EFFECT OF DIVIDEND POLICY ON THE VALUE OF FIRMS IN NIGERIA, A CASE STUDY OF SOME LISTED COMPANIES, 1976 - 1986

BY

OWOPE, ADETUN GABRIEL

Being a Froject report Submitted to the
Post-Graduate School, Ahmadu Bello University,
in Partial Fulfillment of the Requierments for
the Degree of Master of Business Administration

Department of Business Administration
Faculty of Administration
Ahmadu Belle university, Zaria,

OCTOBER, 1987

D E C L A R A T I O N

I hereby declare that this project is original and a product of my research findings. All materials used have been acknowledged accordingly in the footnotes and bibliography.



OWOPE, ADETUN GABRIEL

C E R T I F I C A T I O N

This Project report entitled "EFFECTS OF DIVIDEND POLICY ON THE VALUE OF FIRMS IN NIGERIA: A CASE STUDY OF SOME LISTED COMPANIES, 1976 - 1986" by OWOPE, ADETUN GABRIEL meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION of AHMADU BELLO UNIVERSITY, and is approved for its contribution to knowledge and literary presentation.

I. A. DANKANO (ESQ.) Date: 15/10/1987
Name and Signature of
Supervisor

..... Date:.....
Name and Signature of
External Examiner

..... Date:.....
Name and Signature of
Head of Department

..... Date: 6-5-88
Name and Signature of the
Dean, Post-Graduate School

D E D I C A T I O N

To MR. J.A.F. OWOPE - a brother like a father.

A C K N O W L E D G E M E N T

The bulk of my gratitude goes to my brothers Mr. J.A.F. Owope and Mr. D.A.P. Owope who provided for my needs throughout this programme; to Mr. and Mrs. J. Aworo for their help at all times.

My thanks also goes to Mallam S. Dankano my Supervisor and my Lecturer, Alhaji S. A. Abdullahi for their readiness at anytime and at any place to discuss my problems in the course of writing this project. Along the same line, I wish to thank Dr. Akpa of the Department of Accounting, Mr. E. O. Onipe, Mr. I. F. Okeji, Mr. A. Amedu and Mrs. D. Akinwande, all of the Department of Business Administration, Ahmadu Bello University, Zaria for their invaluable contributions.

I must not fail to remember my friends Mr. Chidi A. Mgbeahurike, Mr. Mike S. Ikupolati, Mr. A. B. Abubakar (NOLCHEM, Kaduna), Mr. S. A. Adigun and others whose names I cannot mention for their immense contributions and stimulating criticisms upon which this project rests solidly. Likewise, I thank the staff of the Nigerian Stock Exchange (Kaduna branch) for their co-operation.

Finally, God, I thank you for yet another crown.

A B S T R A C T

The aim of every investor is to invest in such shares or stocks that will maximise his/her wealth. Dividend Payments and Capital gains form the basic sources of earnings in investment in stocks. In order to enjoy any of the two sources, the firm must have a sound corporate performance. However, cash dividends drain funds that should have constituted its savings and consequently lowers the capital gain.

This study attempts to ascertain the importance of dividend as a determinant of investment preference. To ascertain this, the writer tried to determine the importance of dividend against an equally important factor - corporate performance.

In the course of the research, the Development of the Stock Market in Nigeria is reviewed. Twenty listed companies in the Nigerian Stock Exchange are used as the sample size.

The following form part of the summary of the findings:-

1. The rich-literate constitute the majority of investors in stocks in Nigeria, followed by institutional investors;

2. Dividend Policy is the most important factor influencing investors in stocks in Nigeria;

3, Where an investor is to choose between dividend payment and capital gain or corporate performance, tie will go for dividend.

The researcher made some recommendations amongst which are:-

1 • That the Federal Government of Nigerian should recycle her shareholdings in quoted companies in order to make more shares available in the market.

2. The Federal as well as the State Governments should channel the privatisation policy through the Nigerian Stock Exchange for the same reason in (1) above.

3. That a general enlightenment campaign programme aimed at educating the illetrates be carried out by conducting television and radio programmes in local languages.

TABLE OF CONTENTS

	PAGE
Title Page.....	i
Declaration.....	ii
Certification.....	iii
Dedication.....	iv
Acknowledgement.....	v
Abstract.....	vi
Table of Contents.....	viii
List of Tables.....	xi
List of Appendixes.....	xii

CHAPTER ONE

Introduction.....	1
Purpose of Study.....	1
Scope of Study.....	3
Research Methodology.....	4

CHAPTER TWO

LITERATURE REVIEW

2.1 An Overview of Investment Portfolio Selection.....	8
2.2 Approaches to Valuation of Stock.....	11
2.2.1 The Discounted Cashflow Model.....	14
2.2.2 The Cross Sectional Regression Analysis.....	16
2.3. The Dividend Theories.....	18
2.3.1 Dividend Relevance.....	20
2.3.2 Dividend Irrelevance.....	23

PAGE

2.4 Factors Affecting Dividend Policy..... 26

Footnotes..... 33

CHAPTER THREE

DEVELOPMENT OF THE STOCK MARKET IN NIGERIA

3.1 What is a Stock Exchange..... 36

3.2 The Nigerian Stock Market..... 37

3.3 Membership and Control of The Nigerian Stock Exchange..... 41

3.4 Factors Influencing Share Price Behaviour In the Nigerian Stock Market 44

3.4.1 Role of the Securities and Exchange Commission in the Evaluation of Company Shares..... 44

3.4.2 Government Intervention in Corporate Dividend Policy..... 47

3.4.3 The Role of Nigerian Stock Exchange Functionaries In Regulating Share Prices..... 48

3.4.4 Effect of Religious Believes on Trading Volume of The Nigerian Stock Market..... 49

3.4.5 Extended Family Relationship System... 53

3.4.6 Defective Market Information System... 54

3.4.7 Small-Size Number of Quoted Equity Shares..... 55

3.4.8 Adverse Role of Quoted Company Registrars..... 56

PAGE

3.4.9 Discriminatory Acceptability of Share Certificates As Collaterals for Loan..... 57

3.4.10 Large-Scale Investment Opportunities in Nigeria..... 57

Footnotes..... 60

CHAPTER FOUR

ANALYSIS OF DATA.

4.1 The Influence of Dividend Payout on Share Prices..... 62

4.2 Measurement of Investment Preference: A Case of Dividend Policy Versus Corporate Performance 76

4.3 Effect of Stock Price Regulation By Nigerian Securities and Exchange Commission..... 80

4.4 Summary of Findings..... 82

Footnotes..... 83

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion..... 84

5.2 Recommendations..... 85

B I B L I O G R A P H Y..... 89

LIST OF TABLES

		PAGE
Table 3.1	Total Asset, Earnings Before Taxes and Dividend Per Share of Quoted Brewery Companies in Nigeria (1976 - 1986).....	51
Table 4.1	Earnings After Taxes (EAT), Dividends Per Share (DPS) and Earnings Per Share (EPS) of Twenty Randomly Selected Quoted Companies (1976 - 1986).....	65
Table 4.2	Reactions To Varied Levels of Dividend Payout.....	75
Table 4.3	Measurement of Determinants of Investment Preference.....	77
Table 4.4	Measurement of The Superiority of Dividend Over Corporate Performance.....	79
Table 4.5	Measurement of Reactions to Stock Price Regulation By NSEC.....	81

LIST OF APPENDIXES

Appendix I. Equities

" II. List of Dealing Members (Stock Broking Firms/ Issuing Houses)

" III. Agents of the Stock Exchange

" IV Listed Companies and Their Registrars

" V Questionnaire Administered to Stockbrokers.

CHAPTER ONE

1:1 I N T R O D U C T I O N.

The objective of a firm is to maximize its value to its shareholders. The value of a firm is represented by the market price of its commonstock. The market price of commonstock is in turn, a reflection of among other things, the corporate performance and the dividend policy of such a firm.

Share price behaviour can be influenced by several factors. However, of uthmost importance in this project is the influence of the dividend policy. We have probably read about shareholders who sold their shares in protest, or tore their share certificates or expressed dissatisfaction in one form or the other over either cut in dividend payout or failure to declare dividends at Annual General Meetings.

The aim of this project is therefore to research into the possible effects of dividend policy on the market price of a firm's commonstock.

1:2 Purpose of Study.

The retained earnings of a corporation constitute a very important source of raising funds internally for corporate expansion. Such mobilisation of funds from internal operations for further investment confers some advantages on the firm. Apart from capital gains which result from ploughing back net earnings, this source of

obtaining funds for long-term undertaking is relatively cheaper when compared with equity which involves flotation cost and also results in dilution of ownership and control.

Corporate net earnings also form the basis of dividend payments to the owners of a company. In an economy with a highly efficient capital market, regular payment of dividends by quoted companies positively influences the market valuation of their shares and consequently the value of such firms. This is as a result of the information effect of dividends. Regular dividend payments also means a steady source of income for the ordinary shareholders. This is particularly so where the shareholders have a preference for current income or quick return on their investment over capital gains.

The declaration of cash dividends periodically by a Board of Directors of a company drains such a firm of funds that should have effectively constituted its savings. On the other hand, fiduciary responsibilities and fairness demand management to distribute part of any substantial corporate net earnings to shareholders in the form of dividends unless other compelling reasons to the contrary prevail. The question therefore is, what : the position of the shareholder or a prospective investor is in this dilema, that is, will capital gains influence him over cash dividend?

In the light of the above, the study is aimed at:

(1) determining the effects the dividend policy of a firm might have on the market valuation of its shares as well as those factors that influence its dividend policy.

(2) ascertaining which could influence a shareholder or a prospective investor more: the dividend policy or the corporate performance of a firm.

(3) revealing the reactions of shareholders and investors to various degree of dividend payout ratios viz:stable dividend payout, fluctuating dividend payout ratio and no dividend payment.

(4) identifying other factors that influence share price behaviour of companies listed on the Nigerian Stock Exchange.

1:3 Scope of Study

The literature review on the study covers areas such as an overview of investment portofolio selection, approaches to valuation of stock and the Dividend Theories.

Securities to be quoted on the Nigerian Stock Exchange are usually evaluated by the Nigerian Securities and Exchange Commission and quotation prices (offer prices) at which their shares will be "bidded" or "offered" by the authorised clerks of the Exchange are determined. In this line, the historical development of the Stock Exchange Market in Nigeria is traced.

Further, the Nigerian Securities and Exchange Commission as an institution for control of The Stock Exchange Market is also discussed.

Some factors that influence the share price benaviour in the Nigerian Stock Exchange are discussed. These factors are: the role of the securities and Exchange Commission in the evaluation of company shares, government intervention in corporate Dividend Policy, the role of the Nigerian Stock Exchange functionaries in share price regulation, the effect of religious believes on trading volume of the Nigerian Stock Market, the extended family relationship system, and defective market information system. Other factors include the small-size number of quoted equity shares, discriminatory acceptability of share certificates as collaterals for loans, adverse role of quoted company registrars, and large scale investment opportunities abound in Nigeria.

Finally, an analysis of available data is done in which an attempt is made to prove that dividend policy and/or corporate performance do influence share price behaviour on the floors of the Exchange in Nigeria.

1:4 Research Methodology

Study Period.

The study period covers a full decade from December 1976 to January 1986. This period is selected for the following reasons:-

(1) It is within this period that the Nigerian Stock market was changed from The Lagos Stock Exchange to The Nigerian Stock Exchange with branches in Lagos, Kaduna and Port-Harcourt.

(2) The historical Development of the Stock Exchange market in Nigeria shows that the N.S.E. witnessed an unprecedented boom during this period as a result of the Nigerian Enterprises Promotion Decree when the number of quoted companies rose from 14 in 1971 to 92 in 1982.

(3) It is within this period also that the Second-Tier Securities Market (SSM) was established to give adequate recognition to the need to turn small and medium sized companies into big ones. These small and medium sized companies are owned and wholly promoted by indigeneous entrepreneur.

(4) This period marks the Structural Adjustment Programme (SAP) of the Federal Government of Nigeria aimed at revamping the ailing National economy. The period thus depicts a fair representation of the current economic policies of the government.

(5) Finally, the period encompasses two divergent eras in the economic development of Nigeria: the period of economic boom and the period of economic recession. Therefore, data

collected, analysis of such data and results therein are a fair outlook of the study in general.

Study Sample.

The study covers a total of twenty randomly selected public companies quoted on the Nigerian Stock Exchange. These constitute about twenty-one percent (21%) of the total number of listed firms. The restriction to publicly quoted firms is because of the ease with which relevant information can be obtained. The randomness is aimed at reducing any bias towards companies in any particular industry and gives some latitude for making justifiable generalisation about dividend behaviour of quoted firms in Nigeria.

Collection of Data and Limitations of Study.

The search for relevant information for this project starts with consulting annual reports of sample companies. Sources contacted also include Business weeklies and Daily Newspapers. Others are Nigerian Stock Exchange daily transaction report ledgers, Chairmen's speeches, personal contact with and interview of stockbrokers around Kaduna, and articles, Seminar Papers and Publications relevant to the study.

The use of government gazettes as well as publications of Federal Ministry of Information serve as authoritative sources of obtaining government policies on varied aspects of the project. A questionnaire is designed and administered to Stockbrokers and investment officers/Executives who

are involved (directly or indirectly) in Stock Market Operations.

The major difficulty encountered in the collection of data for the project steemed from inavailability of complete report on Stock Market operations for certain periods. This could be as a result of the descriptive nature of the reports or the sources of information going out of circulation.

The researcher administered the questionnaire to Stockbrokers (see appendix II) resident in Kaduna and some who come from Lagos to trade at the Kaduna branch of the Stock Exchange. The response was substantial and encouraging. More responses could have been generated if the questionnaire were also administered in Lagos. This was however impossible considering the time constraint.

Finally, these limitations not withstanding, the researcher has been able to use the available data to provide useful indications of share price behaviour with regards to dividend policy in Nigeria. It is hoped that further research with complete data might be done in the same area in the future to fill the gaps that might be created by these inadequacies.

CHAPTER TWO

LITERATURE REVIEW.

2.1 An Overview of Investment Portfolio Selection.

Portfolio theory deals with the selection of optimal combination of assets (Portfolios), that is, those combination that provide the highest possible returns for any specified level of risk, or the lowest possible risk for any specified degree of return.

The theory of Portfolio Selection emphasises the importance of the trade off between risk and return. It provides mathematical techniques whereby risk and return can be measured, and develops criteria for the selection of efficient and 'optimal' portfolios.

