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Profitability and Shareholders' Investment of Deposit Money Banks in Nigeria

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ABSTRACT

The study examined the relationship profitability and shareholder's investment of Deposit Money Banks in Nigeria. The study was aimed determining the relationship between return on asset, return on equity, net profit margin and share price of Deposit Money Banks in Nigeria. The data was analyzed using the process of systematically applying statistical or logical techniques to describe, illustrate and evaluate data. Ordinary least square (OLS) regression statistical method was adopted in the test of hypothesis through the use of SPSS. The test of hypothesis shows that; That there is a negative and insignificant relationship between return on asset and share price of Deposit Money Banks in Nigeria, similar, a negative and insignificant relationship between return on equity and share price of Deposit Money Banks in Nigeria and furthermore, the study provides evidence of a negative and insignificant relationship between net profit margin and share price of Deposit Money Banks in Nigeria. Therefore, it is recommended that; it is suggested that further research could address other financial ratios and even for a longer period of time. A study on the combine effects of these ratios, as against the effects of individual ratios, is also recommended. The study is only on the Deposit Money Banks in Nigeria; a clearer picture would be established in other sectors in Nigeria are studied. Lastly, changes in share price are functions of many factors including macro-economic variables. This study therefore only gives a partial analysis, hence a study on a wide analysis is recommended.

KEYWORDS: *Profitability, Shareholders' Investment, Return on Asset, Return on Equity, Return on Investments.*

1.0 Introduction

The maximization of shareholder wealth is one of the most essential goals of any corporate organization. The earnings potentials of a company enterprise are one of the major aspects that determine the maximizing of shareholder value. The quality of a company's products or services in the market, its market share, the capacity of its board and management team to make wise decisions, its financial strength, and the quality of its assets all factor into its ability to create respectable profits. If a company earns enough money, it can pursue attractive investment possibilities that will increase or maximize the company's share value. (Okorie, 2015)

In order to have a favorable impact on a company's market value, its management traditionally makes three basic decisions. Investment, finance, and dividend decisions are all part of this process. The allocation of an enterprise's financial resources among numerous investment options that will generate future benefits to the company in order to maximize shareholder wealth is referred to as an investment choice. Managers examine investment opportunities in relation to expected returns and risk with the goal of maximizing shareholder wealth when making investment decisions. (Uwuigbe, Jimoh and Ajayi, 2012).

The appropriate finance mix or capital structure must be determined when making a financial decision. As a result, the financial manager determines whether to raise more cash internally (retained earnings) or externally (debt), taking into account the accompanying cost and impact on the value of the company's stock. The selection of the proper percentage of the firm's earnings to earmark for dividend payment to investors, as well as the amount to retain within the company for future expansion, is called dividend choice. (Uwuigbe, Olowe & Agu, 2012). These decisions were basically conceptualized and worked out with intent to maximize the wealth of the shareholders. It is expected that the decision to pay a certain percentage of earnings as dividend must be favorably compared with the opportunity cost of retained earnings (Pandey, 2015).

The ability of any corporate entity, such as a bank, to continually have access to investible capital in order to continue in business in the foreseeable future, makes the dividend policy of an organization crucial. As a result, financial managers must determine the percentage of earnings that must be paid out in dividends based on the shareholder's preference for immediate cash or capital gains. If a high payout ratio is used, the firm will most likely need to borrow money from the capital market, whereas a low payout ratio will cause the company to use its retained earnings to take advantage of potential expansion and growth opportunities. (Pandey 2015).

Profitability, firm’s value, shareholder’s wealth and value are all used interchangeably because they show the creation of wealth for shareholders. Hughes (2013) the firm’s revenue can be maximized if the firm’s managers can identify the optimal capital structure. Moualhi (2016) identified the differences between Islamic and conventional banks.

Stock returns and publicly available information has attracted considerable interest in many literatures over the last forty years. Many studies have dealt with the factors that affect stock prices in the market in general or those related to the performance as measured by financial ratios. The literature, which discussed the factors affecting market stock price, was divided into different groups.

