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RESEARCH ARTICLE

DEBT EQUITY AND SHARE PRICE PERFORMANCE OF MANUFACTURING COMPANIES LISTED IN NIGERIA

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Abstract

This study examined the impact of debt equity ratio on the share price performance of manufacturing firms listed in Nigeria between 2010 and 2019. The study adopted an ex-post facto research design. A sample size of fifteen (15) listed manufacturing firms was used while panel regression models estimated using fixed effect model and random effect model, while the result of the Hausman test was utilized to select the appropriate model between fixed effect model and random effect model. The findings of the study reveals that the total debt to equity ratio is negative and significant influence on performance of share price {Coef. = -0.009; P-value > 0.05}. Return on Assets is also seen to be positive and significantly influence the performance of share price of listed manufacturing firm in Nigeria {Coef = 2.428; P-value = 0.000}. However, Size of firm {Coef. = -0.019; P-value = 0.344} is seen to have negative but insignificant effect on the performance of share price. The study therefore recommended that firm manager should cautious while using debt finance. Firm manager should consider the consequences of debt finance before making capital structure decision. They are supported to identify the optimum debt level and ensure that they are no use excessive amount of debt in capital structure.

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Introduction:-

The stock market plays critical role in every economy of a nation. Stock price performance relates to the maximization of shareholders profit which also necessitates the increase in the value of its assets while the operational performance concerns growth and expansions in relations to sales, revenue and/or market value. Stock markets serves as a place where securities are traded as well as provide the platform for interactions between savers and users of capital by means of pooling of funds, sharing risk and transferring wealth among stakeholders (Ammeh, 2014). Equity shares provide major channel of investment that has the potential of yielding meaningful returns to investors (Nirmala, Sanju & Ramachandran, 2011). However, a number of factors such as market conditions, activities of regulatory bodies, performance of particular stocks, among others cause returns from equity investment to fluctuate. According to Nirmala et al. (2011), knowledge of those factors and their probable influence on share prices is mostly visible as it would help investors make good decision on investment as it will support firms to boost their market value.

Menon (2016) noted that how capital structure of the firm influences its profitability to a great extent. He acknowledged that debt is a liability to the firm and must be paid irrespective of the gain or loss the firm may

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witnessed. Moreover, the firm equity include shareholders' or owners' investments payment of dividend depends upon the company's profits. A high ratio of debt content in the capital structure upturns the financial risk of the firm which leads to financial insolvency in bad times. However, raising funds by debt is inexpensive as compared to raising funds by shares. This is because interest on debt is permitted as a cost for tax purposes. Dividend is considered to be an appropriation of profit; hence, payment of dividend does not result in any tax benefit to the firm (Menon, 2016).

This assertion affirms with the notion of the capital structure of traditional theory which postulates that wealth is not the only option of creating investments in assets that yield a positive return on investment but also from purchasing the assets with an optimal mixture of equity and debt. Some assumptions of the theory correspond with situation denote that cost of capital be determined by the degree of leverage. In Modigliani-Miller theorem (1958), it was argued that capital structure is irrelevant to the value of a firm. They opined that the value of two identical firms would remain the same and value would not affect by the choice of finance adopted to finance the assets.

Andow and Wetsi (2018) affirmed that capital structure decisions are basic for the growth of any firm as it showed that management gives autonomy of chosen the mechanisms of their capital structure as long as they improve the share price worth together of the share price at the same time attaining some of the core objectives and goals of firms. Some of these objectives include maximization of the company's value or share price. Hoque, Jahirul, Ashraf and Kabir (2014) study on capital structure and firm value revealed a positive relationship. Above all, the use of debt at the optimal level will maximize the use of assets so that the value of the company will increase. However, research conducted by Wahyuni, Ernawati and Murhadi (2013) showed that capital structure had negative and significant impact on firm value because companies that had reached the optimal capital structure level tend to use internal funds rather than debt and if internal funding needs were lacking, external funding becomes the alternative. The authors however did not elaborate on the type of external funding that may be expedient

