

**EARNINGS PER SHARE AND INVESTMENT PERFORMANCE: EVIDENCE
FROM NIGERIAN BREWERY**

HASSAN, TOLANI. AGBOOLA

Tai Solarin University of Education, Ijagun, Ogun State, Nigeria

234 8034777854

hassantolani@gmail.com

ABSTRACT

The study examined the impact of earning per share and dividend per share on investment performance of Guinness Plc in Nigeria. Secondary method of data collection was used. Ordinary Least Square (OLS) with the application of E-views econometrics analysis was adopted. The investment performance data of Guinness Plc was used as dependent variable and regressed against independent variables of earning per share (EPS) and dividend per share (DPS) of the same company. The study found that earning per share (EPS) and dividend per share (DPS) are negatively impact investment performance of Guinness Plc. This suggest that firms in the brewery industry should, therefore, pursue strategies geared towards cost reduction, elimination of wastes, integrations, full automation of production lines, attractive packaging and production of low sugar alcoholic drinks in order to push up earnings and ultimately enhance the market price of their shares. Nigerian firms should not give much emphasis on maximizing their EPS but should concentrate on those firm performance measures which exert more influence on their performance.

Keywords: Investment Performance, Earning Per Share, Dividend Per Share, Guinness Plc and Brewery

1. Introduction

The pattern of changes in share prices could determine the timing and extent to which people are willing to invest and generally, transact with a firm. This is because share price, at every point in time, tends to reflect public perceptions about the firm with regards to the firm's worth. Umar & Musa (2013) while stressed that the effectiveness and efficiency of management decisions could be appraised in the light of the impact on the firm's stock price. They pointed out that one of the components of firm performance is earning per share (EPS) which is also a measure of managerial efficiency. However, Wang, Fu & Luo (2013) posits that many factors could change the stock price, such as financial policy, monetary policy, industrial policy, foreign trade policy and other macro-economic factors, financial information, investors' expectation, market supervision and other internal factors. They strongly believe that in those factors, financial information is the specific information which can help investors to decide whether to invest in a firm's stock or not. These indicators of financial performance include book value of the firm, dividend Per Share, EPS, Price-Earnings Ratio and Dividend Cover (Gompers, Ishii & Metrick, 2003).

Furthermore, Mlonzi, Kruger & Nthoesane (2011) argue that earnings provide critical information to shareholders about firm past performances and are also used extensively in forecasting future performance and in valuation of equity. They emphasized that the primary role of reported earnings is to provide some predictive information about future earnings to both present and potential investors in making rational investment decisions. Earnings are very important in the life of a firm for growth, diversification, investments, and in shareholders' wealth maximization. It provides the needed resources for the provision of returns on investment in shares and other portfolios by shareholders and other stakeholders. The value of the ordinary shares could also reflect the performance and managerial efficiency of those who manage the firms at a point in time. Earnings per share (EPS) is also one of the

measures of managerial efficiency as well as firm performance, though the studies on whether EPS has any predictive power on investment performance is not very clear in financial literature which necessitated this study.

Objectives of the Study

The broad objective of this study is to ascertain the impact of earning per share on investment performance of Guinness Nigeria Plc. Furthermore, as a contributory factor for earning per share, the study consider dividend per share as one its explanatory variable.

Hypotheses

H₀: There is no significant impact of earning per share and dividend per share on investment performance of Guinness Nigeria Plc

H₁: There is significant impact of earning per share and dividend per share on investment performance of Guinness Nigeria Plc

This study is divided into five sections. Following this section is section two which examined review of related literature, section three focused on methodology, section four deals with empirical analysis while section five presents the conclusion and recommendations.

2. Reviewed of Related Literature

Uman & Musa (2013) examined the relationship between stock prices and firm EPS from 2005 to 2009. A simple linear regression model was employed on a panel of 140 Nigerian firms from a total population of 216 firms' operated in Nigerian Stock Exchange (NSE). It was discovered that an insignificant relationship exists between stock prices and firm EPS in Nigeria. In fact, firm EPS has no predictive power on stock prices. It was suggested that firm EPS should not be relied upon for the prediction of the behavior of stock prices in Nigeria.

Ijaiya, Sanni, Amujo & Suleiman (2012) examined the relationship between dividend policies and financial performance of selected listed firms in Nigeria. Data were sourced through secondary means from the annual reports of the sampled quoted firms and was analyzed using panel data regression model. Two models were developed in an attempt to provide a theoretical explanation on the birds-in-hand dividend relevance theory and the Modigliani and Miller's (MM) dividend irrelevance theory. The result from the findings shows an insignificant relationship between dividend payout ratio and financial performance of the selected quoted firms in Nigeria from the first model, while the result from the second model shows a significant but inverse relationship between dividend payout ratio and earnings per share, implying that companies retained earnings as a means of increasing their earnings per share.