The main group of these studies discussed the internal factors that affect market stock prices, each of these studies took a range of internal performance factors such as net profit margin, earnings per share, dividend per share price earnings ratio, the return on assets, the return on equity, book value per share, debt equity ratio, total asset turnover ratio and dividend yield (Bayrakdaroglu et al., 2017, Susilowati, 2015, Om and Goel, 2017, Bhattarai, 2014, Uwuigbe et al., 2012, Srinivasan, 2012). Other group of studies focused on the macro economic factors that affect the stock prices, such as gross domestic product, inflation, interest rate, consumer price index and exchange rate and money supply (Al- Majali and Al-Assaf, 2014, Narayan et al., 2014, Celebi and Honig, 2019, Demir, 2019). This study will discuss and focus on some of the internal factors influence on market prices, as it relates to the purpose of the current study in more details.

1.1 Objectives of the Study

The main purpose of this study is to examine the relationship between profitability and shareholders’ investment of banks of Deposit Money Banks in Nigeria. Other detailed objectives include;

1. To determine the relationship between return on asset and share price of Deposit Money Banks in Nigeria
2. To determine the relationship between return on equity and share price of Deposit Money Banks in Nigeria

3. To determine the relationship between net profit margin and share price of Deposit Money Banks in Nigeria

1.2 Research Hypothesis

In other to provide an empirical conclusion to the subject matter the following study hypothesis will be test in their null form.

1. **$H0_1$:** There is no significant relationship between return on asset and share price of Deposit Money Banks in Nigeria
2. **$H0_2$:** There is no significant relationship between return on equity and share price of Deposit Money Banks in Nigeria
3. **$H0_3$:** There is no significant relationship between net profit margin and share price of Deposit Money Banks in Nigeria

2.1 Conceptual Review

2.1.1 Profitability

Profitability measures how well the company can generate profits from operational processes that have been implemented to ensure the continuity of the company in the future (Manoppo & Arie: 2016). The higher profits generated by a company will increase the creditor's confidence to provide loans and can increase investor confidence to invest capital. It can now be said that profitability influences capital structure which supports the Pecking Order theory that states that the higher the profitability of a company, the lower the use of debt. (Guna and Sampurno, 2018). Based on the signal theory, the profits obtained by the company will be a signal from management to show the prospects of a company that can be seen based on the level of profits obtained by the company, so that profitability affects the value of the company. (Yanti and Darmayanti, 2019).

2.1.2 Shareholders' Investment

Fischer and Jordan (2015) see investment as a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes.

Similarly, an investment is the current commitment of money or other resources in the expectation of reaping future benefits. For example, an individual might purchase shares of shares anticipating that the future proceeds from the shares will justify both the time that her money is tied up as well as the risk of the investment. You sacrifice something of value now, expecting to benefit from that sacrifice later. (Bodie, Kane, and Marcus,2018).

2.1.3 Distinction between real assets and financial assets

According to Bodie, Kane, & Marcus (2018) real assets are assets used to produce goods and services. In contrast to such real assets are financial assets, such as shares and bonds. Such securities are no more than sheets of paper (or entries in a computer). Financial assets are claims to the income generated by real assets (or claims on income from the government). If we cannot own our own auto plant, we can still buy shares in General Motors or Toyota and, thereby, share in the income derived from the production of automobiles.

2.1.4 Definition of Shares

In simple terms shares is ownership in share of a corporation. According to Ahmed (2008), a share represents a share, or percentage in a corporation's profits and assets. By purchasing shares an investor is buying a percentage of ownership in a company.

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2.1.5 Relationship between Profitability and Shareholders' Investment

The relationship between shares returns and publicly available information has attracted considerable interest in many literatures over the last forty years. Many studies have dealt with the factors that affect shares prices in the market in general or those related to the performance as measured by financial ratios. The literature, which discussed the factors affecting market shares price, was divided into different groups. The main group of these studies discussed the internal factors that affect market shares prices, each of these studies took a range of internal performance factors such as net profit margin, earnings per share, dividend per share price earnings ratio, the return on assets, the return on equity, book value per share, debt equity ratio, total asset turnover ratio and dividend yield (Bayrakdaroglu et al., 2017, Susilowati, 2015, Om and Goel, 2017, Bhattarai, 2014, Uwuigbe et al., 2012, Srinivasan, 2012). Other group of studies focused on the macro economic factors that affect the shares prices, such as gross domestic product, inflation, interest rate, consumer price index and exchange rate and money supply (Al- Majali and Al-Assaf, 2014, Narayan et al., 2014, Celebi and Honig, 2019, Demir, 2019).

