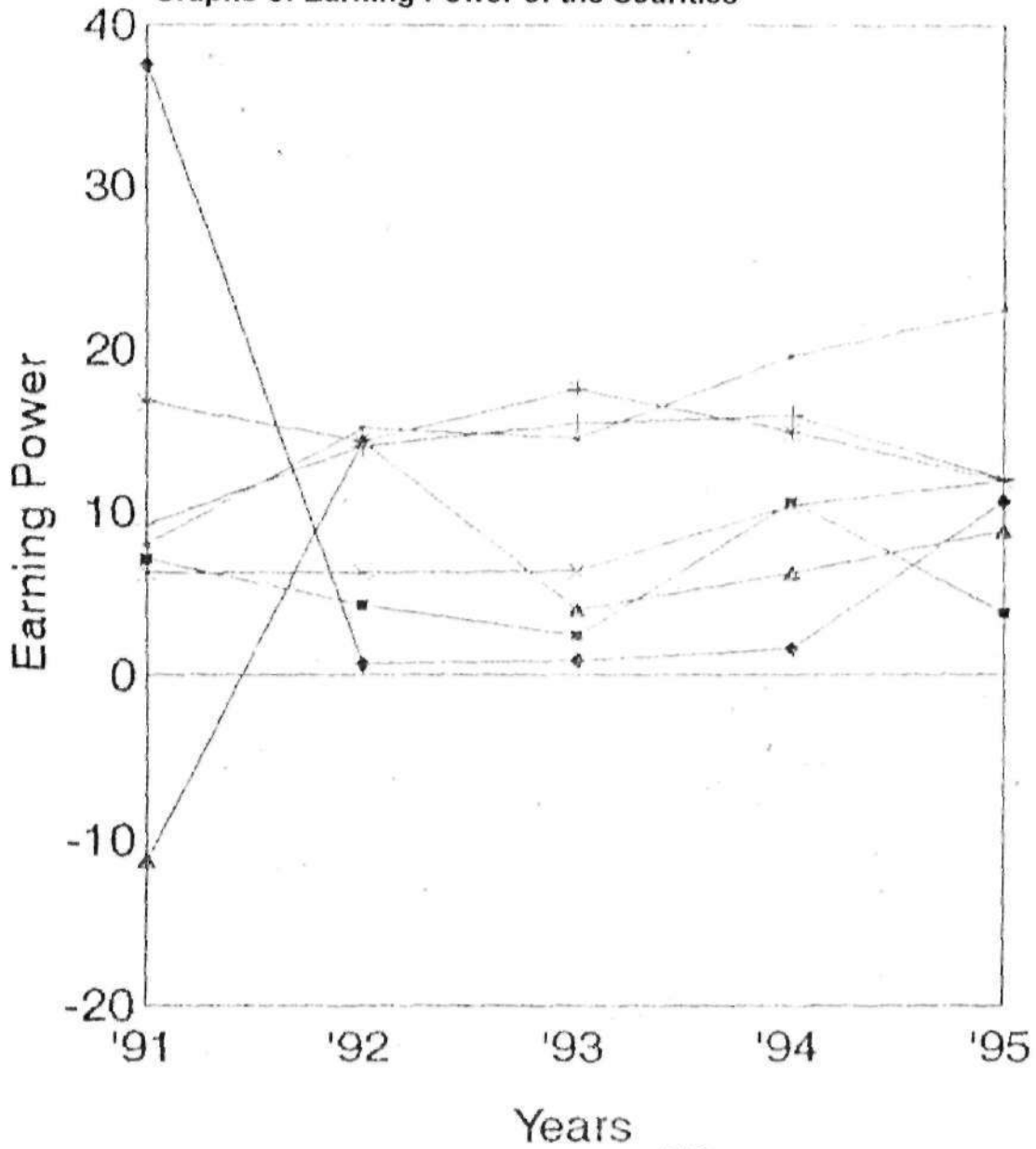
Computed from Appendices I to VII

Also shown below is the graph of the Earning Power against the years covered by the period of study.



GRAPH 1

Graphs of Earning Power of the Scurities



KEY

- AD SWITCH
- + ALUM. EXTRUSION
- + CURTIX
- HALLMARK
- ROKANA
- NEWPACK
- ▲ SMURFIT

4.4 THE BAR GRAPHS OF FIVE YEARS AVERAGE OF MAJOR FINANCIAL RATIOS USED

Presented below are the Bar Charts of the five major ratios which were used by this study in a comparative format. The ratios displayed on the graphs include:

Debt-To-Total Assets (R4);

Return on Investment (R6);