Prior to the development of modern Portfolio Theory which was pioneered by the most influential work of Markowitz[1] (1952), investors and analysts used the "traditional approach" in portfolio selection. By its very nature, the traditional approach leads to a highly subjective assessment of risk and as the basic logic underlining portfolio theory, it is to combine various assets in such a way that returns are maximized. It therefore follows that the traditional approach which subjectively handles risk is inadequate as a method of assessing, selecting and managing combination of assets with a view to maximizing returns.

Markowitz is credited with developing the first modern portfolio analysis model. He bases his model on the analysis of risk-return choices. The model of Portfolio Selection developed by Markowitz can be summarised as follows:[2] (1) the two relevant characteristics of a portfolio are its expected return and its risk; (2) rational investors will choose to hold efficient portfolios, where these are defined as those portfolios which maximise expected return for a given degree of risk or alternatively and equivalently those which maximize risk for a given expected return and (3) the riskiness of any portfolio depends not only on the risks associated with the individual assets comprising portfolio, but also with the individual assets comprising the portfolio and also the nature of the relationships between these assets.

Markwitz's theory gives a strong normative view about the nature of efficient diversification, and the asset characteristics which investment managers should seek when trying to reduce portfolio risk. It is apparent that estimates of the expected returns of shares, their variances, and their degree of correlation all have to be made before the process of portfolio selection can proceed. This could be a mammoth task. Furthermore, all these measures are continuously changing over time (with the addition of new information), as such, it is likely

to result in continuously changing optimal portfolios as shares are bought and sold in line with revised expectations and measures of risk. As Abdullahi (1983)[3] correctly puts it "The efficient portfolios described by the theory then, may in practice be too costly to pursue and portfolio selection of the Markowitz form, thereby impracticable."

These problems have been considerably overcome by subsequent developments in portfolio theory. Sharpe (1963),[4] showed that the number of calculations could be reduced if the covariance of all pairs of securities was substituted by data showing the relationship of each security to the behaviour of the market. In a later paper, Sharpe also demonstrated that transaction costs could be included in the theory, and thereby showed that continuous adjustment might be practicable.[5]

Sharpe, amongst others, has therefore made possible the practical utilisation of the theory of portfolio selection. Further, by relating changes in the prices of returns of individual assets to changes in some chosen market index, Sharpe's theory has enabled portfolio Managers to disaggregate the price movements of individual assets (Portfolios) into two categories: those resulting from changes in general economic activity (systematic risk), and those peculiar to individual assets (non-systematic risk) and therefore uncorrelated or independent

of changes in other assets.

2.2. Approaches to Valuation of Stock

Before one buys anything, rationality demands that one should have an idea of at what price such an item can be purchased, that is, what the worth of the item is. The same goes for prices of shares and stocks.

There are various approaches by which the value of commonstocks can be determined. The search for the "correct" way to value commonstock has occupied a considerable amount of effort for a long period of time. The task of valuation of commonstock can be seen from two extreme perspectives. At one extreme, the task is liking to the search for a perpetual motion machine because it is very dynamic indeed. At the other extreme, the determinants of stock prices are quite easy to specify in general terms; it is simply the function of the level of a company's earnings, dividends, risk, the cost of money and future growth rate. As Elton and Gruber(1981)[6] put it, "while it is easy to specify these broad influences the implementation of system, which uses these concepts to successfully value or select commonstocks is a difficult task." This is the task that a valuation model attempts to accomplish.

Elton and Gruber define a valuation model as "a mechanism that converts a set of forecasts of (or observations on) a series of company and economic variables into a forecast of market value for the company's stock." The input to a valuation model is in terms of economic variables, such as, future earnings, dividends, variability of earnings and so forth. The output comes in terms of expected market value or expected return from holding the stock or, at the very least, a buy, sell, hold recommendation.

According to Goff (1975),[7] assets of a firm may be valued by direct appraisal through a network of experts analysis or it could be done through a review of its original or replacement costs less provision for reserves and any outstanding liabilities. He goes further to say that a fair value may be computed by multiplying the market price per share by the number of ordinary and preference shares outstanding. This method may have the advantage of considering the future earnings stream upon which the market price is based, conventionally. The shortcoming of this method is the relevance of varifying whether or not the price has been influenced by factors other than the anticipated earnings.

Additionally, Goff believes that quoted companies share prices reflect their earnings, and that usually, the problem of valuation for such securities is always that of deciding upon which earnings to use, either past, the present, future or an average figure.

Finally, Goff is of the opinion that the ultimate method of valuation model is the use of negotiation between seller and buyer in arriving at a suitable price. Though logical, this conclusion may not be tenable in respect of stock market operation since actual buyers and sellers of securities do not come face to face on the trading floor but through an intermediary such as authorised stock-broking clerks.

Johnson (1976),[8] asserts that "valuation is not an exact science; it is 'sophisticated guess - work'. Not only are there many different methods of valuation, but variations in the use of each method may lead to widely different results."

Every financial organisation employs a valuation model. In this part of the project, the writer shall review some of the more widely used approaches to security valuation. Two models by Elton and Gruber (1981)[9] will be discussed.

2.2.1 The Discounted Cashflow Model.

Discounted cashflow (DCF) models are based on the concept that the value of a share of stock is equal to the present value of the cash flow that the shareholder expects to receive from it. There is however a long history of discussion in the academic literature about what should be discounted. Some authors argued earnings, some dividends and others earnings plus non-cash expenses such as depreciation. It turns out that properly defined, these approaches are equivalent to the present value of all future dividends. To facilitate this argument, let us assume that a stockholder intends to hold a share of stock for one period. In this one period the stockholder will receive a dividend and the value of the stock when he or she sells it. If the dividend occurs at the end of the period then the value of this share of stock should be given by:

$$Pt = \frac{D_t+1}{(1+k)} + \frac{P_t+1}{(1+k)} \qquad (1)$$

where:

P_t = the price of a share at time t

D_t+1 = the dividend received at time t + 1

P_t+1 = the price at time period t + 1

K = the appropriate discount rate.

To value this share, the stockholder must estimate the price at which the stock will sell one period hence Using the method employed above;

$$Pt+1 = \frac{D_t+2}{(1+k)} + \frac{P_t+2}{(1+k)} \qquad (2)$$

Substituting the equations (1) and (2) above we have:

$$Pt = \frac{Dt+1}{(1+k)} + \frac{D_t + 2}{(1+k)^2} + \frac{Pt + 2}{(1+k)^2} \qquad (3)$$

If we solved for Pt+2 and substituted into equation (3), solved for Pt+3 and so on, we would find that

$$Pt = \frac{Dt+1}{(1+1)} + \frac{Dt+2}{(1+k)}_2 + \frac{Dt+3}{(1+k)} 3 + \ldots . \frac{Dt+n+1}{(1+k)} n+1 \qquad (4)$$

or that the value of share of stock is equal to the present value of all future dividends. Dividends have (at least in theory) to be forecasted into the indefinite future.

One might ask what has happened to earnings? Infact earnings can be used for one of two purposes or both: paid out to stockholders as dividends or re-invested in the firm. If the later happens, earnings should increase future earnings and subsequently increased future dividends. Thus to discount the future earnings streams of a share of stock would be double counting since we would count retained earnings both when they were earned and when they,

or the earnings from their re-investment, were later paid to stockholders.

To use an infinite dividend stream model in its purest form, it would be necessary to forecast the growth rate in dividends each year from now to infinity, use this infinite series of growth rates to derive a dividend stream, and then discount it back to the present.

2.2.2 The Cross Sectional Regression Analysis.

While the DCF model is enjoying a rapidly increasing popularity in the investment community, they have been adopted by only a small fraction of the practicing security analysts (Birig 1971).[10] The bulk of security analysts still value commonstocks by applying some sort of earnings multiple (price, earnings ratio) to either present earnings, normalised earnings, or forecasted earnings. Approaches to the establishment of this Price/Earning ratio cover a huge range. Some firms use the historical P/E ratios for companies or the historical P/E ratio for a company relative to the market P/E ratio.

Another approach is to list and discuss large numbers of factors that should affect P/E ratios but leave the weighting and often the explicit definition of these factors up to the security analysts (Graham, Dodd and Cottle, 1962).[11] Another approach is to take the broad determinants of commonstock prices, earnings, growth, risk, time value of money and dividend policy and measure these and weight them

together in some manner to form an estimate of the P/E ratio. The cross-sectional regression analysis is used to define the weight the market places on a set of hypothesized determinants of commonstock prices.

The relationship that exists in the market at any point in time between price or price earnings ratios and a set of specified variables can be estimated using regression analysis.

One of the earliest attempts to use multiple regression to explain price earnings ratios was the Whitbeck - Kisor Model. Whitbeck and Kisor (1963)[12] set out to measure the relationship between the price earnings ratio of a stock and the dividend policy, growth rates, dividend payouts and the variation (standard deviation) of growth rates from a group of security analysts. By using multiple regression analysis to define the average relationship between each of these variables and price earnings ratios they found that

price earnings ratio

= 8.2
+ 1.50 (earnings growth rate)
+ 0.067 (dividend Payout rate)
- 0.200 (standard deviation in growth rate)

This equation represents the estimate at a point in time of the simultaneous impact of the three variables on the price earnings ratios. The numbers represent the weight that the market placed on each variable at that point in time. An equation such as this can be used to arrive at the theoritical P/E ratio for any stock by simply substituting the forecasted figures into the equation.

In conclusion, a valuation model can be be considered as the black box that converts forecasts of fundermental data about companies and/or the economy into forecasts or evaluations of market price.

2:3 The Dividend Theories.

Dividend decision of a firm is one of the crucial areas of financial management. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand dividends are desirable from shareholders point of view as it increases their current wealth.

The importance of dividend decision in terms of making an investment decision has been debated by many writers. There are basically two divergent schools of thought as regards this. At one end of the spectrum Williams (1978)[13] argues in favour of dividend as a determinant of corporate value. Kirshman (1963)[14] in his "Bird-in-hand" model contends that on the basis of the uncertainty of future earnings (and capital gains), investors would prefer the certainty of dividend payments in evaluating a security's value. And Richardson (1972)[15] maintains that "dividend announcements convey substantial information to market participants that causes them to revalue their shares."

This view is identical to that held by Graham, Dodd and Cottle (1962)[16] when they said that "the typical investor would most certainly prefer to have his dividend paid and let tommorrow take care of itself."

In the same vein, Jahnke (1975)[17] contends that earnings growth is actually a surrogate for what really matters, namely dividend growths. All these views re-interate the relevance of the dividend decision in investment decision making.

At the other end of the spectrum is the argument that dividends are irrelevant in the determination of stock prices and the value of the firm. Spearheaded by Modigliani and Miller (1978),[18] they show that sinceit is possible to state the value of the firm without dividends, then dividend has no effects on the value of the firm when external financing is used.

In the same line, Ball and Brown (1978)[19] attempt to show that "on the average, the market correctly anticipated earnings change even before their announcements." Whitbeck and Kisor (1978),[20] argue that investors look forward to the future earnings growth of commonstocks rather than past dividends and hence price-earning ratios.

2.3.1 Dividend Relevance.

A number of arguments have been advanced in support of the view that dividend is relevant under conditions of uncertainty, that is, the investor is not indifferent as to whether he receives his return on investment in dividend income or stock price appreciation. Walter (1963),[21] argues that the choice of dividend policies almost always affects the value of the enterprise. In light of this, he said that market price per share can be calculated thus:

$$P \quad \frac{D}{K} \quad + \quad \frac{r\ (E - D)/k}{k}$$

where:

P = Market Price per share

D = Dividend per share

E = Earnings per share

r = Internal rate of return (average)

K = Cost of Capital (capitalization rate).

In Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return, r, and its cost of capital, K. This idea can further be perceived in three categories:

(a) Growth Firm $r > K$

Growth firms are assumed to have ample profitable investment opportunities which conditioned their r to be greater than K. Under a favourable circumstance, Walter assumed that all earnings can be re-invested so as to maximize the value per share over and above the rate expected by shareholders. Therefore, the optimum payout ratio for

growth firms is zero. And since r is greater than k, the market value per share, P, increases as payout ratio declines.

(b) Declining firm, r < k.

The declining firms are those that do not have any profitable investment opportunities. Firms of this calibre will earn an investment rate required by investors. The optimum payout ratio for such firms is 100 percent. And the market value per share, P, increases as payout ratio increases where r is less than k.

(c) Normal Firm, r = k

There are many firms whose investment opportunities are exchaustable but whose rate of return is at par with the cost of capital. For such firms, the dividend policy has no effect on the market value per share, P. This is the stronghold of the dividend irrelevance theorists.

In reality, Walter's model is useful but its applicability is very limited. It assumes that the investment opportunities of the firm are financed solely by retained earnings without any external financing. In a situation of this kind, neither the firm's investments nor its dividend policy, nor both will be optimized. His assumption that both r and k are constant is certainly over generalized. This is because r decreases as more investments occur and k changes directly with the rise of the firm.

Gordon (1962)[22] came up with a Model that related the market value of firm to its dividend policy. He believes that uncertainty increases with futurity because the further one looks into the future the more uncertain dividend becomes. His Dividend Capitalization Model asserts that the market value of a share is equal to the present value of an infinite stream of dividends to be received whereby the dividend per share is expected to grow when earnings are retained:

$$P = \frac{E_1 (I - b)}{K - br}$$

where:

E_1 = Current Earnings

b = Dividend Policy

K = All - equity firm's cost of capital

r = Internal profitability

Through this model, Gordon established that the market value of the share is not affected by dividend policy when r = k. This conclusion is deficient because during uncertainty, investors tend to discount distant dividends at a higher rate than they do near dividends as a reflection of risk-averseness.

The logic underlying the dividend effect on the share value was first described by Kirshman (1963),[23] in his "A Bird - In - The Hand Worths Two In The Bush." He attempted to prove that investors will be willing to pay a premium in order to acquire stocks with higher dividend rate. Both

Graham and Dodd (1964)[24] took up similar stand when they said that "the typical investor would most certainly prefer to have his dividend paid and let tommorrow take care of itself."

Ezra (1963)[25] opined that dividends may offer tangible evidence of the firm's ability to generate cash, and as such, the dividend policy of the firm affects the share price and consequently its value.

2.3.2 Dividend Irrelevance

The most comprehensive argument for the dividend irrelevance theory is found in Modigliani and Miller's (1961) articles. Modigliani and Miller (1961)[26] came up with the assertion that dividend policy of a firm is irrelevant as it does not affect the wealth of the shareholders rather it is the investment policy of the firm that matters.

The M-M theory is based on the following critical assumptions:

1. Perfect capital markets in which all investors are rational. Information is available to all at no cost; transactions are instantaneous and without cost.
2. Securities are infinitely divisible and no investor is large enough to affect the market price of a security.