Susilowati (2015) has done a similar exercise on the Indonesian Shares Exchange, using different internal factors such as Return on Asset, Return on Equity, Net profit Margin and Earning per share. The author used the data from ISE for enlisted of companies in Indonesian Shares Exchange in 2008 – 2011 period using regression analysis. The results of the analysis show that Return on asset has a significant negative effect on the shares price, while return on equity; net profit margin and Earing per share have a positive effect on the shares price. He concludes that return on asset, return on equity, net profit margin, and earning per share simultaneously affected significantly the shares price. Saldanli et al (2017) has recently examined the causality relationship of the shares prices of ten deposit banks traded in Borsa Istanbul using the VECM Granger causality approaches over the period between June 2007 and October 2016. They tested the causality relationship between three variables such as industrial production, exchange rates and money supply. The results show that the industrial production index is not considered to be one of the determinants of share prices for banks examined.

2.1.6 Profitability Ratios

Profitability ratios are financial benchmarks used to measure and evaluate the company's ability to generate income related to revenues, balance sheet assets, operating cost and shareholders' equity within a specific period of time (CFI Education, 2015, Lesakova, 2017).

2.1.7 Net Profit Margin (NPM)

Net profit margin (NPM) is the ratio of net profits to sales or revenue for a business or business segment and it is measured in percentage. Generally, the higher the NPM, the better for the business (Winicki, 2019).

2.1.8 Return on Assets (ROA)

Return on Assets measures the efficiency of companies in the use of assets, higher ROA value indicates better firm's performance (Rosikah et al., 2018). It also measures the level of income versus shareholders' investments rather than total assets. According to Brigham and Houston (2001), ROA is defined as net income (net profit after taxes) divided by total assets.

2.1.9 Return on Equity (ROE)

Return on Equity is a measure of the efficiency with which the company employs owner´s capital. It is an estimate of the earnings of invested equity capital, or alternatively, the percentage return to owners on their investment in the firm (Lesakova, 2017). It can be used to measure of financial performance; however no analyst should infer that a higher ROE is always better than a lower one, because ROE is prone to three problems such as a time problem, a risk problem and a value problem. It calculated based on division of net profit after tax and total equity

2.2 Theoretical Review

The theory for this work is the Residual Equity Theory. The implication of this theory is that elements of the financial statement which do not address the information requirements of the shareholders may not necessarily be included. It emphasizes the importance of the income statement from which the proprietors can assess the financial performance of the firm and consequently their dividends; the statement of financial position to view the status of assets as against liabilities and net worth; cash flow statement to assess their liquidity; and other accompanying parts that explains the statements further. Sharma (2012) holds that Income statement, balance sheet and statement of cash flow are the basic and the most important financial statements which interprets the quantitative data of a company's performance; and the standard of International Accounting Standards Board (IASB) which upheld that firms need only prepare statement of financial position, statement of comprehensive income, other comprehensive income and cash flow statement and other accompanying footnotes of which all geared to meet the needs of the primary users of financial information (where primary users are present and potential investors, lenders and other creditors) alone, suggests that the board adopts this traditional concept of financial statement.

2.3 Empirical Framework

Zaigham, Wang and Ali (2019) studied the causal relation between shares market performance and firm investment decisions in China. Shares prices were adopted as the independent variable whereas the sampled firms' investment expenditures were adopted as the dependent variable. Using panel regression analysis, the researchers found that shares prices have negative influence on the investment decisions of the managers of the selected firms. They also concluded that firms who face financial challenges tend to have higher sensitive investment decisions in response to changes in shares prices than others who do not.

Berheci (2008) studied the interdependence of the components of financial statements and its influence on financial decisions. The study analyzed financial information needs of various parties to the financial report and considered the financial report an essential commodity in the investors' decision making process. It was concluded that the lack of transparency of the published information, which is subject to evenness and conservatism, is the cause for the information asymmetry between the providers and the users of accounting information. While noting that lack of knowledge on economic matters by users of accounting information can contribute to uninformed decision, the study recommends high quality reference to the system and regular financial reports audit as a panacea to the problem o relying on unfaithful financial reports in making investment decisions.