San and Heng (2011) acknowledged that through debt maturity, capital structure will influence a company's option in investing while tax rate will also affect company's performance. Barclay and Smith (2005) pointed out that when a firm accumulate more debt to its capital structure, then it should be able to provide a good expected cash flows. The managers of companies that have lifted their levels of debt are in effect showing the markets that they are intent to the states of their companies which are constructive and it is believed that the companies' performances will enable them to dispose the additional debts. The study showed positive link between the extent of leverage and the forecast performance of the stock of the firm exist (Barclay & Smith, 2005). Therefore, it is apparent that the exact effect of capital structure on share price performance is yet to be fully established around the world as there are little studies on capital structure and share prices especially in the Nigerian context. In order to establish the influence of various capital structure determinants on share price, it is assumed that the investment decision is held constant. The choice of capital structure of a firm is determined by some factors including the market forces, type of industry, internal policies of the firm, size of the firm, profitability, corporate tax and bankruptcy costs (Ogebe, Ogebe & Alewi, 2013).

The changing trend of share prices has always been of much interest of the capital markets authority in Nigeria given their adverse effect on the market stability (Aroni, 2011). Hence, the study examine the effect of Total debt to equity financing on the share prices of manufacturing firms listed in Nigeria;

Literature Review:-

Concept of Debt to Equity ratio

Nwude (2003) affirmed debt to equity ratio as a measure of the proportion of debt to shareholders funds in the total financing of a business. Items such as accumulated losses and deferred expenditures are eliminated from the shareholders' funds before using it as the denominator. The ratio means how much naira can be issued as debt for ₦1 of equity. Enekwe (2012) continues that debt to equity ratio is a financial ratio indicating the relative proportion of equity and debt used to finance a company's assets which is an indicator of the financial leverage.

According to Werner and Jones (2004), debt to Equity Ratio posits a proportional connection among debt and equity. When low debt to equity ratio, the total debt is relatively lower compared to total equity. Closely related to leveraging, the ratio is also known as risk, gearing or leverage. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's debt and equity are publicly traded, or using a combination of book

value for debt and market value for equity financially. Preferred stock can be considered part of debt or equity. Attributing preferred shares to one or the other is partially a subjective decision but will also take into account the specific features of the preferred shares. When used to calculate a company's financial leverage, the debt usually includes only the Long Term Debt. Quoted ratios can even exclude the current portion of the Long-term debt. The composition of equity and debt and its influence on the value of the firm is much debated and also described in the Modigliani-Miller theorem. Financial economists and academic papers will usually refer to all liabilities as debt, and the statement that equity plus liabilities equals assets is therefore an accounting identity (it is, by definition, true). Generally speaking, a high ratio may indicate that the company is much resourced with (outside) borrowing as compared to funding from shareholders.

Share Price Fluctuation

Jogiyanto (2017) defined share price as the stock prices stock market at the appropriate time determined by market participants. The market value is determined by demand and supply of the relevant shares in the stock market. The share price is the price at the real market price of the most easily determined because it is the price of a share in the ongoing market or if the market is closed, then the market price is the closing price (Anoraga&Pakari, 2003). According to Fatoki and Olwendy (2018), a share price is the price of a single share of a number of saleable stocks of a company, derivative or other financial asset. In layman's terms, the stock price is the highest amount someone is willing to pay for the stock, or the lowest amount that it can be bought for.

Mgbame and Mgbame (2011) opined that the market price per share of stock usually termed "share price" as it regards as the country currency amount that investors are willing to pay for one share of a company's stock. It has no specific relation to the value of the company's assets, such as book value per share does, which is based on the information from a company's balance sheet.