3. An absence of flotation costs on securities issued by the firm.
4. A world of no taxes.
5. A given investment policy for the firm, not subject to change.
6. Perfect certainty by every investor as to future investments and profits of the firm.
   (This assumption was later dropped by M-M).

They arrived at calculating the rate of returns for a share held during a particular year as:

$$R = D_1 + \frac{(P_1 - P_o)}{P_o}$$

where:

R = Rate of return for all firms
D_1 = Dividend per share at time zero
P_o = Purchase Price per share at time zero
P_1 = Market price per share at time one.

M-M believes that even if the firm raises external funds by issuing debt instead of equity shares, dividend is irrelevant because the advantage of dividend payment will be off-set by external financing.

Looking at the M-M hypothesis, one can see that it lacks practical relevance. There is hardly any capital market in the world that is perfect.

Their assumption about non-existence of taxes is grossly unrealistic because investors are compelled to pay taxes on dividends paid (called withholding taxes in Nigeria). Normally, such taxes are already deducted before delivery from the dividend as narrated on the dividend warrants which shareholders get periodically.

Furtheremore, M-M argument regarding both internal and external financing sources being equal is untrue. Retained earning being internal source, do not attract flotation costs as does the external source.

M-M assertion that the wealth of shareholders will remain constant whether or not dividend is paid is also questionable. If for example in the absence of dividend, a shareholder decides to sell his shares, he has to pay brokerage fee and may even suffer some inconviniences whcih may not be easily evaluated in monetary terms. M-M might have probably forgotten that shares are not sold in the open market like ordinary commodities such as books, automobiles, and so on, but in secondary markets such as the Stock Exchange whose trading requires the services of "authorized clerks," as intermediaries between sellers and buyers.

Finally, the M-M theory argues that even under an uncertainty conditions dividend policy is still irrelevant. They say that the market prices of two firms with identical investment policies, business risk and expected future

earnings cannot differ, But since discount rate increases with uncertainty we can see that in reality dividend payment resolves uncertainty in the minds of investors and shareholders naturally prefer dividends to capital gains.

Anao (1970)[27] refering to the distinction between divided policy and retained earnings says "This distinction becomes apparent when one considers the available evidence that investors normally place a higher premium on a Naira of dividend than a Naira of retained earnings in share valuation." And Alile and Anao (1986)[28] in support of the above statement declare "Because of this, some firms would distribute a substantial part of their earnings, sometimes the whole of it, even when they have investment programmes which would have required the whole of the earnings to finance."

2:4 Factors Affecting Dividend Policy.

It is important for the firm to establish a general policy with respect to the payment of cash dividends. There are several factors involved in formulating dividend policy. These factors include, legal, contractual and internal constraints, the firm's growth prospects, owner considerations and market considerations.

(a) Legal constraints.

The dividend policy of the firm has to be evolved within the legal framework and restrictions. The government may restrict the amount of dividends to be declared by firms in a particular year. There are four basic legal constraints confronting the corporation with respect to cash dividend payment, viz:

(i) Capital impairment:- Most governments prohibit corporations from paying out as cash dividends any portion of the firm's capital stock as measured by the par value of the commonstock, but also any capital paid-in excess of par capital impairment restrictions are generally established in order to provide sufficient equity base to protect creditors claims on the firm's assets.

(ii) Net Profits: The net profits requirement is similar to the capital impairment requirement in that it limits the amount of dividends to the sum of the firm's present and past earnings. In other words, the firm cannot pay more cash dividends than the sum of its most recent and retained earnings. This requirement has the same effect as the capital impairment rule where capital is defined as all paid-in capital. It should be realised that the firm is not prohibited from paying more in dividends than its current earnings.

(iii) Insolvency: If a firm has over-due liabilities or is legally insolvent, most Governments prohibit the payment of cash dividends. This restriction which is intended to protect the firm's creditors by prohibiting the liquidation of a near bankrupt firm through the payment of cash dividends by an insolvent firm could seriously impair its creditors claims in bankruptcy.

(iv) The accumulation of excess profit:- Some government laws prohibit firms from accumulating excess profit. A firm's owners must pay income taxes on dividends when received, but the owners are not taxed on capital gains in market value until the stock is sold. A firm may retain a large portion of earnings in order to provide capital gain opportunities to the owners, but if it is discovered the firm may be subjected to pay an excess profits tax on its retained earnings.

(b) Contractual Constraints.

Often the firm's ability to pay cash dividends is constrained by certain protective convenants in a term loan agreement, a bond indenture, a preferred stock agreement, or a lease contract. Generally these constraints either prohibit the payment of cash dividend until a certain level of earnings has been achieved or limit the amount of dividends paid to a certain amount or percentage of earnings.

Since cash is required to pay dividends, constraints on dividend payments help to protect creditors and preferred stockholders from losses due to insolvency on the part of the firm. Contractual constraints on dividend payments are quite common, and their violation is generally grounds for an immediate request for payment by the funds supplier affected.

(c) Internal Constraints

The firm's ability to pay dividens in generally constrained by the amount of excess cash available. Of course it is possible for a firm to borrow funds to pay dividends; but if borrowing were necessary the minimum dividend would most likely be paid. Lenders are especially not interested in loaning money for dividend payments, since they produce no tangible or operating benefits that will help the firm repay the loan. It is important to keep in mind that, although a firm may have high earnings, its ability to pay dividends may be constrained by a low level of liquid assets.

(d) Growth Prospects.

The growth prospect of the firm must be evaluated in formulating a dividend policy. The firm must plan its needed financing in light of its forecasted growth prospects. The availability of outside financing and the exact timing of funds needed will greatly affect the need for retained earnings to finance growth.

(e) Owner Considerations.

In establishing a dividend policy the primary concern should be how to maximize the firm's owners' wealth over the long run. Although it is impossible to establish a policy that will maximize each owner's wealth, the firm must establish a policy that has a favourable effect on the wealth of the majority of the owners. Three factors that must be considered are the tax status of the owners, their investment opportunities and the dilution of ownership.

(i) The tax status of the firm's owners: The tax status of a firm's owners can have a significant effect on the firm's dividend policy. If a firm has a large percentage of wealthy stockholders who are in a high tax bracket, it may put out a low percentage of its earnings in order to provide its owners with income in the form of capital gains as opposed to dividends. Since the capital gains tax rate is considerably less than the normal tax rate; these wealthy owners would find their tax liability reduced. On the other hand, a firm may have mostly lower-income shareholders who need dividend and are in a low tax bracket. These owners will prefer a higher payout of earnings since their tax status is not a source of concern.

(ii) Owner opportunities: A firm should not retain funds for investment in projects yielding lower return than the owners could obtain from external investments. If it appears the owners have better opportunities externally, the firm should pay out high percentage of its earnings. If the firm's investment opportunities are at least as good as similar risk external investments, a low payout of earnings is justification. A firm should not retain funds in the form of marketable securities in order to make some future outlay; rather, it should pay out these earnings now and raise the needed funds later when the outlay must be made. The external investment opportunities of owners must be appraised and considered when dividend policy decisions are formulated, otherwise, the maximization of owner wealth may not be achieved.

(iii) The dilution of ownership: If a firm pays out a high percentage of earnings, new equity capital will have to be raised with commonstock, which may result in the dilution of both control and earnings for the existing owners. It is most important that the stockholders recognise the firm's motives for retaining or paying out a large percentage of earnings. Although

the ultimate dividend policy depends on numerous factors, the avoidance of shareholders' discountent is important. If the shareholders become dissatisfied with the existing dividend policy, they may sell their shares, increasing the possibility that the control of the firm will be seized by some outside group. The "take over" of a firm by outsiders is more likely when owners are dissatisfied with its dividend policy.

(f) Market Considerations.

In establishing dividend policy, it is important to consider certain behavioural aspects of the securities market. Since the wealth of the firm's owners is reflected in the market price of the firm's shares, an awareness of the market probable response to certain types of dividend policies is helpful in formulating a suitable dividend policy. The market place views the firm's dividends as a source of information. The firm should attempt to develop a dividend policy that provides owners and prospective investors with positive information, therefore reducing their uncertainty about the firm's future success. By paying fixed dividends on a continous basis, the firm gives its owners a feeling of confidence in its continued success. It is quite important for the firm to consider the views and reactions of the market place to dividends in formulating a dividend policy.

FOOTNOTES

1. HARRY MARKOWITZ (1952) "Portfolio Selection" Journal of Finance March, 1952 pp.71-91

2. LORIES J.H. and HAMILTON M.T. (1973) "The Stock Market: Theories and Evidence," Irwin, Illinois pp.172.

3. ABDULLAHI M.I. (1983) "Investment Behaviour of Life Insurance Companies in Nigeria," being an MBA Project Submitted to A.B.U., Zaria. pp.18.

4. SHARPE W.F. (1963) "A Simplified Model for Portfolio Analysis," Management Sciences Vol. 9 (January 1963).

5. SHARPE W.F. (1971) "A Linear Programming Approximation For the General Portfolio Analysis Problem" Working Paper, No.19, Standard Graduate School of Business (January 1971).

6. EDWIN J. ELTON and MARTIN J. GRUBER (1981) Modern Portfolio Theory and Investment Analysis John Wiley and Sons New York pp.397-416.

7. WALTER S. GOFF (1975) Finance for Managers" Mcdonald and Evans Limited pp.231 - 244.

8. ROBERT S. JOHNSON (1976) "Financial Management" Allyn and Bacon, Inc. Boston pp.502.

9. ELTON and GRUBER (1981), op. Cit. pp.397 - 414

10. RAPHAEL BING (1977) "Survey of Practitioners' Stock Evaluation Methods," Financial Analysts Journal, 27, No.3, (May/June 1971).

11. GRAHAM B., DODD. D., and COTTLE S., "Security Analysis Principles and Techniques" 4th Edition, New York McGraw-Hill pp.55 - 69.

12. WHITBECK V., and KISOR M. (1978) "A New Tool in Investment Decision-Making" in Lorie and Brealey pp.480.

13. WILLIAMS J. B. (1978) "Evaluation by the Rule of Present Worth" in Lorie and Brealey (ed): Modern Developments in Investment Management, Dryden Press pp.471-491.

14. KIRSHMAN JOHN (1963) "Principles of Investment" New York, McGraw - Hill, Inc. pp.737.

15. RICHARDSON, P. (1972) "Dividend Announcements, Security Performance and Capital Market Effciency" Journal of Finance, December 1972.

16. GRAHAM B, DODD D. and COTTLE S. (1972) "Security Performance and Capital Market Efficiency" Journal of Finance, December 1972.

17. JAHNKE W. W. (1975) "What's Behind Stock Prices?" Financial Analysts Journal, September/October 1975.

18. MODIGLIANI F. and MILLER M. (1978) "Dividend Policy Growth and Valuation of Shares" in Lorie and Brealey.

19. BALL R and BROWN P. (1978) "An Emprical Evaluation of Accounting Income Numbers" in Lorie and Brealey (ed).

20. WHITBECK V. and KISOR M (1978) op. cit.

21. WALTER JAMES (1963) "Dividend Policy: Its Influence On the Value of the Enterprise" Journal of Finance Vol.18 May 1963.

22. GORDON, M. J. (1962) "The Investment, Financing and Valuation of the Corporation" R.D. Irwin Inc.

23. KIRSHMAN JOHN (1963) op.cit.

24. GRAHAM B., DODD D., and COTTLE S. (1962) op.cit.

25. EZRA SOLOMON (1963) "The Theory of Financial Management" New York, Columbia University Press pp.94.

26. MILLER M.H. and MODIGLIANI F (1961) "Dividend Policy, Growth and the Valuation of Shares" Journal of Business Vol. 34, October 1961.

27. ANAO A. R. (1970) "Accounting Data and the Pricing of Equity Issues in a New Issue" Unpublished M.A. (Econ) Thesis, University of Manchester.

28. ALILE H.I. and ANAO A. R. (1986) "The Nigerian Stock Market in Operation" Jerome Laiho and Associates Ltd pp.13.

CHAPTER THREE

DEVELOPMENT OF THE STOCK MARKET IN NIGERIA.

3.1 What is a Stock Exchange.

A stock exchange is a place where securities are bought and sold. Alile and Anao (1986), define it as refering to "many things at the same time. First it is a place where securities (bonds, stocks and shares) of varying types are traded openly, and (secondly) where one can purchase or sell any of such securities relatively easily."[1]

Securities are simply documentary evidence of ownership or entitlement to claim upon the assets of the issuing firm, government or quasi-government institution. At any point in time and at a certain level of price, there are some people who would like to and be willing to rush into the ownership of a security just as other people are eager to get out of it.

The Stock Exchange is where the huge capital required to operate the enormous industrial and commercial corporations of today can be acquired and at such competitive terms that no other institution in the capitalist system can possibly match. It sees to the efficient allocation of available capital funds to the diverse uses in the economy, and, through its extremely sensitive pricing mechanism, ensures that so much of the total available capital resource is allocated to each firm within each industry as that firm and industry deserves to have, having regard to their relative contribution to the total societal wealth vis-a-vis other firms or industries.

The Stock Exchange is the barometre for measuring a possible impending boom or decline in the economy as well as a place where an individual investor can make or lose money quickly.

A product of the 12th and the 13th centuries, by the 16th century the Stock Exchange had been deeply rooted in many European centres. Its emergence is a spontaneous reaction of enterprising businessmen to the opportunities and challenges offered by the emerging free enterprise economies of the middle ages and the era of the industrial revolution. Stock Exchanges are not found in socialist economies because they have no use there; the task of capital allocation is performed by a central government.

3.2 The Nigerian Stock Market.

The Nigerian Stock Exchange is an offspring of the Lagos Stock Exchange which was registered in March, 1960, and incorporated on 15 September 1960. The objective of developing a local capital market was not seriously or singularly pursued by the colonial administration. However the late 1950s witnessed a boom in private investment which along with a number of other developments, prompted the government into taking the initiative to establish formal financial markets. Among such issues were the need for the government to finance the growing budget deficits from 1958, the deteriorating balance of payment deficits as from the late 1950s, the increasing pressure from nationalists and the need to mobilise finance to embark upon development programmes.

A Committee was appointed under Professor Barback in May, 1958 which culminated into the establishment of The Lagos Stock Exchange. The principal objects of the company as specified in its Memorandum and Articles of Association were as follows:-

(1) To provide facilities to the public in Nigeria for the purchase and sale of funds, stocks and shares of any kind and for the investment of money;

(2) To control the granting of a quotation on the Lagos Stock Exchange in respect of funds, stocks and shares, of any company, Government Municipality, Local Authority or other corporate bodies;

(3) To regulate the dealings of members interest with their clients;

(4) To standardize and, from time to time, review and, if necessary or desirable, increase or decrease the fees or other changes to be made by members for services rendered to their clients or modify the method or methods of assessing or calculating such fees or charges;

(5) To correlate the stockbroking activities of members and facilitate the exchange of information for their mutual advantage and for the benefit of their clients and to offer facilities whereby

the public can be informed of prices of shares dealt in by members.