Maidoki (2013) utilized primary data and survey approach to study the interrelationship between financial reports and effective managerial decision making. The concept which forms the backbone of the research rested on the fact that managers often engage in decisions which are made on the basis of their knowledge about financial information contents of the financial statement. The study which was targeted at the staff of WEMA bank Plc. in western Nigeria applied tables and percentages in the analyses of responses gathered, and they found that financial reporting as a device for disclosure of organization's financial dealings can eliminate some problems, resulting from inappropriate planning and decisions. The study hence concluded that to resolve conflict of incomparability of financial statements of similar firms, entities should comply with rules regulating the preparation and disclosure of financial statement and reports in order to ensure uniformity and accuracy.

Osuala et al (2012) studied the effect of information content of financial statements on the investment decisions of shareholders using a time series data. The coverage of the study on information content of financial statements includes profitability, earning per share, dividend per share, leverage and liquidity whereas shareholders' investment decisions were represented by change in number of shares. The research applied regression analytical technique and found that shareholders in the Nigerian capital market do not rely much on financial statements as a major determining factor for their investment decisions. It was observed that other factors or variables outside firms' annual reports such as regularity of dividend payment and market price of shares are vital to shareholders' investment decisions. The study therefore recommends proper awareness creation by the appropriate agencies to enhance shareholders' understanding of the relevance of published accounts to enable them to know the financial states of the companies of their interest before making investment decisions. Ekwe (2013) conducted an investigation on the degree of reliance of the published financial statements by corporate investors utilizing a survey research design by which data were generated by means of questionnaire administered on one hundred and fifty corporate investors and senior management officials of the selected banks. On the basis of descriptive statistics and t tests which was conducted on SPSS analytical package, the study revealed that investors do understand the financial statement well before making investment decisions; most investors depend heavily on the credibility of auditors/financial expert approval of financial statement in making investment decisions and as such published financial statement is very important in the investors' decision making. The researcher therefore recommended that adequate care and due diligence should be maintained in preparing financial statements to avoid faulty investment decisions which could lead to loss of funds and possible litigations.

Anaja and Onoja (2015) combined both secondary data from ten years' time series and primary data to ascertain the role of financial statement on investment decision making in United Bank for Africa Plc. of Nigeria. The results of analysis showed that investors depend heavily on the credibility of auditors/financial expert approval of financial statement in making investment decisions, and so published financial statement is very important in the investors' decision making. The scholars therefore concluded that, profitability, assets, liabilities and equities of banks are significant ways of evaluating the performance of a banks and thus, recommended that adequate care and due diligence should be maintained in preparation of financial statements to avoid faulty investment decisions

3.1 Research Methodology

The research design for this study is ex-post facto. Ex-post facto research design is a quasi-experimental study examining how an independent variable, present prior to the study, affects a dependent variable (Kowalczyk, 2016). The sources of data for this study was extracted from the financial statements of listed commercial banks in Nigeria, the statistical bulletin of the Central Bank of Nigeria and Nigeria Exchange and Security Commission for the period of twenty five years which cover the time range of 1996-2021. The study employed the pooled ordinary least square (OLS), random effect and fixed effect in the estimation of data analysis

3.2 Model Specification

The econometric model employed in this study is a linear model which is specified as follows:

$$SHP = a0 + b_1 ROA_t + b_2 ROE_t + NPM_t + e \quad (1)$$

Where:

SHP = Share Price

ROA = Return on Asset

ROE = Return on Equity

NPM = Net profit Margin

t = represent sample period (1996-2021)

a = refers to intercept

b1, b2, b3 = Estimated Parameters

e = error term

4.1 Data Analysis

4.1.1 Multiple Regressions (Ordinary Least Square)

The study basically adopted the classical linear regression model as it is the best linear unbiased estimator to show the relationship between a given pair of variables. However, prior to the actual analysis and interpretation of the variables employed in the study, it is pertinent to consider the appropriateness of the model used, as the validity of the result will be dependent on the validity of the system (model) which produces it. To this end, the model is summarised below:

Table 4.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.417[a]	.596	.614	3.31942	.174	1.475	3	21	.250

a. Predictors: (Constant), NPM, ROA, ROE

Source: SPSS version 25 output.

