Equity Funds and the Performance of Nigeria's Capital Market

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Abstract. The paper evaluated the effect of equity funds on performance of capital market in Nigeria. Data were collected from statistical bulletin 2019 for twenty one (21) years. Ordinary least square multiple regression was used to analyze the data. The findings showed that only right issue had positive and significant effect where as initial public offer, offer for subscription, private placement and supplementary offer had no significant effect on all share index in Nigeria. Based on the findings, we therefore recommend that the shareholders should sustain the tempo of the right issue so as to maintain the performance of the Nigeria's capital market.

Key words: Capital market, All share index, Initial public offer, Offer for subscription, Private placement, Right issue, Supplementary offer

Introduction

Capital market is a market where long term funds are sourced (Ihenetu, 2008). It is segmented into three namely: non-security market, security market and derivative market (Nzotta, 2004). Non-security market consists of venture capitals and negotiated capital fund. Negotiated capital fund comprises informal long term capital funds and institutionalized capital fund ie development finance companies and development bank (Akujiobi, 2004).

Derivative instruments are hedging instrument which help to transfer risk to those who can bear it. It is an asset which derives and base upon other assets (Nzotta, 2004). The typical examples of derivatives are option, swap, future etc. It is regretable that as old as Nigeria is, these markets are not functional.

Security market also known as stock market is the most organize part of capital market in Nigeria (Mbat, 2000). It is divided into primary and secondary market. Secondary market considered an already traded securities which the owner resale without the money getting to the company that owns the security. A typical example of this market is Nigeria stock exchange. In Nigeria stock exchange, securities that have been traded are resale here through the aid of the brokers. We need to state that before security will be accepted to be traded in the market, it must undergo certain approved condition called listing requirement. The essence of this is to ensure protection of the buyer and to ensure that the security is not over-valued (Akujiobi, 2004).

Primary market handles new issued securities that are coming to the market for the very first time. Primary market helps to raise fresh capitals for the company for expansions, reinvigorations, investments etc. While the funds raised in the secondary market go to the shareholders of the companies, the funds raised in the primary market go directly to the companies or government as the case may be. The major securities traded in the primary market are equity security, corporate bonds, government bonds etc (Ihenetu, 2021).

Equity security confers the right of ownership to the holders. The holders therefore are regarded as the co-owners of the business. Equity funds are raised through initial public offer, offer for subscription (prospectus), offer for sale, private placement, right issue, supplementary offer etc (CBN, 2019). These funds raised help in contributing to the growth and development of the capital market thereby enhancing the performance of capital market.

Nigeria's capital market performance is measured through both quantitative and qualitative means. The mostly known and accceptable means of measurement is market index popularly called all share index. Market index is the most widely used parameter to measuring the performance of Nigeria capital market. It gives an insight into the overall trends of the capital markets and sentiment of the investors towards a particular stock or set of stocks in an industry. It is a statistical measure that shows change that takes place in the stock market. To create an index, a few similar kinds of stocks are selected from amongst the assets already quoted on the exchange and grouped together. The standard of stock selection could be the type of industry, market capitalisation or the size of the company. The value of the stock market index is computed using values of the underlying stock in the market. Any change taking place in the underlying stock prices impact the overall value of the index. If the prices of most of the underlying securities rise, then the index will rise and if the price falls, then the index will also fall.

The research conducted on this area only concentrated on the impact of capital market on economic growth in Nigeria. The area left undone is the effect of equity funds on the performance of capital market in Nigeria. This therefore constitutes the gap in the study.

The purpose of the study is to determine the effect of equity funds on the performance of Nigeria's capital market. The hypothesis is stated in a null form: equity fund has no significant effect on the performance of capital market in Nigeria.The rest of the work shall be segmented into four subheadings such as literature review, methodology, presentation and analysis and conclusion and recommendation.