Fluctuation is said to occur if there are a lot of shares for sale and no one is interested in buying them, the price will quickly fall. Fluctuations of stock prices and stock indices result into a problem of uncertainty which is common to all Stock Markets. The market uncertainties have to do with predicting the short and long-term future state of the stock price accurately. These features are undesirable for the investor but it is also unavoidable whenever the Stock Market is selected as the investment tool (Vincen&Bamiro, 2013)

Salehi, Khodadadi, and Abdolkhani (2011) clarified that fluctuations are caused by the economic factors of demand and supply that governs all financial market. Stock market fluctuations are when a company's stock prices changes in the market. On one hand, a company's stock has no direct effect on a company unless the company wants to raise more money by selling stock into the market. In that case, the current stock price determines how much money they will be able to raise where they sell shares into the market

Empirical Review

In Nigeria, Somoye, Akintoye, and Oseni (2009) conducted a survey on 130 companies traded in the Nigerian stock exchange between 2001 and 2007 in order to analyse the impact of various macroeconomic factors on the market price of shares. The study employed OLS regression and regressed stock prices on earnings per share, dividend per share, oil price, gross domestic product, lending interest rate and foreign exchange rate on stock price.

In addition, Olokoye (2012) studied the impact of capital structure on firm's performance in Nigeria. The findings revealed that there is a significant relationship between total debt to total equity and return on assets. Simon and Afolabi (2011) examined the impact of capital structure on industrial performance of five quoted firms in Nigeria from 1999 to 2007 using panel data. The regression result showed a positive relationship between firms' performance and debt to equity ratio. Babalola (2014) conducted a triangulation analysis of capital structure and firm performance in Nigeria using thirty-one (31) manufacturing firms for the period 1999 to 2012. The result revealed a significant relationship between total debt to total equity and financial performance. Arowoshegbe and Emeni (2014) also investigated the relationship between shareholders wealth and debt-equity mix of 60 listed non-financial companies in Nigeria from 1997 to 2011. The result showed a significant negative relationship between total debt to total equity and return on assets and earnings per share.

Lawal, Edwin, Kiyanjui and Adisa (2014) studied the effect of capital structure on performance of manufacturing companies in Nigeria for the period 2003 to 2012. The result of the regression revealed a negative relationship between total debt to total assets and financial performance. A more focused study of the impact on dividends

(proxied by dividend yield and dividend payout) along with other control variables on share prices were studied by Okafor and Mgbame (2011) in the Nigerian market. The multivariate regression analysis was applied on 10 firms for eight years period from 1998-2005. Results revealed a negative impact of dividend yield on share price changes while dividend pay-out revealed inconsistent results of positive and negative relationships during the different years studied.

Adebisi and Lawal (2015) study reviewed the factors that determine the firms' equity share price with special focus on the microeconomic factors. Dividend per share, earning per share, book value per share, dividend payout, price earnings ratio, and size of the firm have been identified as significant factors impacting the firm's equity share price by the corporate finance scholars. Appah, Okoroafor and Bariweni (2013) examined the effect of capital structure on 32 quoted firms performance in the Nigerian Stock Exchange between the period 2005 to 2011, the study ascertain that total debt to total assets has significant negative relationship with financial performance.

Akinyomi and Olagunju (2013) studied the effect of capital structure in Nigeria. Data was obtained from annual reports of the companies from 2007 to 2011. Correlation analysis was employed in analysis of the data. The finding revealed that total debt to total assets has significant positive effect on financial performance. Also, David and Olorunfemi (2010) used panel data analysis to examine the relationship between capital structure and corporate performance in Nigeria petroleum industry. They found that a positive relationship exists between earning per share and leverage ratio on the one hand and positive relationship between dividend per share and leverage ratio on the other hand. Olokoyo (2013) examined the impact of leverage on firm's performance in Nigeria using fixed-effect estimation, random-effect estimation and a pooled regression model. The author found that all the leverage measures have a positive and highly significant relationship with the market performance measure (Tobin's Q).

However, a study by Nwude, Itiri, Agbadua and Udeh (2016) revealed from the regression estimations showed that debt structure has a negative and significant impact on the performance of Nigerian quoted firms within the period under review. In empirical analysis of capital structure on performance of firms in the petroleum industry in Nigeria, Oladeji, Ikpefan and Olokoye (2015) concluded that a negative relationship exists between leverage and firm performance. Idris and Bala (2015) examined the attributes of firms and its effect on stock returns of listed Nigerian Food and Beverages Firms on Nigeria Stock Exchange. Using GLS regression, the result revealed that that organization's debt/equity proportion and income per share proportion obviously and measurably have an effect on firm stock returns.