Olabisi, Oyinlola & Adeniran (2014) examined the performance impact of dividend policy in the brewery industry. Only secondary data were used and were collected on the internet. They were analysed using descriptive statistics, correlation analysis and regression analysis. Findings, however, reveal that dividend policy is relevant and that a firm's dividend policy is seen as a major determinant for a firms' performance. Suggestion is made that optimal dividend policy that would better the lots of shareholders both in the short-run and long-run should be adopted.

Inyama (2015) examined the magnitude and nature of the relationship between earnings per share and market price of ordinary shares in Nigeria banking industry from 2004 to 2013. In addition, it aims at ascertaining the impact of earnings per share on prices of ordinary shares in Nigerian banking industry. Ordinary least squares method in the form of multiple regression was applied in the analysis. Stationarity test was conducted using the Augmented Dickey- Fuller (ADF) and Phillip Perrons (PP) tests. The result reveals that earnings per share significantly and positively influence the market price of ordinary shares;

with a strong and positive association too. Earnings per share also granger causes market price of ordinary shares and these characteristics are sustainable in the long run in Nigerian banking sector. The implication of the findings is that an increase in earnings has the tendency of increasing significantly the market price of shares and earnings per share is one of the key factors responsible for fluctuations in market price of ordinary shares in Nigerian banking sector.

Adediran & Alade (2013) ascertaining the relationship between dividend policy and corporate profitability, Investment and Earning Per Shares. Data for the study were extracted from annual report and accounts of twenty five quoted companies in Nigeria. These data were subjected to regression analysis, using e-view software and the findings indicate that; there is a significant positive relationship between dividend policies of organizations and profitability, there is also a significant positive relationship between dividend policy and investments and there is a significant positive relationship between dividend policy and Earnings Per Share.

Inyiama & Ozouli (2014) determine the direction and significance of the interactions between earnings per share and market price of ordinary shares in the Nigeria brewery industry from 2000 to 2013. Engle and Granger 2-step cointegration and correlation approach was adopted in the analysis with an estimation of an error correction model. Stationarity of time series data were tested with the adoption of Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) procedures. All the study variables were integrated of the same order I(1), signaling a cointegration. Market Price of Shares has a short term positive and significant effect on Earnings Per Share while the long run coefficient shows a negative and insignificant influence in line with our initial expectations. The error correction mechanism suggests that deviations from equilibrium could be corrected at approximately 7% per annum, implying that the distortions affecting EPS in the long term could be corrected in

approximately 14 years and three months (approximately 171 months). There is a unidirectional causality running from MPS to EPS at lag 1 period, implying that MPS granger causes EPS in the short run. The result further reveals that a very strong relationship exists between MPS and EPS at approximately 80%. Firms in the brewery industry should, therefore, pursue strategies geared towards cost reduction, elimination of wastes, integrations, full automation of production lines, attractive packaging and production of low sugar alcoholic drinks in order to push up earnings and ultimately enhance the market price of their shares.

3. Methodology

Sources and Methods of Data Collection

The study adopted secondary method of data collection. Basically, secondary data were used involving the annual accounts and reports of the Guinness Nigeria Plc.

Model Specification

Model specification explained the relationship between two or more variables. Based on the studies carried out by Olabisi, Oyinlola & Adeniran (2014), who have examined the influence of dividend payout on the performance of Nigerian listed brewery companies and they specified their model as:

$$EPS_{it} = f(DPS_{it-1}, \varepsilon_{it}) \dots \dots \dots (i)$$

This can be written econometrically as:

$$EPS_{it} = \alpha + \beta DPS_{it-1} + \varepsilon_{it} \dots \dots \dots (ii)$$

Where; EPS is the earnings per share for ith cross-sectional companies for the tth period; α is constant; β coefficient of the firm's dividend per share ε_{it} is the random error.

Since investment could influence future firm’s performance, investment is added to the estimation model as control variable; and so the model is modified as follows:

$$EPS_{it} = \alpha + \beta_1DPS_{it-1} + \beta_2INV_{it-1} + \varepsilon_{it} \dots \dots \dots (iii)$$

Where; INV is firms’ investment, defined as the net cash flow from investing activities. This study model modified the above model with the view to achieve the study objective as follows:

$$INVP = f (x + a)^n = \sum_{k=0}^n \binom{n}{k} x^k a^{n-k} \dots \dots \dots (iv)$$

Where INVP is investment performance for Guinness Plc, x represents earning per share (EPS) and a is dividend per share (DPS). Meanwhile, $\sum_{k=0}^n \binom{n}{k} x^k a^{n-k}$ represents is constant value for stochastic variables.

Thus, for further simplicity of the study model, the researcher re-modified the model as follow:

$$INVP = f (EPS, DPS) \dots \dots \dots (v)$$

$$INVP = a + b \text{ EPS} + c \text{ DPS} + e \dots \dots \dots (vi)$$

Estimation Techniques

Ordinary Least Square (OLS) technique was used. Specifically, the study employed f-statistic and co-efficient of determination (R²) for effective interpretation of the study result. Hence, a computer statistical E-views package was used for the data analysis.