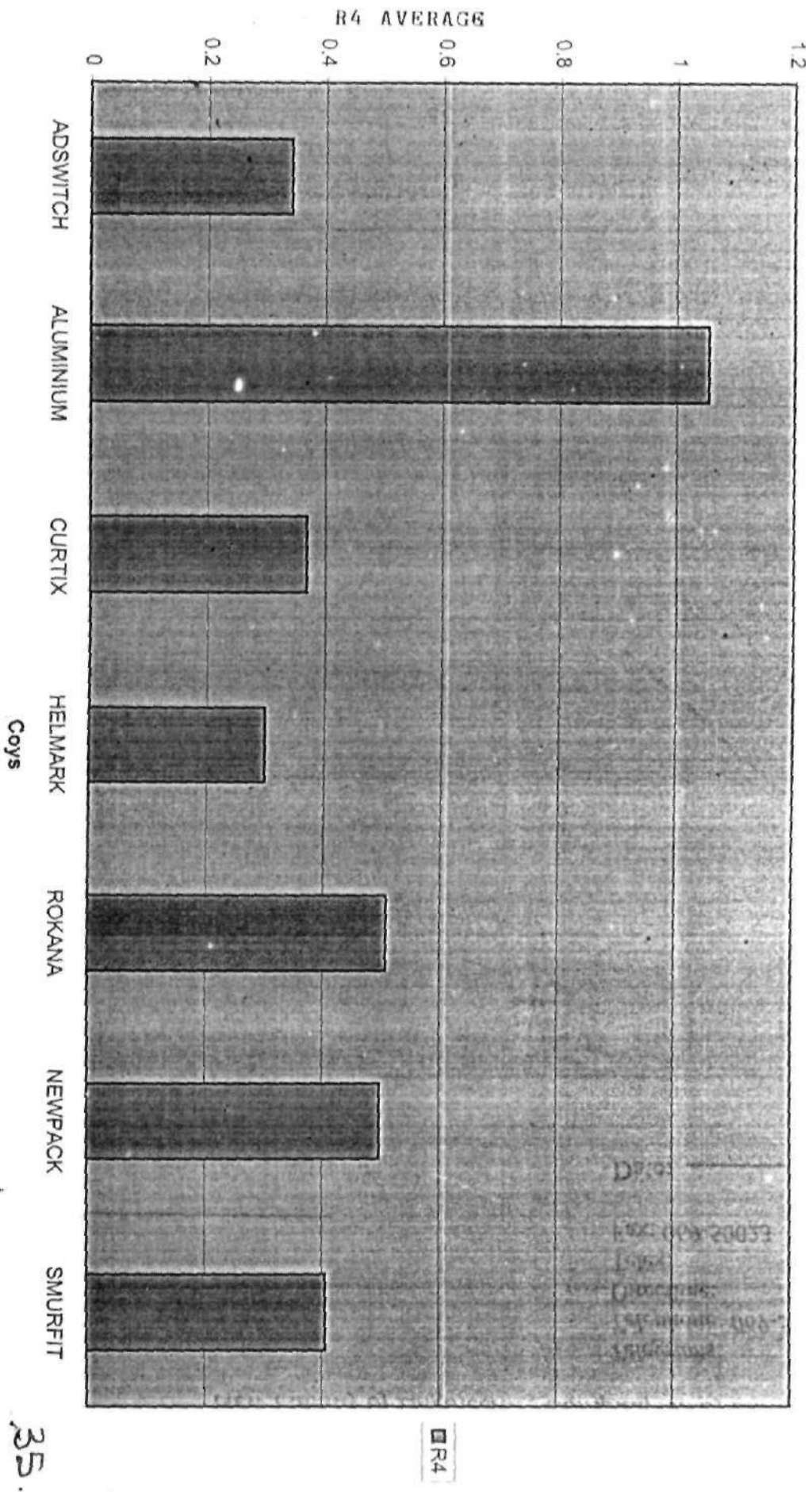
Return on Equity (R7);

TOTAL ASSET TURNOVER (R8)

Earning per Share (R14)