Adenugba, Ige and Kesinro, (2016) measured the relationship between financial leverage and firms' value/worth of listed firms on the Nigerian Stock Exchange. A sample of five (5) firms was drawn from the population from 2007 to 2012. The data of the investigation were sourced from yearly reports of sampled firms. The data extracted were subjected to Ordinary Least Square (OLS) regression which was utilized to confirm the research hypotheses. The study found that there is a significant connection between financial leverage and firms' value other than that investigation demonstrated that financial leverage affects firms' value. Ude (2015) looked into debt financing and company's profitability, maximum assets utilization, earnings per-share, and value of Nigerian firms. The finding holds up with the trade-off theory of firm's financial structure, which proposes that the tradeoff between debt obligation and equity value must be with the end goal that the ideal financial structure must make value on a very basic level for the firm and additionally the owners of the firm. Nwude, Itiri, Agbadua and Udeh (2016) explored the effect of debt obligation structure on the performance of Nigerian listed firms. The examination infers that debt obligation structure contributes contrarily to performance of Nigerian listed firms; that concurs with pecking order theory. This study is motivated by or fuelled by the lack or dearth of research that examines the influence of capital structure on share price of listed DMB in Nigeria. This investigation, subsequently, is an endeavor to address this gap of information on listed DMB in Nigeria. At that point, the goal of this study is to quantify or measure the influence of capital structure on share price of listed DMB in Nigeria.

Yahaya and Andow (2015) considered the association between capital structure and financial performance of listed firms in Nigeria for the period 2009 to 2013. The study built up that the relationship between financial leverage and financial performance is unfavorable; thus, this exploration leaves a gigantic gap by dismissing a superior and strong tool of investigation, for example, panel regression which will give better outcome. Adesina, Nwidobie and Adesina (2015) sought to investigate the impact of post-consolidation capital structure on financial performance of Nigeria listed DMB banks. The result of the investigation uncovered that that capital structure has a substantial affirmative connection with financial performance of Nigeria listed DMB banks.

Issah and Antwi (2017) investigated the role of macroeconomic variables on firm’s performance in the UK. Multiple regression was used to analyse the data. They studied a total of 59 macroeconomic variables, subjected to principal component analysis for variable reduction. The full sample model showed adjusted R2 value of 0.91, and the following variables were significant: lagged ROA; adjusted unemployment rate; benchmarked unit labour costs; real GDP and exchange rate. And five out of the six studied industries had significant F-values.

Aransiola and Oluwadetan (2015) looked into the relationship that occur between capital structure and profitability of quoted manufacturing companies in Nigeria. The study employ regression and showed that there is negative relationship between total debt to total assets ratio and financial performance.

Methodology:-

The study adopted an *ex post facto* research design. From the population of 64 manufacturing firms listed on the Nigeria stock exchange, a sample size of fifteen (15) manufacturing firms was selected. The sampling technique used purposive sampling technique to select the following firms “PZ cussons, Nestle PLC, Nigeria Flour mills, Meyer PLC, Lafarge Africa PLC, May and Baker Nigeria PLC, Cadbury Nigeria PLC, Guinness PLC, Honey well Flour Mills, Dangote Flour mills, Unilever Nigeria PLC, Berger Paints PLC, Livestock Feeds PLC, Dufil Prima Foods PLC Nigeria and International Breweries PLC”

Model Specification

In a bid to capture the impact of debt equity on share price performance, a model in line with the traditional theory of capital structure is specified. For the purpose of this study, Chemutai, Ayuma, kibet (2016) model was adopted and modified according to the objectives of the study. The functional form of the model is giving as:

$$MSP = f(DER).....(1)$$

Where:

MSP= Market Share Price

DER= Debt Equity Ratio

To illustrate the sub objectives of the study, the functional form of the model is as follows:

$$SP_{it}=f(TDER_{it}).....(3)$$

Given the above mathematical equation, the econometric model for the regression analysis is stated below as:

The Models

$$SP_{it} = \beta_0 + \beta_1 TDER_{it} + \beta_2 ROA_{it} + \beta_3 FSZ_{it} + \mu_{it}$$