(6)To co-operate with Associations of Stockbrokers and stock exchanges in other countries and to obtain and make available to members information and facilities likely to be of advantage to them or to their clients.

(7)To investigate any irregularities or alledged irregularities in the dealings of members with their clients, any complaints made against members by other members, or any other parties, provided that such differences, disputes or complaints shall relate to or touch on the stockbroking business or activities of such members, and to deal with and decide upon such irregularities, differences, disputes or complaints, and to take necessary steps for the enforcement of its decisions and awards.

(8)To promote, support, or propose legislative or other measures effecting the aforementioned objects.

Trading on the Lagos Stock Exchange was however extremely poor due to the low rate of capital formation at the time, the predominant lack of awareness of the mechanics of stock exchange operations and poor communication. Thus buyers and sellers of securities were concentrated around the Lagos area.

The growth of the stock market can be attributed to the effect of the investment provisions contained in The Income Tax Management Act, 1961; The National Provident Fund Act, 1961; The Trustee Investment Act 1962 and The Insurance Act, 1976 (Anao and Alile 1986).[2] Apart from these legislation, a major development which had perhaps the most significant impact on The Stock Market was the Indigenisation measures (The Nigerian Enterprises Promotion Acts, of 1972 and 1977). This raised the number of listed equities from a modest fourteen in 1971 to over ninety by the end of 1980.

By the middle of the 1970s, advocations were made for the decentralization of the Stock Market "to bring the benefits of capital market operations nearer to a greater section of the country's citizenry and thus enhance the performance of the market's functions."[2] In response to this, the Federal Government in April 1976 set up a Commission headed by Dr. Pius Okigbo to study the structure and operation of the nation's financial system and make recommendations, for improvement. The committee recommended the establishment of provincial Exchanges which would eventually cover the whole country. These Exchanges would be autonomous but would have similar listing requirements. However, the government opted for a National Stock Exchange with branches in different parts of the country. Thus with relevant preparations and amendments to the operational charters of the Lagos Stock Exchange, it was transformed

into The Nigerian Stock Exchange on 2 December, 1977 with branches in Lagos, Kaduna and Port-Harcourt.

The latest developments in The Stock Market in Nigeria are, The Second-Tier Securities Market (SSM) and the Internationalisation of the Nigerian Stock Market. It should be recalled that of the ninety two equities quoted on The Nigerian Stock Exchange as at 1982, only three (Daily Times, Golden Guinea Breweries and Merchantile Bank) were wholly owned Nigerian Companies; even they had not been wholly promoted by Nigerians. In a Seminar on Public Quotation for Indigeneous Companies organised by The Nigerian Stock Exchange in Port Harcourt in 1981, it was advanced among other things that high cost of seeking quotation, fear of losing control of the business upon obtaining quotation, reluctance to disclose accurate financial information, etc., were responsible for lack of interest among indigeneous entrepreneur in obtaining a Stock Exchange listing. Thus the listing requirements were considerably relaxed forming the bedrock of the "Fringe Market" which was later to crystalise into the Second-Tier Securities Market launched on 3 April, 1985.

3.3. Membership and Control of The Nigerian Stock Exchange.

The owners (stockholders) of the Stock Exchange are refered to as members(Anao and Alile 1986).[2] Application for membership of the Exchange is open to firms or institutions; as well as individuals. There are two types of membership- ordinary and Dealing.

A Dealing member of The Exchange is person or an institution who, in addition to being an ordinary member is licensed by the council to trade in Stocks, shares and bonds on the stock market and accepts to be Bound by the Rules and Regulations of The Exchange. Such a member does not receive any dividends but only renumeration in the form of brokerage comissions. A dealing member is generally refered to as a stockbroker.

Since its inception, The Stock Exchange has been perpetually placed under regulation by government agencies, starting from The Capital Issues Committee of 1962 - 1973, The Capital Issues Commission 1973 - 1977 to the present date Nigerian Securities and Exchange Commission. For the purpose of this project, a cursory look into The Nigerian Securities and Exchange Commission shall be desirable.

A brainwork of the Committee on the Review of the Nigerian Financial System (Okigbo Commission), it was recommended to perform among other things "registration of all securities proposed for offer or sale to the Nigerian Public or for private offer if they are to be kept ultimately by persons other than those to whom the offers were made, register stock exchanges and securities dealers and their agents....."[3] Other functions of the Securities and Exchange Commission as stipulated under Section 6 of the Decree include:

(1) determining the amount of, and time at which securities of a company are to be sold to the public either through offer for sale or subscription;

(2) registering all securities proposed to be offered for sale to, or for subscription by, the public or to be offered privately with the intention that the securities shall be held ultimately other than by those whom the offers were made;

(3) maintaining surveillance over securities market to ensure orderly, fair and equitable dealing in securities;

(4) registering Stock Exchange or branches, registrars, investment advisers, securities dealers and their agents and controlling and supervising their activities with a view to maintaining proper standards of conduct and professionalism in the securities business;

(5) Protecting the integrity of the securities market against any abuses arising from the practice of inside trading;

(6) acting as regulatory apex organisation for The Nigerian Stock Exchange and its branches to which it would be at liberty to delegate powers.

(7) creating the necessary atmosphere for the orderly growth and development of the capital market;

(8) undertaking such other activities as are necessary or expedient for giving full effect to the provisions of this Decree.

In this manner the omnibus respensibility of creating the necessary atmosphere for orderly growth and development of the capital market was placed on the Securities and Exchange Commission.

3.4. Factors Influencing Share Price Behaviour In The Nigerian Stock Market.

3.4.1 Role of the Securities and Exchange Commission in the Evaluation of Company Shares.

In the operation of the Security Market, individual buyers and sellers cannot be allowed to come face-to-face to trade in quoted company shares, rather they employ the services of stockbrokers who are authorized to transact business in cognisance of prices originally fixed for such securities by the NSEC.

In an annual dinner of The Nigerian Stock Exchange held at Lagos in 1979, Okigbo described both the Nigerian Enterprises Promotion Board and the then Capital Issues Commission as some form of Public nuisance. He blamed them for time wastage and inadequate allotment of shares in the Nigerian Capital Market.[4] On application to the Commission for quotation of company shares, numerous procedures and exercises have to be undertaken before fixing a price at which the security will be quoted on the stock market for public offer or sold as it is in the case of private placement.

...s the SEC or for that matter any investment analyst would readily admit, the task of determining a share's price is not a straightforward computation based on some known formula, but an intelligent estimation of value with the aid of some quantitative parameters and a host of numerous quantitative factors. That is perhaps why the matters on which share price is based cover a wide range of details relating to the historical features of the company as well as some projections of these. The information which the SEC usually calls for are supposed to yeild such insight as would make possible the determination of a realistic price for the share. The SEC employs two broad approaches in share pricing; The Asset Approach and The Earnings Approach. The results obtained from both are later compared and a price is settled upon after taking into account a number of factors among which are: the present state of the business and future prospects, the likelihood of continuity of those factors that contribute to past successes, nature of the company's product and its susceptibility to competition, etc.

The aim of the asset approach is to determine the net asset or asset backing per share. This is often given by dividing the number of shares outstanding into the networth subject to any disallowable items such as an unjustifiable asset revaluation, fictitious assets in the balance sheet e.g. preliminary expenses, deferred revenue expenses, e.t.c., and losses carried forward.

Value per the earnings basis involves first, the estimation of the average maintainable profits and then the capitalisation of this amount by a capitalisation rate appropriate to the nature of the business and the attendant risk categorisation. Calculating the average maintainable profits require some adjustment to the computed historical average profits in order to take account of changes expected in the future. The resultant adjustment figure for maintainable profits is then capitalised on the basis of the following scales devised by SEC:

Agriculture	10 - 12½%
Property	12½ - 15%
Banking and Finance	12½ - 17½%
Manufacturing	17½ - 20%
Commercial	20 - 25%
Service	25 - 30%

However, the final price is arrived at through a quasi - judgemental process. There is a popular notion that prices of shares quoted on the stock market are underrated. As Ighodaro (1980) says, it is difficult to lose money on the stock exchange in Nigeria because all the shares are underpriced.[5]

It is apparent therefore that there is imperfection in our stock market operations (especially pricing). It is however argued that the Nigerian Stock Market has not attained enough sophistication as to allow prices to be determined by the open market forces:

3.4.2 Government Intervention In Corporate Dividend Policy

The Nigerian economy is highly regulated by the Government. Laws/Decrees for the regulation and control of the ownership and operations of enterprises in Nigeria are continually enacted.

In the National Budget Speech of 1979, the then Head of State, stated that, "the new guidelines on dividend payment states that no company should declare or pay dividends depends in excess of 50% of its after tax profits in the current financial year. The ability of company declaring dividend on its performance."[6] Two years later, the New Nigerian, published the Income Policy Guideline of 1981 in which it was stated that dividend payable during the fiscal year was 60% of profit after tax, subject to 12.5% withholding tax. Additionally, the newspaper reported that "the issue of scrips based on increase in reserves derived from a revaluation of assets is forbidden."[7]

As at the time of this study, the Federal Government in the annual budget, 1987 decreed tax free dividends for any individual or company for a period of three years if:-

(1) the company paying the dividends is incorporated in Nigeria;

(2) the equity participation is imported into the country between 1 January, 1987 to 31 December, 1992;

(3) the receipient's equity in the company constitute at least 10% of the share capital of the company; and

(4) if the company paying dividend is engaged in agriculture production within Nigeria or processing of such Nigerian agricultural products.

Some companies do not consider government intervention on dividend matters as proper. Many investors do not care about dividend percentage or dividend payout ratio, rather it is the monetary figure of the dividend paid that attracts them. As Olayemi (1983) rightly asserts "invariably, government involvement in dividend policy is bound to affect investors desire to buy or sell securities. If reaction to receipt of dividend warrants makes shareholders to offer for sale more than investors are willing to buy, the share price may decline but if the reverse is the case, then its share price may rise."[8]

3.4.3 The Role of Nigerian Stock Exchange Functionaries In Regulating Share Prices.

It is a common occurence for officials of the stock exchange to interfere in normal business transaction for one reason or the other, as Areago (1980) said "we want to guard against inflationary price increase. We want prices to be as close to reality as possible. The problem is whether or not they should be allowed to rise on very little volume."[9] Likewise, Omolayole (1983) observed during a seminar organised by ICON (Merchant Bankers) Limited on Corporate Finance at Lagos in July 1983, that,

"share prices on the Nigerian Stock Exchange list are somebody's prices not the proper prices for securities quoted."[10]

In the same vein, Onosode (1981), during a Seminar on Management of Portfolio Investment observed among other things, that, the Nigerian Stock Exchange is too insensitive and obtuse to any form of information no matter how much it affects quoted companies. He went further to say that, "it is only the declaration of a dividend or the announcement of a scrip issue which bring prices tumbling down."[11]

The above mentioned criticisms not withstanding, the behaviour of the Nigerian Stock Exchange on price making may be said to be justified if considered from the fact that listed companies were mostly foreign owned before the indigenisation policy. Restriction of price movement therefore, is an attempt to trade at near actual, and not ficticious prices. However, the Stock Exchange should not be too rigid over its share price behaviour.

3.4.4 Effect of Religious Believes on Trading Volume of The Nigerian Stock Market.

The two predorminant religions in Nigeria (Islam and Christianity) preach against alcoholism and usury. Thus believers should not only abstain from alcohol but should discourage it totally. The Holy Bible says "wine is a mocker, strong drink is raging and whosoever is deceived thereby is not wise" (Proverbs 20:1)[12]; the Bible also says "Do not drink wine nor strong drink, thou nor thy

sons with thee, ...lest ye die: it shall be a statute for ever throughout your generations" (Leviticus 10:9).[12]

Similarly, the Holy Quran says "They askthee concerning wine and gambling, say: 'In then is great sin, and some profit for men; but the sin is greater than the profit'....." (Quran 2: 219).[13] It went further "Satan seeketh only to cast among you enmity and hatred by means of strong drink and games of chance, and to turn you from rememberance of Allah and from (His) worship. Will ye then have done (that is, will ye not then abstain)?" (Quran 5: 90-91).[13]

From the above, one can then understand why believers (especially fanatics) hold strongly against the production and consumption of alcohol. Thus no matter how lucrative and rewarding it may be to invest in brewery and distiller industries, they will refuse topurchase the share. A good illustration is the New Nigerian Development Corporation Limited,a conglomerate owned by the ten Northern States of Nigeria, has twelve subsidiaries and one hundred and two associate companies,it has investment in twenty quoted securities, but there is no single brewery industry in the portfolio.[14] It isn't that the brewery industry is performing below expectation, infact it is one of the best industries (see Table 3:1).

Thus not investing in those stocks is a question of religious sentimentality and investment irrationality.

In like manner, Islam and Christianity preach against Usury. The Holy Quran says "God will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked"

TABLE 3.1 Total Asset, Earning Before Taxes and Dividend Per Share of Quoted Brewery Companies in Nigeria (1976-1986)

YEAR/ITEMS	NIGERIAN BREWERIES LIMITED	GUINESS (NIG.) LTD.	GOLDEN GUINEA (NIG.)LTD.
1976			
TOTAL ASSET	48569	36,898	2853.2
EBT	13,942	13,889	1,008
DPS	2.1k	5k	-
1977			
TOTAL ASSET	53673	62,545	3,099.2
EBT	7,890	6479	1,124
DPS	3.0k	2k	-
1978			
TOTAL ASSET	69227	69,446	7,338
EBT	22,668	17,943	2,275
DPS	6.7k	3k	4.03k
1979			
TOTAL ASSET	77610	76,274	17,624
EBT	32,318	23,513	2,998
DPS	11.5k	9k	4.03k
1980			
TOTAL ASSET	99,744	81,017	20,404
EBT	40,304	21,434	1,864
DPS	14.4k	10k	4.13k

YEAR/ITEM	NIGERIAN BREWERIES LIMITED	GUINESS (NIG.) LTD.	GOLDEN GUINEA (NIG.)LTD.
1981			
TOTAL ASSET	103,596	106,192	24,052
EBT	38,532	36,186	6,044
DPS	16.9k	16k	10k
1982			
TOTAL ASSET	115,945	116,538	29,668
EBT	53,887	35,782	13,590
DPS	10.51k	8k	3.3k
1983			
TOTAL ASSET	135,773	129,228	42,472
EBT	95,652	54,724	11,693
DPS	17.23k	10k	7.5k
1984			
TOTAL ASSET	159,106	166,244	44,976
EBT	104,158	50,356	12,400
DPS	18,67k	8k	8k
1985			
TOTAL ASSET	161,869	180,242	46,918
EBT	41,566	68,439	11,355
DPS	9.16k	11k	8k
1986			
TOTAL ASSET	172,848	193,944	48.286
EBT	45,387	60,095	6,583
DPS	9.00k	10k	5k

(Quran Surah II, Verses 275 - 279).[13] Likewise the Holy Bible says "thou shalt not lend upon usury to thy brother, usury of money, usury of victuals, usury of anything that is lent upon usury" (Deuteronomy 23:19).[12] Islam says it is wrong to accept fixed interest rate on investment which is usury by definition. To the moslems, the notion of "fixed interest rate" is nothing but a prediction of the future which is considered as a challenge to the supremacy of the Almighty Allah.