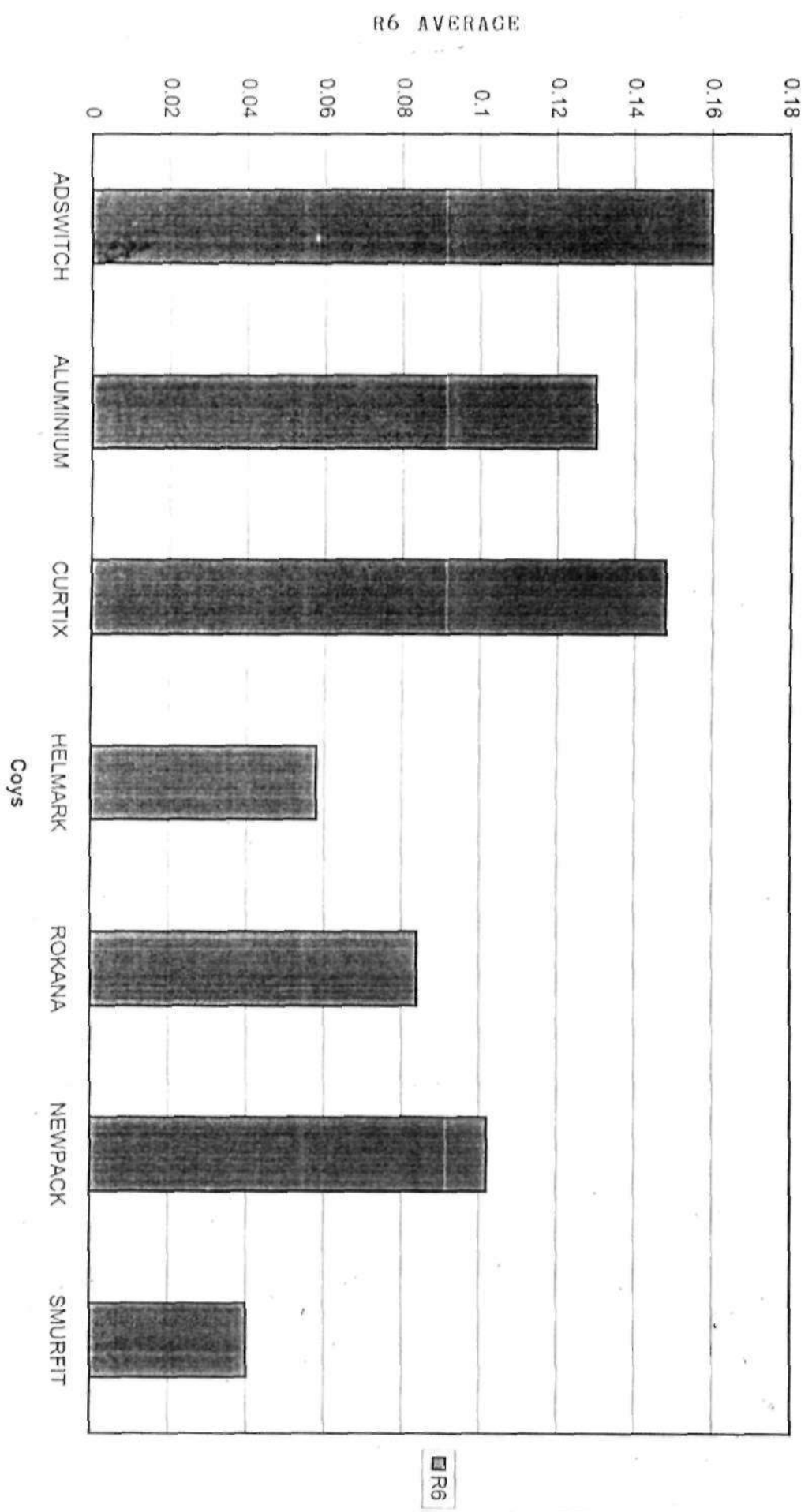
GRAPH 2

Graph of AVERAGE (R4) Against Companies

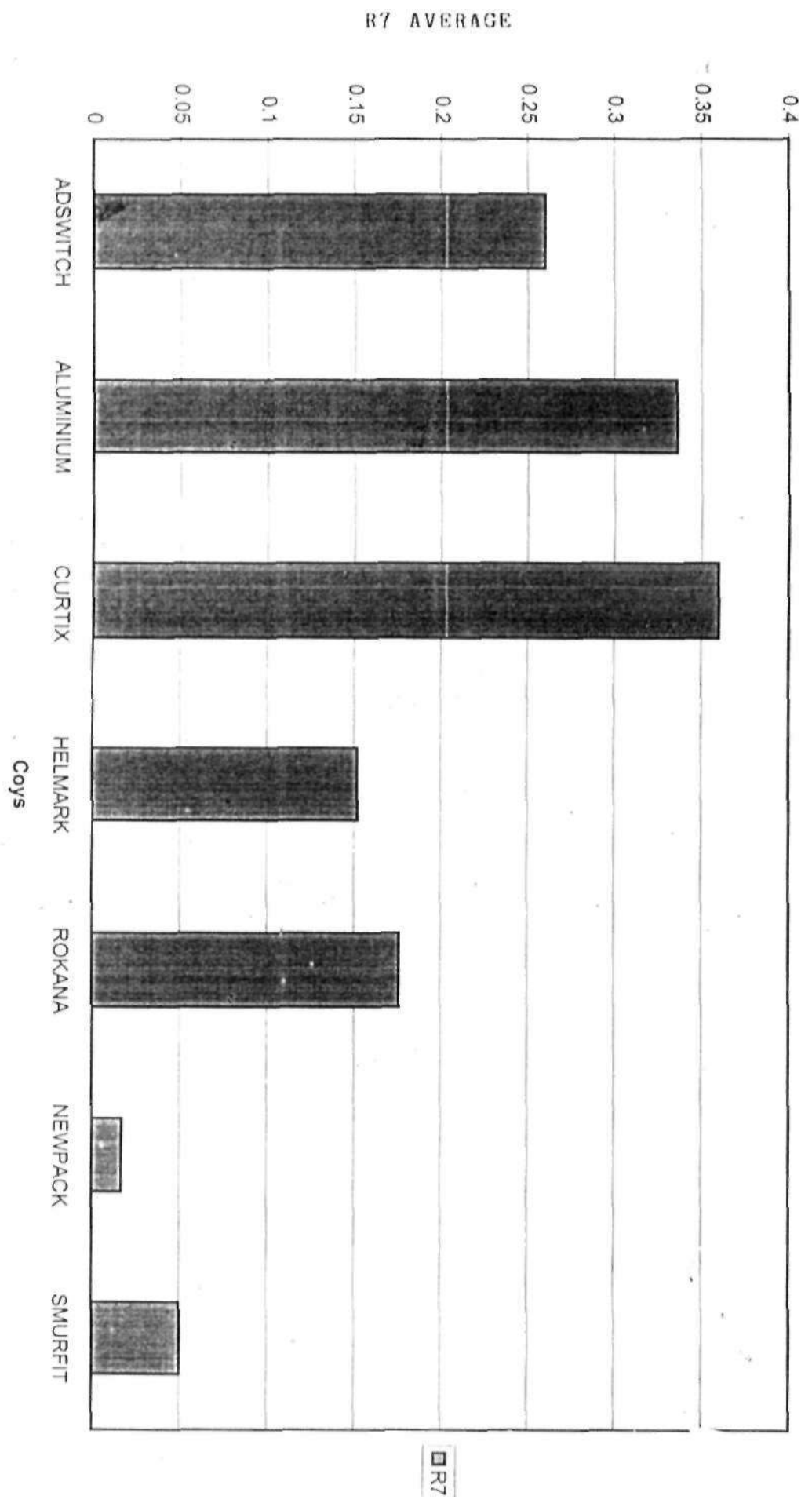


GRAPH 3

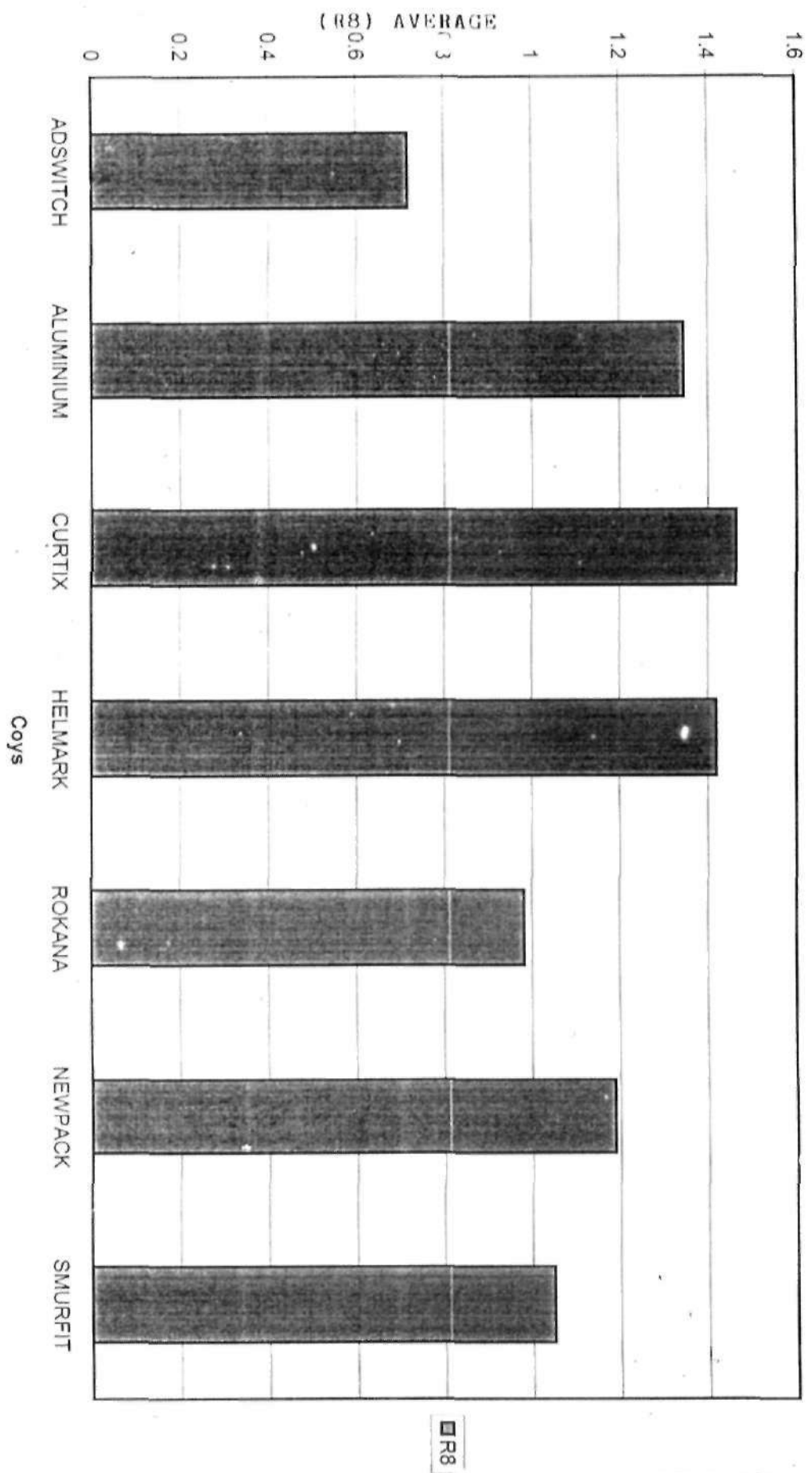
Graph of AVERAGE (R6) Against Companies



GRAPH 4
Graph of AVERAGE (R7) Against Companies

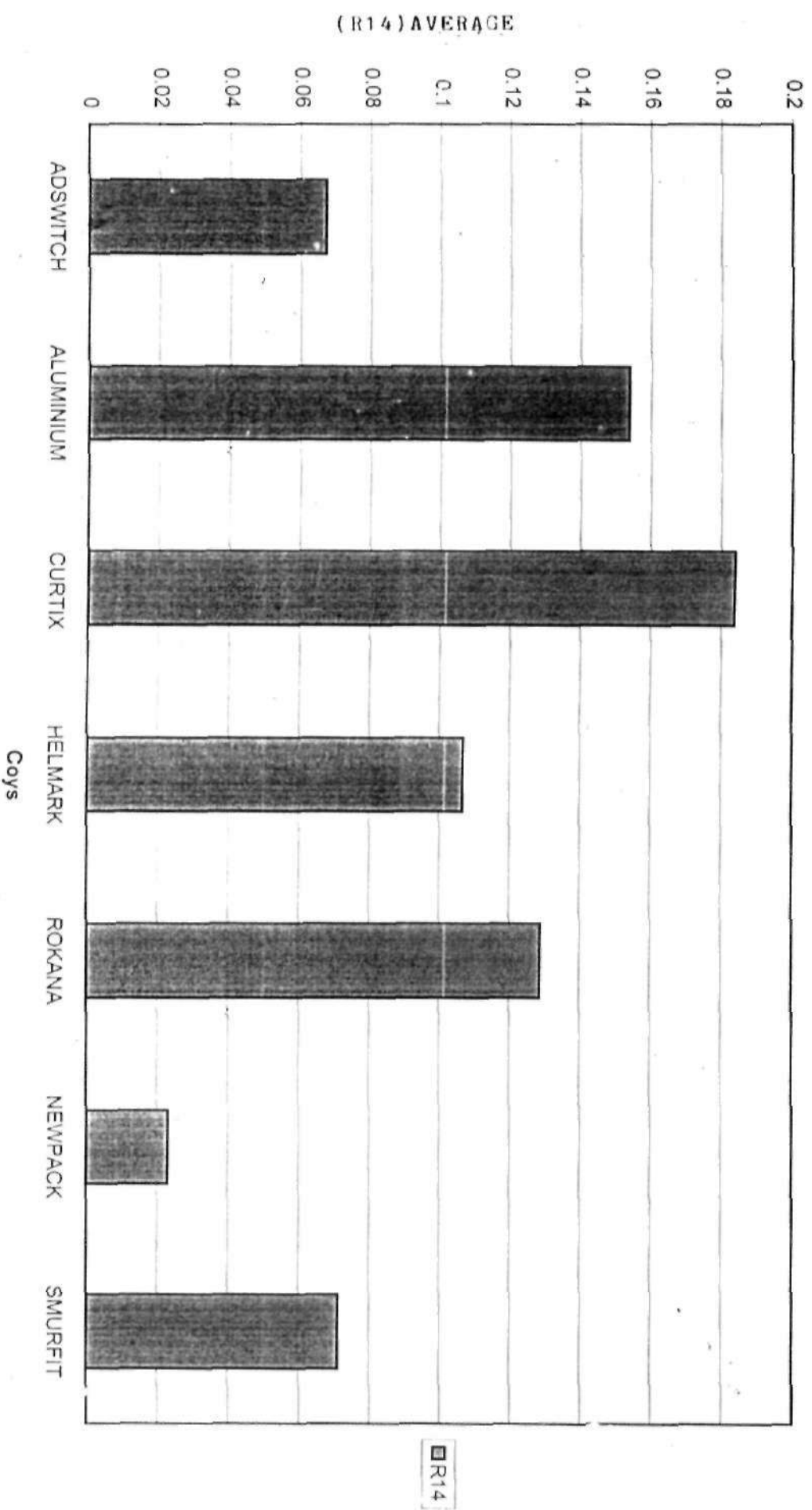


GRAPH 5
Graph of AVERAGE (R8) Against Companies



GRAPH 6

Graph of AVERAGE (R14) Against Companies



The computed values of the five years' averages for the five major ratios are shown on below:

TABLE IV: THE FIVE YEARS' AVERAGES OF THE FIVE MAJOR RATIOS

SECURITIES	R4	R6	R7	R8	R14
ADS	0.342	0.16	0.26	0.718	0.0672
ALU	1.054	0.13	0.336	1.346	0.1538
CUT	0.368	0.143	0.360	1.464	1.1838
HALL	0.298	0.580	0.152	1.420	1.1068
ROKA	0.508	0.084	0.176	0.982	0.1288
NEW	0.498	0.102	0.017	1.188	0.0230
SMUR	0.406	0.04	0.05	1.050	0.0712

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This research work focused on securities listed on the Second - Tier Security Market of the Nigerian Stock Exchange. The study did a comparative assessment of their viability using their past five year performance records (1991-1995). The tools used for the assessment were mainly those that measured profitability, Liquidity, Leverage and Overall effectiveness in remaining buoyant in business.

Selection of seven (7) manufacturing companies whose five years Audited Accounts were available at the time of sampling were considered. These companies' market viability and potentials were tested comparatively by subjecting their past records to principally eight financial ratios, namely: **Net Profit Margin, Return on Investment, Return on Equity, Current Ratio, Quick Ratio, Debt-to-Equity, Debt-to-Total Asset, and Total Asset Turnover**. About seventeen ratios were computed over the period of the study as shown in the Appendices. The Earning per Share of these Stocks were extracted from Nigerian Stock Exchange Daily official listing and examined and compared accordingly.

As far as the profitability of the companies were concerned, the result showed that four out of the seven companies indicated steady slow growth in Net Profit Margin; where the seven company average performance was 12.9% in profit margin. Also, three of the companies showed low level in Return on Investment. Whereas, all the securities farewell in Return on Equity except one (SMURFIT) with 5% Return on Investment as against the seven - average of 21.5% Equity Returns

on the securities considered over the period of study.