The R-squared (R^2) otherwise called coefficient of determination underscores the variability of the dependent variable that the independent variables are responsible for. The output clearly shows that it is 0.596 which represents 59.6%. The implication of this is that the employed independent variables (return on asset, return on equity and net profit margin) account for 60% percent of change in the dependent variable (shareholders' investment) while the other 40% is accounted for by other variables that can be associated with profitability, but excluded from the model otherwise referred to as stochastic variables. The adjusted R^2 shows a more robust test of variability in the sense that it is not susceptible to the addition of more independent variables to the model. It stands at 0.614 which implies that irrespective of the number of variables considered, they cannot account for less than 61% variability of the dependent variable. Given that the minimum threshold for the goodness of fit is 60%, the R^2 is considered adequate.

Table 4.1.2 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.907	1.051	.694	10.376	.000
	ROA	-.232	.235	-.14	-.984	.336
	ROE	-.088	.122	-.165	-.724	.477
	NPM	.126	.081	.313	1.550	.136

a. Dependent Variable: SHP

Source: SPSS version 25 output.

From the output above, it can be observed that the coefficient of the constant (C) is 69.4, which indicates that if the independent variables are held constant or zero, profitability, as measured by return on asset (ROA) will maintain at least be ₦69.4 units per year. The coefficients further show the extent to which a change in profitability will affect corporate value or market price per share.

The coefficient for return on equity (ROE) is -1.363 as seen in the table above, indicating (that ROA has) a negative or inverse relationship with share price to the extent that a unit increase in the return on equity would lead to 1.4 units decline in profitability. In contrast, the relationship between net profit margin (NPM) and share price as seen in the output above shows a coefficient of 12.01. This implies that a unit change in net profit margin will culminate in a 12.01 unit change in profitability, in the same direction. Conversely, the coefficient of dividend yield is -68.23 indicating first, that there is a negative relationship between net profit and share price; in that, a unit increase in the net profit will result in a 68.23 units fall in the profitability

Table 4.1.3 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	48.743	3	16.248	1.475	.250[b]
	Residual	231.389	21	11.019		
	Total	280.133	24			

a. Dependent Variable: SHP

b. Predictors: (Constant), NPM, ROA, ROE

Source: SPSS version 25 output.

The F-statistics and its probability are used to estimate the overall significance or otherwise of the independent variable(s) on the dependent variable. For this study, the F-statistics value of 1.475 shows a probability value of 0.250 which is higher than 0.05 (5%) significance level set *ab initio*. This shows that the employed model has a good fit and similarly implies that the independent variables profitability has insignificant relationships and fit with shareholders' investment.

4.2 Test of Hypotheses

The t-statistics and attendant probabilities (as captured in Table 4.4) are used to test the respective hypotheses stated in the null and alternate form as follows:

Hypothesis One

$H0_1$: There is no significant relationship between return on asset and share price of Deposit Money Banks in Nigeria

A consideration of the linear regression output in Table 4.1.3 shows that, the t-statistics for earnings per share is -365 with a probability of 0.777 which is higher than the pre-set significant level of 0.05 (5%).Therefore; the study does not reject the null hypothesis, but accepts it. This shows that there is a relationship between return on asset (ROA) and share price of Deposit Money Banks in Nigeria

Hypothesis Two

$H0_2$: There is no significant relationship between return on equity and share price of Deposit Money Banks in Nigeria

A consideration of the linear regression output in Table 4.1.3 shows that, the t-statistics for return on equity is -505 with a probability of 0.702 which is greater than the pre-set significant level of 0.05 (5%). Therefore, the study does not reject the null hypothesis. This shows that there is no significant relationship between return on equity and share prices of Deposit Money Banks in Nigeria

Hypothesis Three

$H0_3$: There is no significant relationship between net profit margin and share price of Deposit Money Banks in Nigeria