Olayemi (1983) rightly concludes "we can see that religious doctrine being a function of cultural behaviour, is noticeably affecting stock market performance in Nigeria. A positive reaction from rich prospective clients to invest in both brewery industry and fixed interest rate securities will help largely to improve the volume of trading of the stock market in Nigeria."15

3.4.5 Extended Family Relationship System.

The tradition of the peoples of Nigeria and Africans in general belief in the extended family system. There is a practice especially among the Yorubas and the Ibos of alloting younger relations (no matter how distant) to their eleders to train. In the process of sharing the limited income among a chain of rleations and dependents, little or nothing is left for investment. Thus the stock exchange is being denied of prospective customers. Though fund might be available for investment, its provision for this might be so drastically reduced that its impact is

significantly noticeable.

3.4.6 Defective Market Information System.

It has been observed that there is insufficiency of market information for investment considerations in Nigeria.

Nwibani (1983) observed that "the usual thing in advanced economies where efficient capital market conditions exist is that free market forces are usually relied upon to determine rational prices for new securities. Unfortunately, the Nigerian Capital Market situation does not operate along such lines." Along the same line, Abdulai (1983) recommended that "steps need to be taken in addition to ensure that more knowledge is made available to shareholders (in Nigeria) about transaction by Directors in the quoted shares of their companies."

Onosode (1981) contends that "given the absence of official indices for the Nigerian Stock Market as a whole or for segments of it and the narrow limits within which even in equities stockbrokers are permitted to make prices: it is little wonder that the Nigerian Stock Market is hardly a market."

The absence of adequate and timely information is contributing negatively to the growth of Nigerian Capital Market since the potential and actual demand for investable securities is reduced.

3.4.7 Small-Size Number of Quoted Equity Shares.

At its inception in 1961, only eleven securities were listed by the Nigerian Stock Exchange. However, the effect of the Indigenisation Decree caused the number to increase to ninety three by the end of 1981. As of December, 1986, ninety-six securities were quoted on the Stock Exchange and 2 listed on the SSM. (See Appendix I)

It should be noted that all the ordinary shares purchased by the Federal Government of Nigeria during the Nigerian Enterprises Promotion Act of 1972 and 1977 were never brought back to the floor of the stock market for trading. Commenting on the scarcity of equity shares, Ighodaro says that investing in stock market is so lucrative in Nigeria that an investor may never lose, but unfortunately "you cannot get the shares to buy because so few are offered at the official price and it is illegal to trade in shares off the exchange."

The scarcity of ordinary shares is one of the major factors that discourages even the enlightened investors from selling their shares once they have bought some in their portfolio. It was Alile's prayers (when he confirmed the investors' buy-and-keep attitude) that "he would like to see as much speculative activity as possible." Improved trading can be accomplished through speculative activities.

3.4.8 Adverse Role of Quoted Company Registrars.

An important function is performed by share registrars in the share acquisition/transfer process for it is they who give it the final effect through the entry into the company's share register and issue the relevant certificate. There are eighteen Registrars in Nigerian as at December 1986, most of them based in Lagos. All matters requiring registrars' attention have to be forwarded to Lagos. (See Appendix IV).

Experience has proved that some clients purchased shares for more than one year before their share certificates were delivered to them, and even in some cases, such certificates were never delivered. In some cases too, Director and Secretary of the respective company who are supposed to sign the certificate before delivery to shareholders are not available, such share certificates without signatures are invalid and cannot represent negotiable documents.

Needless to talk about the importance of prompt delivery of share certificates to investors, investors also appreciate receiving dividend warrants as evidence of returns on investment. Thus the roles played by Company registrars cannot be overemphasised and where these roles are neglected, investors' loyalty wane and an effective stock market becomes unrealistic.

3.4.9 Discriminatory Acceptability of Share Certificates As Collaterals for Loan.

It is very common for Nigerian borrowers to default on loans granted. As such more stringent measures to safeguard increasing bad-debts are employed among which is potential borrowers being made to deposit equitable collaterals before loans can be granted. Among these acceptable collaterals is company share certificates (especially quoted companies on the Nigerian Stock Exchange).

However, some lenders refuse to accept share certificates as collaterals because some of them discovered that in case of default, such shares cannot be sold to recover their money. Borrowers have been known to have given their consent that their shares be confisticated and sold to recover loans taken, but when the period comes, they rush down to the company registrars to deny any such arrangement. Thus lenders have become increasingly discriminatory about accepting share certificates as collaterals. This discourages investors from buying shares since they feel such certificates are not tenable as any other form of assets as collateral.

3.4.10 Large-Scale Investment Opportunities in Nigeria.

Ample investment opportunities is abound in Nigeria. Such investment opportunities provide immediate returns and little risk. Anticipating profit generation is a vital factor for ascertaining viability of a project.

The idea of using expected returns to forecast which project to accept or reject is a prediction based on probability. But the probability of attaining a given return on say distribution of flour and beer may be higher than that of receiving a predicted return on stock market transaction. Most Nigerians are risk averters and by implication there are several profitable businesses they can engage in without necessarily keeping records of turnovers nor paying taxes on profits talk less of speculating on stocks.

Selling fast moving commodities as well as indulging in services for quick returns are rampant. Such commodities as Semovita, flour, beer, motor-parts, etc., as well as services such as transport service, travel agency and so on, satisfy Nigerian investors more than stock speculations. One must not forget that such transactions are also backed by generous "kick-backs." It is then correct to conclude that availability of ample investment opportunities with quick and high returns will go a long way to reduce funds that would otherwise have been invested in the stock market.

In onclusion, all the aforementioned factors affect and determine the stock price behaviour on the floor of the Exchange. It is however assumed for the purpose of this study, that these factors have very little impact. Furthermore, the writer assumes two variables (corporate performance and dividend policy) as the major determinants of stock

price behaviour. It is along this line that the present chapter attempts to assess the impact of the two variables on share price behaviour on the Nigerian Stock Exchange.

14. Osaze B.E., "Readings and Cases In Nigerian Corporate Policy and Strategy" being a Manuscript for Classroom Use, A.B.U. Press, Zaria pp.33-36.

15. Olayemi S. B. (1983) "Corporate Performance, Dividend Policy and Share Price Behaviour in Nigeria." op. cit. pp.99.

CHAPTER FOUR

ANALYSIS OF DATA

This chapter begins with the analyses of the Earnings After Tax, Dividends Per Share and Earnings per share of the twenty randomly selected companies between 1976 and 1986 (Table 4.1). The results of the questionnaire (Appendix V) is also analysed. As previously stated, the questionaire is administered to stockbrokers who are the direct link between the buyers and sellers of stocks. All the respondents have more than one year trading experience. Additionally, they often receive instructions from their clients as to which stocks to trade in on their clients' behalf.

4.1 The Influence of Dividend Payout On Share Prices.

There are evidences to prove that the dividend policy of a firm will certainly influence the price of its commonstock on the floor of the exchange in Nigeria. The effect of dividend announcement on share price behaviour in Nigeria is felt in the way in which investors react to such announcements.

Data collected from the sample companies show that whenever dividend is declared or scrip issued, share prices respond accordingly.

The effect of dividend announcement on share price behaviour on the short run can be infered from the following:

> "Guiness' security price went down by 31 points for being marked ex-dividend and ex-scrip. The company is declaring a final dividend of 2.13k this bringing the total dividend paid for its 1985 Financial Year to 15.13k. On the other hand, because holders of SCOA shares are anticipating a dividend, its price moved a positive six points"[1]

It is important to note that drop in share prices have positive effect on the securities concerned since their prices may appreciate with ease in no time as a sympathy of their generosity to declare dividend or scrip. For example there was an extract which explains that "TEXACO rose by 3k at the close of business on Friday to 137k as brokers reacted to the bonus issue of one-for-one share to be paid by the company."[2] Another report says "Lennards would have closed the week without a change in quotation but for the news about its success in 1980 which reached the market on Friday, so it gained 2k."[3] This was in sympathy with Lennards' effort to declare a dividend of 5.7k per 20k par value ordinary share and also announce a scrip issue of 1.4. Subsequently, it was later reported that "during the next week, Lennards share price went up by another one Kobo with

a deal of 500 units"[4] Yet another example is Sterling Products when its stock price "went down by 25.6k to 91k after the deduction of the dividend being declared by the company. It however gained 3 points same day to close at 94k."[5]

Reflecting on the few examples above, one can see the extent to which declaration of dividend can influence share price movement. As depicted in table 4.1, hardly can any company operate for one accounting year without declaring dividend to its shareholders. Under this table also, it is observed that the amount of dividend declared does not have to correspond with the increase in profit in the preceding financial year. Take for example, Sterling Products with a profit after tax of ₦1,380,000 and Dividend Per Share of 1.1k in 1977 as compared to a Profit After Tax of ₦1,531,000 and Dividend Per Share of 14.7k in 1978.

Additionally, some companies prefer to declare higher dividends even though they experienced a decline in profit, for example. G. Cappa in 1982 declared a dividend per share of 4.86k with an Earning After Tax of ₦2,477.000 as compared to 1983 when they declared a dividend per share of 14.86k with an Earning After Tax of ₦2,293,000.

TABLE 4 : 1 EARNINGS AFTER TAXES (EAT), DIVIDENDS PER SHARE (DPS) AND EARNINGS PER SHARE (EPS) OF TWENTY RANDOMLY SELECTED QUOTED COMPANIES (1976 - 1986).

	(1) CADBURY NIGERIA LIMITED			(2) CHRISTLIEB LTD.		
YEAR	EAT(,000)	DPS	EPS	EAT(,000)	DPS	EPS
1976	1445	8.25k	25.6k	632	6.7k	21.1k
1977	2082	6.19	27.5	1358	5.5	45.3
1978	3339	12.0	25.6	1087	9.0	24.2
1979	5115	20.0	41.1	933	5.0	20.7
1980	4887	17.5	29.4	2066	10.0	45.91
1981	5401	17.5	32.5	500	3.25	8.33
1982	5542	11.8	25.0	1004	7.5	16.7
1983	5683	12.1	20.2	1082	5.0	12.3
1984	8164	17.3	29.0	1851	9.0	20.60
1985	9524	20.3	33.8	3426	14.0	38.07
1986	7852	15.0	27.9	1926	5.0	21.40

(3) DUNLOP NIGERIA LIMITED				(4) FIRST BANK NIGERIA LIMITED		
YEAR	EAT(,000)	DPS	EPS	EAT(,000)	DPS	EPS
1976	1971	4.71k	9.39k	8617	4.4k	19.6k
1977	795	4.71	3.79	11,086	5.2	25.2
1978	1242	2.93	5.91	17,015	6.3	38.7
1979	2440	3.0	6.09	20,606	13.5	46.8
1980	6947	3.33	5.32	21,166	18.9	48.1
1981	(10582)	-	(27.7)	28,402	18.0	46.5
1982	(9951)	-	(29.94)	25,233	18.0	37.6
1983	916	-	16.0	29,850	18.0	45.1
1984	12701	10.0	13.0	29,144	15.0	43.6
1985	14249	15.0	19.0	53,404	18.0	83.3
1986	10338	15.0	17.0	N.A.	N.A.	N.A.

(5) G. CAPPA LTD.				(6) GUINESS NIGERIA LIMITED		
YEAR	EAT(,000)	DPS	EPS	EAT (,000)	DPS	EPS
1976	1269	16.5k	12.35k	5967	9.0k	3.57k
1977	1306	16.5	7.76	5869	2.0	8.0
1978	892	4.0	19.15	10459	3.0	14.0
1979	10	-	1	13256	9.0	18.0
1980	1997	9.14	19.97	12484	10.0	17.0
1981	1005	6.0	10.06	20402	16.0	27.0
1982	2477	4.86	24.7	26101	8.0	13.0
1983	2293	14.86	24.94	31724	10.0	16.0
1984	1697	13.71	16.97	26978	8.0	13.0
1985	258	10.17	2.58	37839	11.0	19.0
1986	757	4.5	7.57	33800	10.0	17.0

	(7) INDUSTRIAL GASES LIMITED			(8) LENNARDS NIGERIA LIMITED		
YEAR	EAT (,000)	DPS	EPS	EAT(000)	DPS	EPS
1976	1187	1.0k	18.0k	583	1.1k	7.2k
1977	1060	2.0	16.0	709	1.1	8.8
1978	872	8.0	13.0	, 561	1.3	6.9
1979	652	4.0	6.0	790	4.0	9.8
1980	(1493)	-	-	803	5.8	9.9
1981	2367	12.0	22.0	27	-	0.3
1982	1825	10.0	16.85	(288)	-	-
1983	1465	o.0	13.53	430	-	2.8
1984	1276	7.0	11.78	682	3.0	4.5
1985	2356	13.0	21.74	1065	-	7.0
1986	2456	13.56	22.67	545	2.0	3.6

	(9) LEVER BROTHERS NIG. LTD.			(10) MOBILE OIL NIG. LTD.		
YEAR	EAT(000)	DPS	EPS	EAT(000)	DPS	EPS
1976	8231	3.52k	12.91k	8738	42.5k	19.0k
1977	8510	1.88	11.78	9420	78.14	20.0
1978	12597	8.72	17.44	17158	6.0	37.0
1979	10149	11.03	14.05	18788	1.5	40.0
1980	7081	5.88	9.80	14862	9.0	32.0
1981	11535	9.57	15.97	16240	14.0	23.0
1982	11836	9.83	16.38	19319	16.65	16.65
1983	8554	7.10	11.84	13870	7.17	11.96
1984	14280	8.20	13.67	26073	13.49	22.48
1985	24255	13.93	23.21	28019	14.49	21.83
1986	34360	19.73	32.88	16442	8.50	14.18