The cash solvency level of all the seven companies apparently seemed reasonably high, so were their leverage level within that period. The study noted that there was a level of high-indebtedness of these companies. The suggestion that could be proffered here is that equity financing is safer, in that there is no contractual obligation to pay interest and principal, as there is with debt. Any firm with a high degree of business risk is generally ill-advised to take considerable financial risk as well. It is the opinion of this study that debt financing becomes more attractive with improvements in Liquidity, Financial condition and profitability. The study also discovered that the seven securities' Earning Power remain above Zero and indicates potential of growing in the nearest future (see the graph of the Earning Power of securities on page 38).

The general study's desires to promote investment friendly, discourage foreign investment but attract foreign investors within the country; consequently strengthen industrial development of the nation. Before the listing of securities in Second-Tier Security Market (SSM), it was evident that the stock market had not been a source of financing for such business; against this background the idea of the SSM was concerned as an avenue through which small-business can have access to Stock Market facilities. That is to say that small businesses are offered an opportunity to benefit from many advantages of Stock-Market quotations through the SSM. Such advantages which include greater scope for raising capital at lower cost, survival and continuity of company even after the death of founder as well as enhanced ability to buy and sell shares by prospective investors, thereby, reducing

the cumbersome private negotiations which are often difficult to arrange. In this vein, the study sought to stimulate potential investors, bearing in mind that the SSM would be attractive to them (investors), only as long as they are quoted and are able to offer higher returns on investment than larger less risky fully-listed companies.

The activities during the course of this analysis try to extrapolate the trend of events/experiences of these securities in the context of frustrating National economy, raise the hope that their future performance will be better. The focus on manufacturing companies out of the numerous marketing and other services companies listed was aimed at: **(i) enhancing the natural economy through stimulation of investors to exploit and invest in manufacturing companies; (ii) boosting local manufacturing industries so as to reduce over importation of manufactured goods; (iii) attracting international investors.**

This situation agrees with Ross Levine's observation (1996) which says that, between 1985 to 1995, the total value of stocks listed in all of the world's stock markets rose from \$4.7 trillion to \$15.2 trillion while the share of total world capitalisation represented by the emerging markets also surged: the value of shares traded climbed from less than 3% of the world total in 1985 to 17% in 1995. As a matter of fact, this study discovered inherent potentials in the securities listed in the Nigerian Stock Exchange which can compete favourably within the world stock market. The reason for internalization of the Nigerian Stock Market becomes apparent. The implications of this internalization with respect to investors, quoted companies (including Second-Tier securities) and market operators should be

examined and encouraged. The government's action in promoting securities market development including privatisation and the proposed floatation of local securities will help to reduce the market risks associated with internalization.

Government needs to maintain consistent and virile policy environment to encourage domestic as well as foreign investment and establish capital formation with respect to raw materials, human capital development, final goods production, distribution and auxiliary tertiary services. To maintain a sustainable manufacturing industry, appropriate mix of loans and non-debt financing by government will be attractive to other investors and portfolio handlers.

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APPENDIX

I. ADSWITCH PLC RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	3.64	3.20	2.16	1.78	1.45
R2 = QUICK RATIO	2.63	1.30	0.99	1.66	1.07
R3 = DEBT-TO-EQUITY RATIO	0.31	0.25	0.46	0.80	1.02
R4 = DEBT-TO-TOTAL ASSET	0.24	0.20	0.32	0.44	0.51
R5 = NET PROFIT MARGIN	0.11	0.19	0.16	1.19	0.20
R6 = RETURN ON INVESTMENT	0.08	0.15	0.15	0.20	0.22
R7 = RETURN ON EQUITY	0.10	0.19	0.22	0.35	0.44
R8 = TOTAL ASSET TURNOVER	0.73	0.80	0.91	1.03	1.12
R9 = DEBT-TOTAL CAPITALI- SATION	0.24	0.20	0.32	0.44	0.51
R10 = LIQUID ASSET-TOTAL CAPITALI- ZATION	0.63	0.44	0.38	0.35	0.23
R11 = FIXED ASSET TURNOVER	5.48	2.25	2.88	4.87	4.43
R12 = SHARE PRICE	0.37	0.41	0.45	0.82	1.12
R13 = PRICE EARNING RATIO	19.47	10.5	9.20	8.12	8.75
R14 = EARNING PER SHARE	0.019	0.039	0.049	0.101	0.128
R15 = DIVIDEND PER SHARE	0.010	0.020	0.030	0.040	0.050
R16 = PAY-OUT RATIO	0.53	0.51	0.61	0.40	0.39
R17 = EARNING POWER%	8	15.2	14.6	19.6	22.4

II. CURTIX PLC
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	1.61	2.11	1.44	1.13	1.28
R2 = QUICK RATIO	0.77	0.95	0.38	0.63	0.49
R3 = DEBT-TO-EQUITY RATIO	0.80	0.99	0.54	1.18	1.02
R4 = DEBT-TO-TOTAL ASSET	0.35	0.41	0.24	0.44	0.40
R5 = NET PROFIT MARGIN	0.13	0.13	0.10	0.09	0.08
R6 = RETURN ON INVESTMENT	0.16	0.13	0.18	0.15	0.12
R7 = RETURN ON EQUITY	0.37	0.34	0.41	0.39	0.29
R8 = TOTAL ASSET TURNOVER	1.29	1.11	1.76	1.67	1.49
R9 = DEBT-TOTAL CAPITALI- SATION	0.44	0.50	0.35	0.54	0.50
R10= LIQUID ASSET- TOTAL CAPITALI- SATION	0.23	0.53	0.12	0.10	0.21
R11= FIXED ASSET TURNOVER	2.46	2.45	4.85	5.76	6.59
R12= SHARE PRICE	1.205	1.32	2.37	2.22	2.35
R13= PRICE EARNING RATIO	10.16	10.6	11.30	8.9	10.9
R14= EARNING PER SHARE	0.119	0.125	0.210	0.249	0.216
R15= DIVIDEND PER SHARE	0.12	0.12	0.12	0.12	0.12
R16= PAY-OUT RATIO	1.01	0.96	0.57	0.48	0.57
R17= EARNING POWER%	16.8	14.4	17.6	15.0	11.9

III.