Where:

SP= Share Price,

TDE= Total Debt to Equity

ROA= Return on Assets

FSZ= firms size

β = Coefficient or Parameters

μ = Error Term

I = Cross sectional data

t = Time Series

Data Analysis, Results and Discussions:-

Table 1:-Summary Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
SP	150	-0.032	0.457	-1.225	1.186
TDE	150	0.130	1.162	-13.117	4.792
ROA	150	0.077	0.073	-0.113	0.265
FSZ	150	17.316	1.798	12.474	20.112

Share Price (SP)

Table 1 shows that the average value of this dependent variable that provides a clearer picture of the performance of share price is found to be -0.032 while the rate of dispersion of all the firms stock returns i.e. standard deviation stood at 0.457. These values spread between -1.225 and 1.186 and the number of observation is 150.

Total Debt Equity Ratio (TDE)

However, the Debt Equity Ratio (TDE) average value is estimated to be 0.130 which depicts that 13% proportion of under study companies' assets is financed by debt. TDE has its lowest and highest values to be -13.117 and 4.792 respectively: the standard deviation being 1.162 with number of observation being 150.

Return on Assets (ROA)

As revealed in Table 1, the mean value of the Return on Assets (ROA) is 0.077 with standard deviation value which is 0.073. ROA values are found to vary between -0.113 and 0.265 having about 150 observations.

Firm Size (FSZ): The table above also reveals that Size (SIZ) has an average value of 17.316 and rate of its values dispersion (standard deviation) is 1.798, which ranges from a minimum value of 12.474 and maximum value 20.112.

Test of Hypothesis**Research Objective:**

determine the effect of firm Total debt to equity financing on the share prices of manufacturing firms listed in Nigeria

Research Question:

How does firm total debt to equity financing affect the share prices of manufacturing firms listed in Nigeria?

Research Hypothesis:

Total debt to equity does not have any significant effect on share prices of manufacturing firms listed in Nigeria

Table 2:- Test of Hypotheses of Debt Equity Ratio.

Variables	Pooled OLS Regression	Random-effects GLS Regression	Fixed-effects GLS Regression
	Coef. (Std. Error) t-stat. (P – value)	Coef. (Std. Error) t-stat. (P – value)	Coef. (Std. Error) t-stat. (P – value)
TDE	-0.009(0.003) -2.980 (0.003)	-0.009(0.003) -2.980 (0.003)	-0.006(0.003) -2.000 (0.047)
ROA	2.428 (0.477) 5.090 (0.000)	2.428 (0.477) 5.090 (0.000)	2.940 (0.660) 4.460 (0.000)
FSZ	-0.019 (0.020) -0.950 (0.344)	-0.019 (0.020) -0.950 (0.342)	-0.132 (0.083) -1.580 (0.117)
Constant	0.114 (0.333) 0.340 (0.731)	0.114 (0.333) 0.340 (0.731)	2.029 (1.443) 1.410 (0.162)
Observation = 150			
	<i>F – Stat./Wald</i> = 12.12 [0.000] <i>Adj. R²</i> = 0.1829 <i>R²</i> = 0.1994	<i>F – Stat./Wald</i> = 36.35 [0.000] <i>Adj. R²</i> = 0.1613 <i>R²</i> = 0.1782	<i>F – Stat./Wald</i> = 10.33 [0.000] <i>Adj. R²</i> = 0.1747 <i>R²</i> = 0.1913
LM Test [P – value]		0.00[1.0000]	
Hausman Test [P – value]			3.57[0.3120]
Pesaran CD Test [P – value]		8.755 [0.0000]	8.732 [0.0000]

Heterosc. Test [P – value]	0.10 [0.7510]		
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Breusch and Pagan LM Test and Hausman Test

In the lower parts of the of Table 2 the LM and Hausman tests results show are found to be statistically insignificant value (P-value > 0.05) for both test and these suggest the acceptance of the null hypotheses and consider OLS as the appropriate estimator in evaluating the extent by which debt to equity affects the share prices of manufacturing firms listed in Nigeria.