(11) NIGERIAN BREWERIES LIMITED				(12) NIGERIAN BOTTLING COMPANY		
YEAR	EAT(000)	DPS	EPS	EAT(000)	DPS	EPS.
1976	7892	2.1k	10.8k	4704	10.22k	16.5k
1977	5279	3.0	5.8	7133	8.25	25.04
1978	12868	6.7	14.1	3726	7.78	12.95
1979	17818	11.5	19.5	8679	10.0	17.57
1980	22304	14.4	24.4	7818	15.0	26.55
1981	25756	16.9	28.1	12127	13.0	24.53
1982	30387	15.8	26.6	17038	9.56	19.67
1983	49402	25.9	43.2	24241	13.50	27.68
1984	55358	28.0	48.4	27538	15.0	31.59
1985	26544	9.16	15.47	24656	15.0	28.95
1986	27567	9.60	16.07	27879	20.0	34.75

	(13) NIGERIAN TOBACCO COMPANY LTD.			(14) WEST AFRICAN PORTLAND CEMENT (WAPCO)		
YEAR	EAT(000)	DPS	EPS	EAT(000)	DPS	EPS
1976	4133	7.7k	11.1k	4656	5.4k	12.9k
1977	3465	6.5	9.2	7902	4.9	12.9
1978	7373	10.0	19.7	9252	6.7	13.0
1979	11187	14.0	29.8	10279	7.2	14.4
1980	6160	10.0	12.3	10517	7.2	14.8
1981	5709	6.8	11.4	10110	5.09	9.76
1982	1828	-	3.7	9971	5.27	9.82
1983	5481	6.5	11.0	12648	6.50	13.19
1984	8730	10.0	17.5	16031	7.01	17.36
1985	13845	16.5	27.7	20729	9.00	22.83
1986	17248	20.0	34.5	26326	11.50	29.10

(15) STERLING PRODUCTS (NIG.) LTD.				(16) TAYLOR WOODROW LIMITED.		
YEAR	EAT(000)	DPS	EPS	EAT (000)	DPS	EPS
1976	1207	8.2k	23.2k	1578	2.75k	21.9k
1977	1380	1.1	28.5	1551	2.8	21.5
1978	1531	14.7	29.4	749	3.9	11.8
1979	1854	21.4	35.7	652	3.6	6.0
1980	2417	27.8	46.5	637	3.5	5.9
1981	2265	26.1	43.6	2374	12.75	22.0
1982	2233	25.8	21.5	1809	7.5	12.6
1983	2829	16.3	27.2	511	1.5	3.5
1984	4041	19.4	38.9	(5211)	-	-
1985	5850	33.7	56.2	(3258)	-	-
1986	5158	29.0	49.6	(7384)	-	-

(17) TEXACO (NIG.) LTD.

YEAR	EAT(000)	DPS	EPS
1976	3492	1.84k	12.83k
1977	2399	2.22	8.82
1978	4373	8.04	16.07
1979	8277	18.25	30.42
1980	13034	28.73	47.90
198_1	13216	29.14	48.56
198_2	13348	29.43	49.05
1983	14455	12.81	21.35
1984	14932	13.23	22.05
1985	11418	10.12	16.86
1986	5313	4.69	7.81

(18) UNION BANK (NIG.) LTD.

EAT (000)	DPS	EPS
10310	7.9k	28.0k
19182	7.9	53.0
8621	9.5	24.0
13547	12.5	37.0
20788	18.0	57.0
29801	18.0	82.0
32623	15.0	60.0
30611	15.0	56.0
28751	13.0	53.0
41550	15.0	76.0
53849	16.0	99.0

	(19) UNITED NIGERIAN TEXTILE LTD.			(20) VONO PRODUCTS (NIG.) LTD.		
YEAR	EAT (000)	DPS	EPS	EAT (000)	DPS	EPS
1976	8675	8.25k	14.4k	1544	4.7k	17.0k
1977	1305	10.0	2.7	1825	5.20	40.3
1978	5168	5.0	13.12	1294	3.10	14.3
1979	5934	10.0	15.27	98	0.5	1.10
1980	2680	4.5	7.0	139	1.50	1.50
1981	2441	3.5	6.48	344	5.8	3.5
1982	1006	3.5	4.0	324	2.1	3.6
1983	175	2.5	2.35	(726)	-	(8.0)
1984	6627	6.25	16.04	369	2.4	4.1
1985	N.A	N.A.	N.A	12	-	(0.8)
1986	N.A.	N.A.	N.A.	521	2.7	4.5

SOURCE: COMPANIES ANNUAL REPORTS, 1976 - 1986.

When the respondents to the questionnaire were asked what they feel the reactions of existing shareholders or prospective investors will be towards a firm with varying levels of dividend payout policy, they responded thus:

Table 4.2

REACTIONS TO VARIED LEVELS OF DIVIDEND PAYOUT.

(I) Stable Dividend Payout Policy:

	Responses (%)
Positive	100
Negative	-
Indifference	-

(II) Fluctuating Dividend Payout Policy:

	Responses (%)
Positive	20
Negative	30
Indifference	50

(III) No-Dividend Payout Policy:

	Responses (%)
Positive	-
Negative	90
Indifference	10

The above table shows that all shareholders as well as prospective investors react positively towards a firm with a stable dividend payout policy.

One half of the respondents are indifferent towards a fluctuating dividend payout policy, thirty percent have negative attitude while twenty percent have positive attitude towards it. When asked about investors' reaction to no dividend payout policy, ninety percent of the respondents feel negatively inclined. The remaining ten percent are indifferent since they would rather prefer capital gain resulting from retained earnings.

The implication of these findings explains the pattern of dividend per share in table 4.1 in which all firms tend to adopt consistent dividend payout.

Therefore, from the historical data available as well as responses in table 4.2, one can conclude that dividend policy of a firm has a major influence on its share prices. As such companies do not just pay dividends but are eager to impress existing shareholders as well as prospective investors by consistent dividend payout.

4.2 Measurement of Investment Preference: A Case of Dividend Policy Versus Corporate Performance.

Dividend policy and corporate performance play very vital role in the determination of share prices in the secondary market in Nigeria. A company whose end of year earnings is constant or higher than previous year performance may be awarded price increase as opposed

to another company on the decline. Similarly, a firm that pays dividend or announces issues of scrips may most likely experience positive reactions to its shares as opposed to a company which though recorded a good performance, did not make any dividend payment or bonus share distribution. This section of the project attempts to show which of the two factors is considered more important by existing shareholders and prospective investors.

To ascertain the above, our respondents were asked what particular factor(s) influenced shareholders or prospective investors most? The result is put in a table form below.

Table 4.3

Measurement of Determinants of Investment Preference.

	POSITION AND RANKING (%)					
	1ST	2ND	3RD	4TH	5TH	6TH
1. Dividend declared	100	-	-	-	-	-
2. Sentiments e.g. religious, social etc.	-	-	-	-	40	60
3. Corporate Performance	-	90	10	-	-	-
4. Government Restrictions	-	-	-	40	40	20
5. Managerial Composition	-	-	50	50	-	-
6. Others(Please Specify).	-	10	40	10	20	20

From table 4.3, the most important factor is the dividend declared. All the respondents rank it in the first position. Furthermore, apart from being the only factor with a one hundred percent score, it, more importantly, maintained the first position all through the table. Ranked next is corporate performance with ninety percent of the respondents ranking it in the Second Position and ten percent ranking it in the third position. It is also interesting to note that, all the respondents that ranked dividend as first also ranked corporate performance as second place. The implication of this is that all respondents acknowledge dividend declared as more influential than corporate performance.

Other factors (in their order of importance) include, Managerial Compsition, Name, Size and and popularity of the company, Government restrictions and sentimental reasons e.g. religion.

In order to firmly establish the superiority of dividend policy over corporate performance in share price behaviour, our respondents were questioned about the reaction of existing shareholders or prospective investors towards firms with high corporate performance but low or no dividend payout; and secondly, a firm with low corporate performance but with high or stable dividend payout. The result is shown in the table below:

TABLE 4.4

MEASUREMENT OF THE SUPERIORITY OF DIVIDEND OVER CORPORATE PERFORMANCE.

(I) High Corporate Performance but low or no-dividend payout:

	Responses (%)
Positive	10
Negative	80
Indifference	10

This table shows that shareholders as well as investors do not regard corporate performance as important as dividend payout. Thus, no matter the amount of earnings generated by the firm, once dividend is not declared, reaction becomes negative.

(II) Low Corporate Performance but high or Stable dividend Payout:

	Responses (%)
Positive	100
Negative	-
Indifference	-

This table further reiterates what table 4.4(I) illustrates. In as much as dividend is declared annualy or periodically, Nigerian shareholders and investors are least bothered about

the performance of the firm.

The implication of the above findings is that dividend payments become prominent and popular with Nigerian Companies even when their performance is very low.

4.3. Effect of Stock Price Regulation By Nigerian Securities and Exchange Commission.

Section 6(1) of the Securities and Exchange Commission Decree of 1979 with effect from April 1978 stipulates the function of the NSEC as "determining the amount of, and time at which securities of a company are to be sold to the public either through offer for sale or subscription."

In addition, Section 7 of the Decree prohibits any "enterprise in which aliens participate whether constituted as a public or private limited or unlimited company or partnership" from issuing or selling securities without obtaining the prior approval of the Commission with respect to price, timing and amount of sale."[5]

These functions as well as several others serve to regulate (directly or indirectly) prices of shares on the Stock Exchange.

To measure the effect of price regulation, our respondents were asked whether or not they support the role played by NSEC in regulating stock prices. They all responded in the affirmative. Further, they were questioned on the extent to which this role hampers the effect of factors such as dividend policy on free market determination of quoted securities, and the result is shown below:-

Table 4.5.

Measurement of Reactions to Stock Price Regulation By NSEC.

Extent of Effect.	Reactions (%)
1. Very significant extent	-
2. Significant extent	30
3. Fairly Significant extent	20
4. No Significant extent	50

Table 4.5 shows a split in opinions. Majority of respondents interviewed by the researcher verbally confirmed their positions on the issue. Those who believe the effect to be of significant extent maintain that NSEC should be checked so as not to overplay this role. Those who belief that the effect is of no significant extent maintain that similar role is being performed in Stock Exchanges the World over and they see NSEC as performing this role very well.

4.4. Summary of Findings

1. From our study, the rich-literate constitute about 70% of investors in company securities in Nigeria. This is followed by institutional investors with about 12%.

2. The most important factor that influences shareholders as well as prospective investors in their bid to invest in company securities is dividend policy. This is followed by the Corporate Performance of such a firm.

3. Where an investor is to chose between dividend declared and corporate performance of a firm, he/she will prefer dividend. There are many other determinants beside corporate performance and dividend policy which affect share price behaviour, but the above mentioned ones are most important.

4. A shareholder or a prospective investor prefers a stable dividend payout policy to a fluctuating or no-dividend payout policy.

5. The role of the Nigerian Securities and Exchange Commission in regulating prices on the Stock Exchange is desirable.

Footnotes

1 - 5 Business Times "Stock Market Report"

February 10, 1986 Page 21

December 17, 1981 Page 21

November 4, 1980, Page 29

January 15, 1981, Page 17

May 14, 1984, Page 22

6. ANAO A. R. and ALILE H. I. (1986)" The Nigerian Stock Market in Operation"

Jeromelaiho and Associates Ltd. pp.41.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion.

This paper believes that dividend payment is a more attractive bait for stimulating investment decisions in Nigeria. It is unusual for shareholders to reject dividend declared in favour of capital gains nor will they advocate for a reduction in the level of dividend declared despite the tax advantag . A great number of Nigerian Investors count their benefits on the basis of what they actually receive in form of dividends and not the earnings of their investment holdings.

It is therefore the strong view of this project that Nigerian investors watch carefully for firms with consistent dividends and invest in them accordingly. Likewise, shareholders persistently insist on declaration of dividends since as Kirshman (1933) puts it "a bird in-the-hand worths two in the bush." It is also the contention of this paper, that the level of financial sophistication of Nigerian investors is fast increasing, as such, the degree of influence that the dividend policy has on the value of firms will gradually give way to other factors such as capital gain.

However, for now, dividend still remains the dominant factor in the determination of share prices and consequently, the determination of the value of firms in Nigeria.

5.2 Recommendations.

A substantial part of this project dwells on the Nigerian Stock Market and factors influencing share price behaviour in the Stock Exchange. Some of our recommendations will therefore be directed towards means of improving the market. Further, the issue of dividend is examined and recommendation made on how best it can be handled. The following are the recommendations:-

1. In order to make more shares available in the market for the benefit of potential investors in Nigeria, the Federal Government should recycle her shareholdings in quoted companies which ranges between 40% and 60% arising from the Nigerian Enterprises Promotion Acts (1972 and 1977). Further, the government can encourage Nigerians as well as foreigners to invest in quoted securities through constant review of both monetary and fiscal policies.

2. The Federal as well as the State Governments should channel the Privatisation Policy through the Nigerian Stock Market. This will help to allay the fears of dominance of some sensitive establishments by powerful individuals as well as largely increase the size of securities quoted on the Stock Exchange.

3. Our study has revealed that majority of investors in stocks are the rich-literates as well as institutional investors. It is obvious that the rich-illitrates (who own quite a substantial amount of wealth) are not adequately informed about the operations of the Stock Exchange Market. Therefore, there is a need for a general enlightenment programme to educate Nigerians (especially the illitrates) about the roles and responsibilities, as well as the benefits that can accrue to them by patronising the Stock Market. Such a campaign could be best accomplished through television and radio programmes translated into the local languages.

4. The role of the share registrars in the share acquisition/transfer process and consequently in the improvement of stock market activities is enormous. They should be persuaded to act more promptly in confirming signatures on share certificates rather than delaying them for months. In this direction, it is recommended

that the Nigerian Securities and Exchange Commission should establish a monitoring unit to check the activities of the registrars, and those not living up to expectation should be purnished accordingly. Further, there are seventeen registrars to ninety seven quoted companies. This is a ratio of one registrar to six companies. In addition, it is interesting to know that three share registrars (First Bank, Union Bank and United Bank for Africa) are registrars to about 70% of the total number of firms, that is, 67 of the 97 firms listed on the Stock Exchange (see appendix IV). It is therefore recommended that quoted companies should be rationed out among share registrars and each registrar compelled to run a branch office in each of the town of all trading floor namely, Lagos, Kaduna and Port-Harcourt.