4. Empirical Analysis

Dependent Variable: INVP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11520.24	4879.371	2.361009	0.0562
EPS	-7.275167	5.124130	-1.419786	0.2055
DPS	-1.142455	3.365264	-0.339485	0.7458
R-squared	0.252299	Mean dependent var		5040.111
Adjusted R-squared	0.003066	S.D. dependent var		3266.298
S.E. of regression	3261.288	Akaike info criterion		19.27883
Sum squared resid	63815989	Schwarz criterion		19.34458
Log likelihood	-83.75475	Hannan-Quinn criter.		19.13696
F-statistic	1.012301	Durbin-Watson stat		2.453380
Prob(F-statistic)	0.418007			

$$INVP = 11520.24 - 7.275167 EPS - 1.142455 DPS$$

Source:E-views

From the above regression results of the impact of earning per share (EPS) and dividend per share (DPS) on investment performance of Guinness Plc in Nigeria, it was found that a is -7.275167 and b is -1.142455 and they the parameters estimates for earning per share (EPS) and dividend per share (DPS) respectively. The results showed that earning per share (EPS) and dividend per share (DPS) negatively impact investment performance of Guinness Plc in Nigeria. This implies the rejection of alternative hypothesis (H_1) in favour of null hypothesis (H_0). R^2 measures the goodness of fit of model. In the analysis, R^2 is 25% which is a fair measure of fit which shows that earning per share (EPS) and dividend per share (DPS) account for about 25% systematic reduction in investment performance of Guinness Plc in Nigeria, whereas the remaining 75% are other factors which could affect investment performance of Guinness Plc, but not captured in the model. F-statistics confirm the joint statistical significance of the explanatory variable with the dependent variable since the calculated f-statistics is less than the table value i.e $1.012301 > 4.21$. We can therefore reject H_1 and concluded that there is no significant impact of earning per share and dividend per share on investment performance of Guinness Nigeria Plc.

5. Conclusion and Recommendation

The study makes an attempt to empirically examine the impact of earning per share and dividend per share on investment performance of Guinness Plc in Nigeria, and this was

done through the application of ordinary least square regression (OLS) with the application of E-views econometrics analysis. The investment performance data of Guinness Plc was used as dependent variable and regressed against independent variables of earning per share (EPS) and dividend per share (DPS) of the same company. The study concluded based on the outcomes of the study that earning per share (EPS) and dividend per share (DPS) are negatively impact investment performance of Guinness Plc. This suggest that firms in the brewery industry should, therefore, pursue strategies geared towards cost reduction, elimination of wastes, integrations, full automation of production lines, attractive packaging and production of low sugar alcoholic drinks in order to push up earnings and ultimately enhance the market price of their shares. Nigerian firms should not give much emphasis on maximizing their EPS but should concentrate on those firm performance measures which exert more influence on their performance. Nigerian firms should give more emphasis on expansion and growth; this would help greatly in maximizing those performance parameters that could exert influence on their general performance.

REFERENCES

- Adediran, S. A., & Alade, S. O. (2013). Dividend policy and corporate performance in Nigeria. *American Journal of Social and Management Sciences*, 4 (2), 71 – 77.
- Gompers, P. A., Joy, L., Ishii, W., & Metrick, A. (2003). Corporate governance and equity price. *Quarterly Journal of Economics*, Forthcoming.
- Ijaiya, M. A., Sanni, M., Amujo, E. T., & Sulaeman, H. B. (2012). Dividend policy and financial performance: A survey of selected quoted firm in Nigeria. Department of Accounting and Finance, University of Ilorin, Ilorin, Nigeria.
- Inyiama, O. I. (2015). Does earning per share determine market price of ordinary shares. *European Journal of Accountability, Auditing and Finance Research*, 3 (6), 91 – 102.
- Inyiama, O. I., & Ozouli, C. (2014). Interactions between earnings and share prices in Nigeria brewery industry. *Research Journal of Finance and Accounting*, 5 (22), 177 – 187.
- Mlonzi, V.F., Kruger, J., & Nthoesane, M. G. (2011). Share price reaction to earnings announcement on the JSE-ALtX: A test for market efficiency. *Southern African Business Review*, 15, 3 – 9.
- Olabisi, M. O., Oyinlola, F. O., & Adeniran, J. O. (2014). The influence of dividend payout in the performance of Nigerian listed brewery companies. *International Journal of Economics and Management Sciences*, 3 (1), 13 – 21.
- Umar, M. S., & Musa, I. B. (2013). Stock prices and firm earning per share in Nigeria. *JORIND*, 11 (2), 187 – 192.
- Wang, J., Fu, G., & Luo, C. (2013). Accounting information and stock price reaction of listed companies: Empirical Evidence from 60 listed companies in Shanghai Stock Exchange. *Journal of Business and Management*, 2 (2), 11 - 21.