ALUMINUM EXTRUSION
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	1.25	1.35	1.54	1.48	1.37
R2 = QUICK RATIO	0.84	0.32	0.56	0.30	0.27
R3 = DEBT-TO-EQUITY RATIO	1.70	1.47	1.18	1.36	1.72
R4 = DEBT-TO-TOTAL ASSET	0.60	1.75	0.50	1.82	0.60
R5 = NET PROFIT MARGIN	0.10	0.11	0.11	0.10	0.08
R6 = RETURN ON INVESTMENT	0.09	0.14	0.15	0.15	0.12
R7 = RETURN ON EQUITY	0.25	0.35	0.35	0.38	0.35
R8 = TOTAL ASSET TURNOVER	0.92	1.28	1.41	1.60	1.52
R9 = DEBT-TOTAL CAPITALIZATION	0.63	0.60	0.54	0.58	0.63
R10= LIQUID ASSET-TOTAL CAPITALIZATION	0.58	0.56	0.61	0.58	0.53
R11= FIXED ASSET TURNOVER	2.0	3.40	4.10	6.39	7.76
R12= SHARE PRICE	0.53	0.88	1.00	1.08	0.72
R13= PRICE EARNING RATIO	7.7	7.6	6.9	5.2	3.2
R14= EARNING PER SHARE	0.069	0.116	0.144	0.206	0.234
R15= DIVIDEND PER SHARE	0.038	0.064	0.064	0.075	0.10
R16= PAY-OUT RATIO	0.55	0.55	0.44	0.36	0.43
R17= EARNING POWER%	6.3	14.1	15.5	16	12

IV

ROKANA PLC
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	1.75	1.42	1.37	1.31	1.31
R2 = QUICK RATIO	0.78	0.62	0.65	0.79	0.60
R3 = DEBT-TO-EQUITY RATIO	0.62	1.14	1.10	1.04	1.34
R4 = DEBT-TO-TOTAL ASSET	0.38	0.53	0.52	0.53	0.58
R5 = NET PROFIT MARGIN	0.09	0.09	0.07	0.09	0.14
R6 = RETURN ON INVESTMENT	0.07	0.06	0.06	0.11	0.12
R7 = RETURN ON EQUITY	0.11	0.14	0.14	0.22	0.27
R8 = TOTAL ASSET TURNOVER	1.29	0.70	0.92	1.15	0.85
R9 = DEBT-TOTAL CAPITALISATION	0.38	0.53	0.52	0.51	0.57
R10= LIQUID ASSET-TOTAL CAPITALISATION	0.29	0.22	0.19	0.16	0.18
R11= FIXED ASSET TURNOVER	2.11	2.88	3.22	3.70	3.65
R12= SHARE PRICE	0.70	0.80	0.93	0.84	0.78
R13= PRICE EARNING RATIO	12.3	9.4	10.3	5.2	3.1
R14= EARNING PER SHARE	0.057	0.085	0.09	0.163	0.249
R15= DIVIDEND PER SHARE	0.025	0.040	0.05	0.080	0.100
R16= PAY-OUT RATIO	0.44	0.44	0.56	0.49	0.40
R17= EARNING POWER%	6.3	6.3	6.4	10.4	11.9

✓ HALLMARK PAPER PRODUCT PLC
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	1.25	3.82	2.10	2.76	1.14
R2 = QUICK RATIO	0.82	2.35	1.12	0.70	0.34
R3 = DEBT-TO-EQUITY RATIO	0.54	0.24	0.34	0.90	1.17
R4 = DEBT-TO-TOTAL ASSET	0.11	0.14	0.25	0.51	0.48
R5 = NET PROFIT MARGIN	0.05	0.04	0.02	0.07	0.02
R6 = RETURN ON INVESTMENT	0.07	0.05	0.03	0.11	0.03
R7 = RETURN ON EQUITY	0.34	0.09	0.04	0.20	0.09
R8 = TOTAL ASSET TURNOVER	1.42	1.09	1.18	1.51	1.90
R9 = DEBT-TOTAL CAPITALISATION	0.35	0.20	0.25	0.47	0.54
R10= LIQUID ASSET-TOTAL CAPITALISATION	0.27	0.37	0.28	0.40	0.09
R11= FIXED ASSET TURNOVER	2.54	1.68	2.54	4.75	5.85
R12= SHARE PRICE	0.52	0.58	0.61	0.60	0.78
R13= PRICE EARNING RATIO	2.12	8.53	25.4	4.4	12.9
R14= EARNING PER SHARE	0.245	0.068	0.024	0.137	0.06
R15= DIVIDEND PER SHARE	0.10	0.03	0.015	0.10	0.05
R16= PAY-OUT RATIO	1.41	0.44	0.63	0.73	0.83
R17= EARNING POWER%	7.1	4.3	2.4	10.6	3.8