5. Financial Institutions should be persuaded to recognise share certificates as collaterals for loans. Special legal arrangements can be made which will unequivocally commit a prospective borrower to the agreement reached concerning the position of a share certificate pledged as collateral. This will persuade investors to put more money into quoted securities.

6. The project has successfully established the importance of dividend to a Nigerian shareholder or a prospective investor. As such, it will be desirable if the Federal Government can relax some restrictions that seriously affect the dividend policy of firms. Firstly, this gesture will encourage more people to invest in quoted companies and increase the trade volume of the Nigerian Stock Market. Secondly, consistently high dividend payout could be a clear corporate signal for saturation of growth opportunities in the particular industry. By releasing funds through dividends therefore, shareholders can re-invest the funds in industries that provide opportunities for future expansion. Finally, dividend restriction has the in-built potential for unifying dividend rates of firms. This has the dangerous potential for blunting investment decisions particularly those based on dividend payout rates by firms. Management should therefore be given a free hand to determine what percentage of earned income should be paid as dividend.

B I B L I O G R A P H Y

1. ABDULLAHI, M. I. (1983) "Investment Behaviour of Life Insurance Companies in Nigeria". being an MBA Project Submitted to A.B.U., Zaria.

2. ANAO A. R. (1970) "Accounting Data and the Pricing of Equity Issues in a New Issue." Unpublished M.A.(Econs) Thesis, University of Manchester.

3. ALILE H. I. and ANAO A.R. (1986) "The Nigerian Stock Market in Operation." Jeromelaiho and Associates Ltd.

4. BALL R. and BROWN P. (1978) "An Empirical Evaluation of Accounting Income Numbers", in Lorie and Brealey (ed.)

5. EDWIN J. ELTON and MARTINS J. GRUBER (1981) Modern Portfolio Theory and Investment Analysis. John Wiley and Sons New York.

6. EZRA SOLLMON (1963) "The Theory of Financial Management" New York, Columbia University Press.

7. GITMAN L. T. "Principles of Managerial Finance" Harper International Edition.

8. GRAHAM B., DODD D. and COTTLE S. (1962) "Security Analysis Principles and Techniques." 4th Edition, New York McGraw-Hill.

9. GRAHAM B., DODD D. and COTTLE S. (1972) "Security Performance and Capital Market Efficiency" Journal of Finance, December 1972.

10. GORDON, M. J. (1962) "The Investment, Financing and Valuation of the Corporation" R. D. Irwin Inc.

11. HARRY MARKOWITZ (1952) "Portfolio Selection" Journal of Finance, March 1952.

12. JAHNKE W. W. (1975) "What's Behind Stock Prices?" Financial Analysts Journal, September - October 1975.

13. JAMES C. VAN HORNE (1980), "Financial Management and Policy" Pentice - Hill Inc. Englewood Cliffs New Jersey.

14. JOHN A. BRITTAIN (1966) "Corporate Dividend Policy" Washington D. C., Brookings Institution.

15. KIRSHMAN JOHN (1963) "Principles of Investment" New York, McGraw-Hill, Inc.

16. LORIES J. H. and HAMILTON M.T. (1973) "The Stock Market: Theories and Evidence" Irwin, Illinois.

17. MILLER M. H. and MODIGLIANI F. (1961) "Dividend Policy, Growth and the Valuation of Shares." Journal of Business Vol.34 October 1961.

18. MODIGLIANI F. and MILLER M. (1978) "Dividend Policy, Growth and Valuation of Shares." in Lorie and Brealey.

19. OKIGBO P.N.C. (1981) "Nigerian Financial System, Structure and Growth" Longman Group Essex.

20. OLAYEMI S. B. (1983) "Corporate Performance, Dividend Policy and Share Price Behaviour in Nigeria." being an MBA Project, A.B.U., Zaria.

21. OSAZE B. E. "Readings and Cases In Nigerian Corporate Policy and Strategy" being a manuscript for Classroom use, A.B.U. Press, Zaria.

22. PANDEY I. M. (1981) "Financial Management" Second Edition, Vikas Publishing Limited.

23. RAPHAEL BING (1977) "Survey of Practitioners' Stock Evaluation Methods." Financial Analysts Journal, 27, No. 3 May/June 1971.

24. ROBERT S. JOHNSON (1976) "Financial Management" Allyn and Bacon, Inc. Boston.

25. SHARPE W. F. (1963) "A Simplified Model,for Portfolio Analysis", Management Sciences Vol. 9 January 1963.

26. SHARPE W. F. (1971) "A Linear Programming Approximation For the General Portfolio Analysis Problem" Working Paper, No.19, Standard Graduate School of Business January 1971.

27. WALTER S. GOFF (1975) "Finance For Managers" Macdonald and Evans Ltd.

28. WALTER JAMES (1963) "Dividend Policy: Its Influence on the Value of the Enterprise" Journal of Finance Vol. 1B, May 1963.

29. WESTON F. J. and BRIGHAM E.F. (1981), "Management Finance" Holt-Saunders, Dryden Press, Seventh Edition.

30. WHITBECK V., and KISOR M. (1978) "A New Tool in Investment Decision-Making" in Lorie and Brealey.

31. WILLIAMS J. B. (1978) "Evaluation by the Rule of Present Worth," in Lorie and Brealey (ed): Modern Developments in Investment Management,Dryden Press.

APPENDIX I

EQUITIES

(ORDINARY SHARES)

ORDINARY SHARE	PAR VALUE (k)	QUOTATION (k)	BUSINESS DONE PRICE/DATE	BUSINESS DONE QUANTITY	52 MONTHS POS. (k) HIGH	52 MONTHS POS. (k) LOW	WHEN LAST EX-DIV	DIVIDENDS PAYMENT DATE	DIVIDENDS INTERIM	DIVIDENDS TOTAL (k)	EARNINGS PER SHARE (k)	PRICE EARNING RATIO
AUTOMOBILE & TYRE												
Benue (Nig.)	50	18	18(10. 5.86)	50	18	16	9. 6.81	2. 7.81	-	1.5	(0.1)	-
Dunlop (Nig.)	50	145 +	145(15. 5.86)	874	166	135	11. 3.86	30. 4.86	-	15.0	23.5	2.3
Ucar (Nig.)	50	10	40(17. 5.86)	1,650	40	40	1. 9.82	5.11.82	3.0	7.0	2.11	-
Intra Motors	50	45 +	45(11. 5.86)	500	45	45	7.11.85	20.12.85	-	4.0	7.4	6.1
Leventis Motors	50	53 -	53(20. 5.86)	695	53	45	17. 9.85	27.11.85	-	4.0	12.1	4.0
P. T. Briscoe	50	54 +	54(20. 5.86)	2,316	54	43	22.11.81	[illegible]	-	3.5	8.6	6.2
BANKING												
First Bank	100	250 +	248(15. 5.86)	500	250	211	14. 3.86	21. 4.86	5.0	10.0	78.8	3.2
Mercantile Bank	100	42	42(1. 4.86)	200	42	42	-	-	-	-	-	-
Savannah Bank	50	97	97(20. 5.86)	6,378	97	94	-	-	-	-	18.7	5.2
U B A	100	292 +	292(2.. 5.86)	881	292	266	19.12.85	31.12.85	4.4	-	28	3.7
Union Bank	100	272 +	272(19. 5.86)	350	272	234	8. 1.86	30. 1.86	6	15.0	76.0	3.6
BREWERIES												
Crods Riker Grou.	50	50	50(29. 4.86)	1,000	55	50	3. 8.84	31.10.84	-	6.5	3.1	-
Golden Guinea	50	95 +	95(20. 5.86)	787	99	89	26. 7.85	2. 9.85	-	8.0	21.5	4.4
Guiness (Nig.)	50	106	106(20. 5.86)	292	123	92	7. 2.86	31. 3.86	-	15.12	18.0	5.6
Nig. Bre[illegible]ies	50	135	136(19. 5.86)	1,630	136	131	10.12.85	27.12.85	7.0	-	23.2	5.7
BUILDING MATERIALS												
Nigercem	200	128	160(21. 7.81)	2,000	N/A	N/A	10.10.77	27.11.77	-	8.2	N/A	-
Nig. Ropes	50	62 +	60(5.86)	450	62	48	24. 5.85	2. 7.84	-	4.0	25.6	2.4
Nig. Wire	50	64 +	65(17. 3.86)	200	70	64	27.10.78	19.11.78	-	1.6	11.0	4.0
WAPCO	50	76	76(16. 5.86)	350	76	70	7. 6.85	19. 7.85	-	7.5	20.4	3.7
CHEMICAL & PAINTS												
Berger Paints	50	65 +	65(16. 5.86)	783	107	63	6. 5.86	11. 6.86	-	11.5	12.9	5.0
Chemical & Allied	50	157 +	157(20. 5.86)	733	157	113	24. 1.86	13. 3.86	-	20	52.6	2.9
Hegemeyer	50	72 +	72(12. 5.86)	166	72	72	15. 5.85	21. 6.85	-	6.5	15.9	6.0
Inter. Paints	50	54 +	54(15. 5.86)	300	54	54	4. 7.85	30. 8.85	-	5.1	8.5	6.4
Nig. Hoechst	50	71 + XD	71(16. 5.86)	300	75	70	16. 5.86	7. 7.86	-	4.0	11.1	6.4
COMMERCIAL												
Berec Inter.	50	47 +	47(1[illegible]. 4.86)	140	47	46	22.10.85	27.11.85	-	2.5	6.8	6.9
K. Chellarams	50	53 +	53(14. 5.86)	515	53	50	1.11.85	20.12.85	-	4.0	13.2	4.0
J. L. Morison	50	27 +	27(22 4.86)	100	27	27	14. 9.80	14.10.80	-	5.5	(10.7)	-
COMPUTER & OFFICE EQUIPMENT												
NCR (Nig.)	50	134 +	124(15. 5.86)	1,200	134	115	6. 6.85	19. 7.85	-	18.9	47.2	2.8
Thomas Wyatt	50	137 +	137(15. 5.86)	450	137	111	26. 3.86	18. 4.86	5	-	51.0	2.7
Wiggins Teape	50	127 +	127(14. 5.86)	400	127	104	31.12.85	21. 3.86	-	28	47.0	2.7
CONGLOMERATES												
A. G. Leventis	50	55 +	55(9. 5.86)	249	55	54	17. 9.85	8.11.85	-	6.0	10.4	5.3
C F A O	50	159 + XD	159(20. 5.86)	484	171	117	16. 5.86	19. 6.86	5.0	18.0	59.0	2.7
John Holt	50	137 +	137(16. 5.86)	350	150	122	24. 3.86	30. 4.86	-	18.0	33.6	4.1
S C O A	50	115	115(20. 5.86)	100	123	93	1. 4.86	20. 5.86	4.0	11.8	21.7	5.1
U A C N	50	83 +	83(20. 5.86)	2,563	85	72	15. 4.86	26. 5.86	4.0	7.75	13.0	6.4
U T C	50	70 +	70(20. 5.86)	200	70	70	30. 9.85	18.11.85	-	6.1	10.5	6.7

ORDINARY STOCK	PAR VALUE (k)	QUOTATION (k)	BUSINESS DONE		12 MONTHS POS. (k)		WHEN LAST EX-DIV	DIVIDENDS			EARNINGS PER SHARE (k)	PRICE EARNING RATIO
			PRICE/DATE	QUANTITY	HIGH	LOW		PAYMENT DATE	INTERIM	TOTAL (k)		
CONSTRUCTION												
Arbico	50	25 +	25(5. 5.86)	400	25	25	14.11.83	12.12.83	-	5.0	-	-
Cappa & D'Alberto	50	47 -	47(14. 2.86)	450	47	47	17.10.84	13.12.84	-	3.0	1.5	-
Costain	50	34 -	34(19. 5.86)	1,000	42	34	7.12.84	14. 1.85	1.0	+	-	-
Dunlop	50	44 -	44(14. 5.86)	750	44	44	2.10.85	16.12.85	-	2.0	5.5	8.0
G.R.Cappa	50	50 +	50(24. 4.86)	200	50	50	11.10.84	14.11.84	-	10.17	1.2	-
Julius Berger	50	54 +	54(16. 5.86)	300	54	54	2. 7.85	1. 8.85	-	6.0	10.7	5.0
Roads Nig.	50	25 +	25(13. 5.86)	1,500	25	25	7.10.83	10.11.83	-	5.0	(15.7)	-
Taylor Woodrow	50	38 -	38(21. 4.86)	500	40	38	6. 6.84	11. 8.84	-	1.5	4	9.5
COSMETICS & TOILETRIES												
Lever Brothers	50	125 +	125(20. 5.86)	2,243	132	113	6. 5.86	9. 6.86	-	13.9	33.6	3.7
P. Z. Indust.	50	173 +	173(20. 5.86)	1,308	173	139	22.10.85	10.12.85	-	20.0	42.2	4.1
FOOD/BEVERAGES/TOBACCO												
Cadbury	50	117 + XD	117(20. 5.86)	1,245	136	117	23. 5.86	3. 7.86	-	20.3	33.8	3.5
Christlieb Ltd.	50	116 + XD	126(6. 5.86)	133	130	116	14. 5.86	25. 6.86	-	14.0	31.1	3.7
Food Specialties	50	114 +	114(15. 5.86)	200	114	93	29. 5.85	19. 6.85	-	8.5	50.3	2.3
Foremost Dairies	50	77 +	77(14. 5.86)	375	96	76	30. 4.86	5. 6.86	-	20.0	33.9	2.2
Ovaltine (NA)	50	65 +	65(28. 4.86)	500	65	58	6. 5.85	3. 6.85	-	7.0	13.9	4.7
P.S. Mandrides	50	55 +	55(24. 4.86)	2,000	55	55	26.10.84	12.12.84	-	11.9	-	-
Tate & Lyle	50	177 +	177(20. 5.86)	433	200	145	21. 2.86	18. 3.86	-	20.0	70.2	2.5
Flour Mills	50	97 +	97(20. 5.86)	1,190	98	95	4.10.85	15.11.85	-	10.5	29.2	3.3
Nig. Bottling	50	188 +	188(20. 5.86)	3,144	188	144	30. 9.85	27.11.85	-	15.0	44.0	4.3
N.N. Flour Mills	50	114 +	114(13. 5.86)	333	115	112	9.10.85	30.11.85	8.0	20.0	34.2	3.6
N T C	50	87 +	87(20. 5.86)	366	94	77	6. 1.86	28. 3.86	-	16.5	27.7	3.1
7-Up Bottling	50	93 +	86(5. 5.86)	900	93	80	-	-	-	-	45.7	2.0
FOOTWEAR												
Bata	50	71 + XD	71(13. 5.86)	116	90	70	9. 5.86	23. 6.86	-	20.0	35.9	1.9
Lennards	20	36 +	36(15. 5.86)	1,125	53	34	19. 3.85	1. 5.85	-	4	10.5	3.4
INDUSTRIAL/DOMESTIC PRODUCTS												
Aluminco	50	50 +	50(20. 5.86)	100	51	50	14. 6.83	21. 7.83	-	5.2	7.5	6.7
Berec Nig.	50	71 +	71(19. 5.86)	400	71	62	22.10.85	27.11.85	-	10.0	18.0	3.8
Indust. Gases	50	61 +	61(15. 5.86)	100	61	61	19. 6.85	8. 7.85	-	7.0	21.7	2.8
Leventis Tech.	50	56 +	56(13. 5.86)	700	56	37	18. 9.84	16.11.84	-	4.0	5.7	9.6
Nig. Enamelware	50	32 +	32(19. 5.86)	200	36	31	7. 4.86	9. 5.86	-	4.5	7.6	4.1
Vitafoam	50	50 -	50(13. 5.86)	666	50	43	4.12.85	12.12.85	4.7	-	7.9	6.8
Yuasa Products	50	22 +	22(19. 5.86)	200	22	20	6. 9.84	31.10.84	-	2.4	(0.8)	-
INVESTMENT COMPANIES												
BFN Limited	50	54 +	54(19. 5.86)	900	56	52	12. 3.86	16. 4.86	-	6.0	10.7	5.0
John Holt Inv.	50	95 +	86(10.12.85)	560	105	86	11. 3.86	25. 4.86	-	7.0	31.4	3.0
MACHINERY (MKTG)												
Blackwood Hodge	50	28 +	28(20. 5.86)	450	28	21	14. 6.82	19. 7.82	-	5.5	(23.2)	-
Nig.Sew.Machine	50	45 +	45(2. 5.86)	200	45	45	24. 6.83	5. 8.83	-	6.0	-	-
Stokvis	50	27 +	27(22. 4.86)	10,000	27	27	16. 7.81	29. 7.81	-	-	-	-