Cross Sectional Dependence Test, Heteroskedasticity Test and Serial Autocorrelation Test

As part of the diagnostics, the Pesaran CD test is carried out to check whether there exist cross sectional problems in the estimated model. Since, OLS is chosen in this subsection of this study CD test is not applicable. However, Heteroskedasticity test is carried out to confirm whether the residual has constant variance or not. The result of the test shows a p-value that is not significant; this suggests that the models are free from heteroskedasticity problem.

The estimated models are shown below;

$$SP_{it} = \beta_0 + \beta_1 TDE_{it} + \beta_2 ROA_{it} + \beta_3 FSZ_{it} + \varepsilon_{it} \quad \text{equ.3}$$

$$SP_{it} = 0.114 - 0.009 * TDE_{it} + 2.428 * ROA_{it} - 0.019 * FSZ_{it} + \varepsilon_{it} \quad \text{equ.3.1}$$

Interpretation

From the explanatory variables, as seen in the results revealed in Table 2, result reveals that the coefficient of Total Debt to Equity Ratio (TDE) is negative and significant at 1% significant level {Coef. = -0.009; P-value = 0.003}. The coefficients of Return on Assets is seen to be positive and significant at 1% level of significance {ROA: Coef = 2.428; P-value = 0.000}. This means that ROA has positive and significant effect on share price performance of quoted manufacturing companies in Nigeria during the period of this study. However, Size of firm {Coef. = -0.019; P-value = 0.344} is also seen to have negative but insignificant effect on the performance of share price. Summarily, the results depicts that for every unit increase in ROA, there is about 2.428 units increase in share price performance of quoted manufacturing companies in Nigeria during the period of this study, meanwhile for every unit increase in TDE, there is about 0.009 units decrease in share price performance of quoted manufacturing companies in Nigeria during the period of this study.

Although, the results obtained of Adj $R^2 = 0.183$, $R^2 = 0.199$ and F-Stat/Wald = {12.12 (0.000)} shows how fit the model is and how the variables jointly affects the performance of share price. However, based on TDE (P-value = 0.003), the study rejects the null hypotheses $\{H_{03}\}$ which is; “Total debt to equity does not have any significant effect on share prices of manufacturing firms listed in Nigeria”. Therefore, the study concludes that debt to equity ratio has significant effect on the performance of share prices of quoted manufacturing companies in Nigeria.

Summary, Conclusion and Recommendations:-

This study examined the impact of debt equity ratio on the share price performance of manufacturing firms listed in Nigeria between 2009 and 2018. The study made use of *ex-post facto* research design. While the population of the study were 64 manufacturing firms listed in Nigeria. The study sampled examined the sample size of fifteen (15) listed manufacturing firms. The panel regression models estimated using fixed effect model and random effect model, while the result of the Hausman test indicated the appropriate model between fixed effect model and random effect model. The findings of the study reveals that the total debt to equity ratio is negative and significant influence on performance of share price {Coef. = -0.009; P-value > 0.05}. Return on Assets is also seen to be positive and significantly influence the performance of share price of listed manufacturing firm in Nigeria {Coef = 2.428; P-value = 0.000}. More so, However, Size of firm {Coef. = -0.019; P-value = 0.344} is seen to have negative but insignificant effect on the performance of share price.

In line with various empirical studies, the findings revealed that total debt to equity ratio inversely related to the performance of share price. This study therefore concludes that listed manufacturing firms in Nigeria cannot achieve better performance of share price as well as maximise its shareholders' wealth without paying proper attention to the management of the various components of its capital structure. The study recommended that Firms must be aided to achieve equity by listing on the exchanges. This can be done by educating business owners of the profits of listing firm and at the same time granting of special fiscal measures to inspire them to list. More so, with the fact that the findings show that total debt to equity to have an inverse effect on share price performance, this explains that debt increasing over optimal level raises the cost of capital and bring an inverse effect on share price performance. Hence, firm management should be guarded while making use of debt finance. Firm manager should consider the

consequences of financing firm with debt before making capital structure decision. They are supported to ascertain the optimal debt level and make sure they are no use excessive debt in capital structure.

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