VI. SMURFIT PRINT
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	0.99	1.39	1.27	1.09	1.33
R2 = QUICK RATIO	0.71	0.94	0.08	0.72	1.07
R3 = DEBT-TO-EQUITY RATIO	1.17	0.65	0.48	0.71	0.53
R4 = DEBT-TO-TOTAL ASSET	0.54	0.39	0.33	0.42	0.35
R5 = NET PROFIT MARGIN	-0.13	0.08	0.06	0.06	0.06
R6 = RETURN ON INVESTMENT	-0.11	0.10	0.06	0.06	0.09
R7 = RETURN ON EQUITY	-0.24	0.16	0.09	0.10	0.14
R8 = TOTAL ASSET TURNOVER	0.87	1.21	0.66	1.05	1.46
R9 = DEBT-TOTAL CAPITALIZATION	0.54	0.39	0.33	0.42	0.35
R10= LIQUID ASSET-TOTAL CAPITALIZATION	-0.01	0.15	0.08	0.04	0.11
R11= FIXED ASSET TURNOVER	1.85	2.55	1.51	1.91	2.69
R12= SHARE PRICE	-	0.39	0.60	0.68	0.75
R13= PRICE EARNING RATIO	-	5.5	8.6	7.9	5.8
R14= EARNING PER SHARE	-	0.071	0.07	0.086	0.129
R15= DIVIDEND PER SHARE	-	0.05	0.05	0.063	0.063
R16= PAY-OUT RATIO	-	0.70	0.71	0.73	0.40
R17= EARNING POWER %	-11.3	14.4	4.0	6.3	8.8

VII. NEWPACK PLC
RATIO TABLE

	'91	'92	'93	'94	'95
R1 = CURRENT RATIO	1.14	1.13	1.18	1.11	1.18
R2 = QUICK RATIO	0.72	0.53	0.42	0.33	0.42
R3 = DEBT-TO-EQUITY RATIO	0.44	0.98	0.74	1.55	1.51
R4 = DEBT-TO-TOTAL ASSET	0.31	0.49	0.45	0.64	0.60
R5 = NET PROFIT MARGIN	0.75	0.01	0.01	0.02	0.03
R6 = RETURN ON INVESTMENT	0.37	0.01	0.01	0.02	0.10
R7 = RETURN ON EQUITY	0.54	0.02	0.01	0.04	0.24
R8 = TOTAL ASSET TURNOVER	0.50	0.71	0.86	0.79	3.53
R9 = DEBT-TOTAL CAPITALISATION	0.31	0.50	0.43	0.61	0.60
R10= LIQUID ASSET-TOTAL CAPITALISATION	0.04	0.06	0.08	0.07	0.11
R11= FIXED ASSET TURNOVER	0.76	1.56	1.78	2.65	12.02
R12= SHARE PRICE	0.485	0.44	0.33	0.33	0.50
R13= PRICE EARNING RATIO	121	200	20.6	8.46	9.23
R14= EARNING PER SHARE	0.004	0.002	0.016	0.039	0.054
R15= DIVIDEND PER SHARE	-	-	-	-	-
R16= PAY-OUT RATIO	-	-	-	-	-
R17= EARNING POWER %	37.5	0.7	0.9	1.6	10.6

VIII. FIVE YEARS AVERAGE OF THE SELECTED FINANCIAL RATIOS

	R4	R6	R7	R8	R14
ADSWITCH	0.342	0.16	0.26	0.718	0.0672
ALUMINIUM	1.054	0.13	0.336	1.346	0.1538
CURTIX	0.368	0.148	0.36	1.464	0.1838
HALLMARK	0.298	0.058	0.152	1.42	0.1068
ROKANA	0.508	0.084	0.176	0.982	0.1288
NEWPACK	0.498	0.102	0.017	1.188	0.023
SMURFIT	0.406	0.04	0.05	1.05	0.0712

IX . . FURTHER INFORMATION ON THE SELECTED SECURITIES

NATURE OF BUSINESS	ADSWITCH	ALUMINIUM	CUTIX	HALLMARK	ROKANA	NESPACK	SMURFIT				
	Manufacturing of Aluminium Profiles	Manufacturing of Electrical cables	Paper Conversion	Manufacturing of Boxes, Labels, Commercial Printing and Book production	Publishing of Printing of light packagings and labels	1982	26/10/82	4/11/82	25/8/85	11/9/78	.
DATE OF INCORPORATION	199	10/4/86	12/8/87	7/10/93	5/11/91	15/8/89	26/6/92				
DATE LISTED ON THE EXCHANGE	Authorized	Authorized	Authorized	Authorized	Authorized	Authorized	Authorized				
CAPITAL STRUCTURE	Authorized	Authorized	Authorized	Authorized	Authorized	Authorized	Authorized				
	Paid up	Paid up	Paid up	Paid up	Paid up	Paid up	Paid up				
	₦10,000,000	₦15,000,000	₦20,000,000	₦10,000,000	₦15,000,000	₦10 million	₦7,500,000				
	₦5,000,000	₦15,000,000	₦8,256,000	₦10,000,000	₦12,368,731	₦9,450 million	₦7,500,000				

Extracted from Nigerian Stock Exchange Fact Book 1997 (p.146-161).