APPENDIX II

LIST OF DEALING MEMBERS (STOCK BROKING FIRMS/ISSUING HOUSES)

1	Abacus Securities Limited	—	Ahmed Talib House, 18/19 Ahmadu Bello Way, Kaduna 95 Broad Street, Lagos
2	AMH Continuation Limited	—	25, Keffi Street, S W Ikoyi, Lagos
3	Capital Trust Brokers Ltd	—	37, Marina, Lagos
4	Centre-Point Investments Ltd	—	119, Broad Street, Lagos
5	CSL Stockbrokers Limited	—	17A, Tinubu Street, Lagos
6	Financial Trust Co Nigeria Limited	—	96/102, Broad Street, Lagos
7	ICON Stockbrokers Limited	—	63/71, Broad Street, Lagos
8	IMB Securities Limited	—	The IMB Plaza, 1, Akin Adesola Street, V/Island, Lagos
	ML Securities Limited	—	27/25, Martins Street, Lagos
10.	Newdevco Finance Services Company Limited	—	Ahmed Talib House, 18/19, Ahmadu Bello Way, Kaduna.
11.	Nigerian Stockbrokers Ltd	—	Stock Exchange House, 2/4, Customs Street, Lagos.
12.	Nigerian International Securities Limited	—	1, Kingsway Road, Ikoyi, Lagos
13.	Prudent Finance Limited	—	149/153, Broad Street, Lagos.
14.	Prudential Securities Ltd.	—	2A, Benin Street, Diobu, Port Harcourt.
15.	Wintrust Limited	—	21/25, Broad Street, Lagos.
16.	Merchant Securities Limited	—	6, Broad Street, Lagos.
17.	Interstate Securities Limited	—	21/25, Broad Street, Lagos.
18	Kapital Investment & Trust Company Limited	—	13, Okesunna Street, Lagos.
19	Russel Brokers (Nigeria) Limited	—	Orossi House, 3rd Floor, 28, Forces Avenue, Port Harcourt.
20	Allbond Investments Limited	—	73, Ikwerre Road, Diobu, Port Harcourt.
21	RIMS Securities Limited	—	16E, Ahmadu Bello Way, Kaduna 47, Marina, Lagos
22	Associated Trust Investment & Finance Limited	—	6, Kingsway Road, Ikoyi, Lagos.
23	Milestone Investment Services Limited	—	14, Peter Ayansi Close Surulere, Lagos

AGENTS OF THE STOCK EXCHANGE

1. ABC Merchant Bank Limited
2. African Continental Bank Limited
3. Allied Bank of Nigerian Limited
4. Bank of the North Limited
5. Bank of Credit and Commerce International
6. Central Bank of Nigeria *
7. Continental Merchant Bank Limited
8. Cooperative and Commerce Bank Nigeria Ltd.
9. Cooperative Bank Limited
10. Commercial Bank (Credit Lyonnais)
11. First Bank of Nigeria Limited
12. First City Merchant Bank Limited *
13. Federal Savings Bank
14. Habib Nigeria Bank Limited
15. International Merchant Bank Limited *
16. Icon Limited (Merchant Bankers) *
17. Indo-Nigerian Bank Limited
18. International Bank for West Africa Limited
19. Guaranty Cooperative Bank Limited
20. Kano Cooperative Bank Limited
21. Lobi Bank of Nigeria Limited
22. Merchant Bank of Africa Limited
23. Mercantile Bank of Nigeria Limited
24. Merchant Banking Corporation
25. Nigeria-Arab Bank Limited
26. Nigerian Bank for Commerce and Industry
27. Nigeria Merchant Bank Limited *
28. New Nigeria Bank Limited
29. Nigeria International Bank Limited
30. Nigerian-American Merchant Bank Limited *
31. NAL Merchant Bank Limited *
32. National Bank of Nigeria Limited
33. Ovena Bank Nigeria Limited
34. Progress Bank of Nigeria Limited
35. Pan African Bank Limited
36. Societe Generale Bank Nigeria Limited
37. Savannah Bank of Nigeria Limited
38. United Bank for Africa Limited
39. Union Bank for Nigeria Limited
40. Universal Trust Bank Limited
41. Wema Bank Limited

NOTE * These Financial Institutions also act as Issuing Houses.

LISTED COMPANIES AND THEIR REGISTRARS

COMPANY	REGISTRAR
BEWAC NIG. LTD.	Union Bank
DUNLOP NIG. LTD.	Union Bank
GUINNESS NIG. LTD.	Union Bank
FIRST BANK NIG. LTD.	First Bank
BERGER PAINTS NIG. LTD.	First Bank
CHEMICAL & ALLIED PROD.	Union Bank
K. CHELLARAMS LTD.	Union Bank
[illegible]SICO LTD.	City Securities Ltd.
G. CAPPA LTD.	City Securities Ltd.
COSTAIN (W.A.) LTD.	First Bank Ltd.
DUMEZ NIG. LTD.	United Bank for Africa
LEVER BROS. NIG. LTD.	Union Bank
BEREC NIG. LTD.	First Bank
BFN NIG. LTD.	Union Bank
NIG. BOTTLING CO.	A. G. Leventis
CHRISTIER LTD.	First Bank
FLOUR MILLS NIG. LTD.	The Flour Mills
GUINNESS NIG. LTD.	City Securities Ltd.
BEECHAM LTD.	Union Bank
EMPEE IND. LTD.	United Bank for Africa
A. T. BRISCOE	Union Bank
BEREC INT. LTD.	First Bank
INTRA MOTORS (NIG.) LTD.	First Bank
HAGEMEYER	City Securities Ltd.
JOHN HOLT LTD.	Adesiyo E. A.
JOHN HOLT INVESTMENT LTD.	Union Bank
LEVENTIS MOTORS LTD.	A. G. Leventis
A. G. LEVENTIS & COMP. LTD.	Mosindi C. A.
INDUSTRIAL GASES LTD.	United Bank for Africa
METAL BOX NIG. LTD.	City Securities
MOBIL OIL NIG. LTD.	Union Bank
NIG. TOBACCO COMP. LTD.	N. T. C.
NIG. TEXTILES MILLS LTD.	Union Bank
NIG. ENAMELWARE COMP. LTD.	Union Bank
P. S. MANDRIDES & CO. LTD.	U. B. A.
STERLING PRODUCTS (NIG.) LTD.	First Bank
MERCANTILE BANK	Mercantile
SAVANNAH BANK	City Securities Ltd.
UNITED BANK FOR AFRICA	U. B. A.
UNION BANK OF NIGERIA LTD.	Ogunsulire
CROSS RIVER BREWERIES LTD.	U. B. A.
GOLDEN GUINEA BREWERIES LTD.	First Bank of Nigeria
NIGERIAN BREWERIES LTD.	Union Bank of Nigeria Ltd.
NIGERIAN CEMENT COMP. LTD.	U. B. N.
NIGERIAN ROPES LTD.	First Bank of Nigeria
WEST AFRICAN PORTLAND COMP.	City Securities Ltd.
INTERNATIONAL PAINTS LTD.	Union Bank of Nigeria
NIGERIAN HOECHST LTD.	U. B. A.
J. L. MORISON LTD.	City Securities Ltd.
INCAR NIG. LTD.	U. B. A.
NIGERIAN WIRE INDUSTRIES LTD.	U. B. A.
N. C. R.	Union Bank
THOMAS WYATT NIG. LTD.	Thomas Wyatt

WIGGINS TEAPE (WA) LTD.	Nig. Tobacco Comp.
S.C.O.A. (NIG.) LTD.	U. B. A.
U. A. C. OF NIGERIA LTD.	Falade W.
U. T. C. NIG. LTD.	U. B. A.
C.F.A.O. NIG. LTD.	First Bank
CAPPA & D'ALBERTO	U. B. A.
JULIUS BERGER NIG. LTD.	Union Bank
ROADS NIG. LTD.	U. B. A.
TAYLOR WOODROW NIG. LTD.	First Bank
P. Z. INDUSTRIES LTD.	P. Z. Industries Ltd.
CADBURY NIGERIA LTD.	Union Bank
FOOD SPECIALITIES (NIG) LTD.	Union Bank
FOREMOST DAIRIES (NIG.) LTD.	Union Bank
OVALTINE (W.A) LTD.	Ovaltine
TATE & LYLE (Nig.) Ltd.	Union Bank
N. NIGERIAN FLOUR MILLS LTD.	N. N. Flour Mills
SEVEN-UP BOTTLING COMP.	U. B. N.
LENNARDS (NIG.) LTD.	Union Bank
ALUMACO LTD.	U. B. A.
LEVENTIS TECHNICAL LTD.	A. G. Leventis
VITAFOAM NIG. LTD.	First Bank
VONO PRODUCTS LTD.	U. B. A.
BLACKWOOD HODGE (NIG.) LTD.	Union Bank
NIG. SEW MACH MAN CO.	Union Bank
STOKVIS NIG. LTD.	U. B. A.
POLY PRODUCTS (NIG.) LTD.	U. B. A.
STUDI[illegible]RESS (NIG.) LTD.	City Securities Ltd.
VAN LEER CONTAINERS (NIG.) LTD.	U. B. A.
WEST AFRICAN GLASS IND. LTD.	U. B. A.
AGIP OIL NIG. LTD.	U. B. A.
BATA NIGERIA LTD.	First Bank
BOOTS CO. (NIG.) LTD.	First Bank
AFRICAN PETROLEUM (NIG.) LTD.	Union Bank
TEXACO (NIG.) LTD.	City Securities Ltd.
TOTAL (NIG.) LTD.	City Securities Ltd.
LIVESTOCK FEEDS LTD.	Union Bank
PFIZER PRODUCTS (NIG.) LTD.	Union Bank
PHARMA-DEKO (NIG.) LTD.	Daily Times
DAILY TIMES OF NIG. LTD.	Daily Times
UNIVERSITY PRESS LTD.	Union Bank
AFPRINT NIGERIA LTD.	U. B. A.
UNITED NIG. TEXTILES LTD.	U. B. A.
WESTERN TEXTILE MILLS LTD.	U. B. A.
GROMMAC IND. LTD.	Centre Point Investments

APPENDIX V

QUESTIONNAIRE ADMINISTERED TO STOCKBROKERS

TOPIC: The "Effects of Dividend Policy on the value of Firms in Nigeria: A Case Study of some listed Companies, 1976 - 1986."

(1) What is your experience in the stock broking profession?

Under 1 year ☐

Between 1 and 5 years ☐

Between 6 and 10 years ☐

Above 10 years ☐

(2) Of what categories are your clients?

Please rank them in percentages.

1. Rich - literate Clients ☐
2. Rich-illeterate Clients ☐
3. Civil Servants/Salaried Workers ☐
4. Others (please specify) ☐.....

.....

(3) Do you often receive instructions from your clients as to the stocks to trade in on their behalf?

Yes ☐

No ☐

(4) If yes, what particular factor(s) among the following do you think influence(s) them most? Please rank them from 1st - 6th position.

1. Dividend declared ▱
2. Sentiments e.g. religious, Social,etc. ▱
3. Corporate performance ▱
4. Government restrictions ▱
5. Managerial Composition ▱
6. Others (please specify) ▱

.....

.....

(5) If your answer to question 3 is No , what particular factor(s) influence(s) your decision to buy or sell in particular stocks? Please rank your answers 1st - 6th.

1. Dividend declared ▱
2. Sentiments e.g.Religious, social, etc. ▱
3. Corporate Performance ▱
4. Government restrictions ▱
5. Managerial Composition ▱
6. Others (please specify) ▱

.....

(6) What do you feel the reactions of existing shareholders or prospective investors will be towards a firm with:

(1) High Corporate Performance but low dividend or no-dividend payout?

(a) Positive ▱

(b) Negative ▱

(c) Indifference ▱

(2) Low corporate performance but with high or stable dividend payout?

(a) Positive ▱

(b) Negative ▱

(c) Indifference ▱

(7) What do you feel the reactions of existing shareholders or prospective investors will be towards a firm with:

(1) Stable dividend payout policy.....
.....

(2) Fluctuating dividend payout policy.....
.....

(3) No dividend Payout Policy.....
.....

(8) Do you support the role played by the Nigerian Securities and Exchange Commission (NSEC) in regulating prices of stocks in the Nigerian Stock Market?

Yes ☐

No ☐

(9) To what extent has this role hampered the effect of factors such as dividend policy on free price determination of quoted stocks?

1. Very significant extent ☐
2. Significant extent ☐
3. Fairly significant extent ☐
4. No significant extent ☐

(10) What effects do you think the dividend policy of a firm has on the value of its commonstock prices in the Nigerian Stock Market?

.....

.....

.....

.....

Thank you.