A consideration of the linear regression output in Table 4.1.3 shows that, the t-statistics for net profit margin is -449 with a probability of 0.731 which is greater than the pre-set significant level of 0.05 (5%) therefore the null hypothesis is not rejected, but accepted the null is accepted which states that there is no significant relationship between net profit margin and share price of Deposit Money Banks in Nigeria

4.3 Discussion of Findings

The study investigated the relationship between profitability and shareholders' investment. From the analysis above the table 4.1.3 shows that, the t-statistics for earnings per share is -365 with a probability of 477 which is higher than the pre-set significant level of 0.05 (5%).Therefore; the study does not reject the null hypothesis, but accepts it. This shows that there is a relationship between return on asset (ROA) and share price of Deposit Money Banks in Nigeria which is in agreement with the findings of Anaja and Onoja (2015), combined both secondary data from ten years' time series and primary data to ascertain the role of financial statement on investment decision making in United Bank for Africa Plc. of Nigeria. The results of analysis showed that investors depend heavily on the credibility of auditors/financial expert approval of financial statement in making investment decisions, and so published financial statement is very important in the investors' decision making. The scholars therefore concluded that, profitability, assets, liabilities and equities of banks are significant ways of evaluating the performance of a banks and thus, recommended that adequate care and due diligence should be maintained in preparation of financial statements to avoid faulty investment decisions

Similarly the table 4.3 shows that, the t-statistics for return on equity is -505 with a probability of 0.702 which is greater than the pre-set significant level of 0.05 (5%). Therefore, the study does not reject the null hypothesis. This shows that there is no significant relationship between return on equity and share prices of Deposit Money Banks in Nigeria which is also in agreement with the study of Ekwe (2013), conducted an investigation on the degree of reliance of the published financial statements by corporate investors utilizing a survey research design by which data were generated by means of questionnaire administered on one hundred and fifty corporate investors and senior management officials of the selected banks. On the basis of descriptive statistics and t tests which was conducted on SPSS analytical package, the study revealed that investors do understand the financial statement well before making investment decisions; most investors depend heavily on the credibility of auditors/financial expert approval of financial statement in making investment decisions and as such published financial statement is very important in the investors' decision making. The researcher therefore recommended that adequate care and due diligence should be maintained in preparing financial statements to avoid faulty investment decisions which could lead to loss of funds and possible litigations.

Also the founding's from this study from table 4.3 shows that, the t-statistics for net profit margin is -449 with a probability of -731 which is greater than the pre-set significant level of 0.05 (5%) therefore the null hypothesis is not rejected, but accepted the null is accepted which states that there is no significant relationship between net profit margin and share price of Deposit Money Banks in Nigeria which also was in agreement with the study of Osuala et al (2012) in Tanziania and Maidoki (2013) in Nigeria. The study hence concluded that to resolve conflict of incomparability of financial statements of similar firms, entities should comply with rules regulating the preparation and disclosure of financial statement and reports in order to ensure uniformity and accuracy.

5.0 Conclusion

This study was undertaken to evaluate the relationship between ROA and stock prices of deposit money banks in Nigeria. Data for the study were obtained from the financial statements of Deposit Money Banks in Nigeria Plc between 2017 and 2021.This study was carried out to statistically evaluate the explanatory power of profitability and shareholders' investment. From analyses, it This result is in line with the findings of Anaja and Onoja (2015), Ekwe (2013), Osuala et al (2012) and Maidoki (2013) in Ghana.

This study has extended the frontiers of existing literature by providing empirical evidence on the predictive power of ROA, ROE and NPM on share prices in deposit money banks in Nigeria. It has also contributed an insight into decision management by highlighting those variables in the financial statement that are value relevant to investors and those that are not. The study has also stimulated research in other sectors of the economy.

5.1 Recommendation

Given the findings and conclusions, the following recommendations are made:

1. It is suggested that further research could address other financial ratios and even for a longer period of time.
2. A study on the combine effects of these ratios, as against the effects of individual ratios, is also recommended.
3. This study is only on the Deposit Money Banks in Nigeria; a clearer picture would be established in other sectors in Nigeria are studied.
4. Lastly, changes in share price are functions of many factors including macro-economic variables. This study therefore only gives a partial analysis, hence a study on a wide analysis is recommended.

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