Literature Review

Conceptual Framework

The concepts relevant to this work are:

a) *Initial public offering (IPO)* in this case, stocks/shares of a *private company* are offered to the public for the very first time. The company is allowed to raise capital from individual or the institutional investors. This movement from a privately owned company to a publicly owned company for the first time is very important for the investors to really realize profits from their investment vehicle (Mansa & Fernado, 2021).

b) *Offer for subscription or issue by prospectus:* Issuer (company extends an open invitation to the investing public through the agency of an issuing house, to subscribe to the issue. The invitation takes the form of an advertisement in national dailies incorporating a detailed prospectus on the issue.

c) *Private placing* is a placing of the securities in the hand of private firms. In a private placement, the issuer contacts institutional investors to buy the securities. Legal formalities are minimal and floatation costs are also minimized. Investors like pension funds, trust funds and investment companies are the main marketers for private placement.

d) *The right offering (issue)* occurs where offers are exclusively giving to existing shareholders. All the securities are sold by right offering. However, the most common is the equity stock issue. A rights offering may be adopted to reduce floatation time and/or floatation costs. More often than not, the major consideration is to preserve the relative ownership rights of existing shareholder in a firm.

e) *Offer for sale/supplementary offer* is very similar to the issue by prospectus. Each involves an open invitation to public. In an offer for sale, however, the issuing house is a principal rather than an agent for the issue. The process starts with the issuing house buying up a block of securities from existing owners or making block subscription for the supplementary issue.

f) *Capital market* is a market where long term funds are sourced (Ihenetu, 2008). It is segmented into three namely: non-security market, security market and derivative market

(Nzotta, 2004). Non-security market consists of venture capitals and negotiated capital fund. Negotiated capital fund comprises informal long term capital funds and institutionalized capital fund ie development finance companies and development bank (Akujiobi, 2004).

g) *Market index* is a compilation depicting the average current market value of common stock as at a particular date relative to their average market value at an earlier base period. It is computed by the stock process and determines the aggregate market capitalization for all securities listed on the exchange. The model is given as current market value divided by base market value (Nzotta, 2004).

Theoretical Framework

The theories that anchor the work are:

i) Capital Market Theory

Capital market theory was all about the theory of diversification developed by Harry Markowitz in 1952. Markowitz came up with the theory of portfolio selection which is concern with the trade-off between risk and return. He said a rational investor should diversify his assets in order to avoid being faced with the same misfortune at the same time. He should build his portfolio in a way that while some will be negative, others will be positive. According to him, it is not enough to have different assets in different industries without knowing the risk, the return and the coefficient of correlation. The whole essence of Markowitz theory is based on rationality of the investeor and efficient operation of capital market. The investors in primary market which is a segment of the security market have to be rational in raising fresh capital either for business expansion or infrastructural development as in the case of government.

ii) The Shareholders' Theory

The shareholders' theory was put up by Friedman in 1970. The theory states that the only goal of a business is to maximize profit for the owners of the company (shareholders). In order to accomplish this purpose, the share holders employ managers as their agents to run the business and maximize their profits. Friedman (1970) posited that it is not the duty of the firms to carry out any social responsibility to the host communities and other critical stakeholders apart from paying taxes to the government. According to him, the profits of a business belong to the shareholders and the payment of taxes belongs to the government, with that, the firm (business) has performs their social responsibility. Expecting the firm to pay any other money to the community in form of social responsibility would amount to double taxation. It is now the responsibility of the government to take care of the societal welfare by providing infrastructure from the taxes paid to them by the firm and better the life of its citizen. The firm that performs further social responsibility after payment of the taxes may not survive in the nearest future. As long as the firm acts in conformity with societal laws and ethical customs; its objective should be primarily to serve the interests of the share holders by making profit for them.

iii) Proprietary Theory

Proprietary theory states that the existence of the firm cannot be seperated from the owners of the firm. The theory is based on the net worth of the owners of the business. The primary objective of the theory is to determine and analyze the proprietor's net worth. The model is given as:

Proprietor's Equity = Assets – Liabilities

If the networth is positve and is high, then the networth of the shareholders is high and if the net worth is low, then the networth of the shareholders is low.

iv) Entity Theory

Entity theory states that the owners of the business (those who provided the capital) are separate and distinct from the business itself. Simply stated, the business unit is different from the shareholders. While owners have their own right, the business have its own right also. Though the capital provider pooled all their resources and invest in the business, they do not influence the business. Unlike the proprietary theory, the interest of the entity theory lies on the business rather than the owners. The model is given as:

Asset = Equities or Assets = Liabilities + Shareholders' Equity

Thus, income generated belongs to the business until it is distributed as dividends to the shareholders.

v) Residual Equity Theory

The residual equity theory is almost the same with proprietary theory but the only difference is the while the proprietary is concern with the shareholders (ordinary and preference), the residual concentrated on the ordinary shareholders. This therefore presupposes that all the claims of creditors and the equities of preferred shareholders must be first considered before that of common equities. The aim of the residual equity holder is to enhance better chance to them for making investment decision. In a firm with infinite continuity, the current value of equity share is dependent primarily upon the expectations of future dividends.

Methodology

The researcher employed expost facto design. The fact that the data were original from CBN statistical bulletin 2019 and adopted for the study necessitated the choice of the design. The data collected were initial public offer (IPO), offer for subscription (OFS), private placement (PP), right issue (RI) and supplimentary offer (SO) which were used as independent variables where as all share index (ASI) was used as dependent variable. The sample size is twenty one years (1999-2019). Ordinary least square multiple regression was used to analyze the data. The model specification is given as:

$$ASI = f(IPO, OFS, PP, RI, SO)$$

This model can be transmodified to econometric model as:

$ASI = \alpha + \beta_1 IPO + \beta_2 OFS + \beta_3 PP + \beta_4 RI + \beta_5 SO + \mu$

Where ASI = All Share Index
IPO = Initial Public Offer
OFS = Offer For Subscription
PP = Private Placement
RI = Right Issue
SO = Supplementary Offer
α = constant variable
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficient of independent variables (slope)
μ = error term.

Data Presentation and Analysis

The data used for the analysis are presented below.

Table 1. All Share Index (ASI), Initial Public Offer (IPO), Offer for Sale (OFS), Private Placement (PP), Right Issue (RI) and Supplementary Offer in (N'B) from 1999 – 2019)

Years	ASI	IPO	OFS	PP	RI	SO
1999	5,266.40	-	4,426.9	49.9	7,207.6	-
2000	8,111.00	-	825.1	9.0	4,873.7	-
2001	10,963.10	-	10,511.4	-	22,168.6	-
2002	12,137.70	-	20,718.3	1,148.0	11,763.9	128.8
2003	20,128.94	-	10,125.0	1,192.7	18,112.2	-
2004	23,844.50	-	106,138.1	11,567.9	27,541.8	38,470.7
2005	24,085.80	-	305,221.2	39,278.8	50,140.5	11,199.0
2006	33,189.30	-	157,142.4	30,960.3	47,689.6	19,892.3
2007	57,990.20	92,273.5	509,924.2	23,532.5	139,844.6	405,296.4
2008	31,450.78	102,152.4	715,795.0	21,894.0	88,580.5	395,342.9
2009	20,827.17	-	179,870.9	2,677.8	149,112.4	-
2010	24,770.52	-	-	49,940.8	47,874.9	-
2011	20,730.63	-	-	928,715.7	131,034.5	-
2012	28,078.81	-	-	23,613.4	66,448.8	-
2013	41,329.19	3,261.7	-	91,390.3	34,813.5	-
2014	34,657.15	96,485.3	-	48,221.0	198,342.7	-
2015	28,642.25	25,776.4	-	14,775.9	26,369.2	-
2016	26,874.62	-	1,808.8	5,108.9	4,813.9	-
2017	38,243.19	-	-	-	306,494.6	-
2018	31,430.50	1,888.2	-	68,224.5	143,963.9	-
2019	26,842.07	-	1,302.5	6,410.8	173,493.0	-

Source: CBN (2019)

Aprior expectation: A positive significant effect is expected between deposit mobilization variables such as IPO, OFS, PP, RI, SO and all share index (ASI).

Ordinary least square multiple regression was used for the analysis. The result of the analyses is summarized below:

Table 2. Ordinary Least Square Multiple Regression

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.702[a]	.493	.323	9858.64596	1.003

a. Predictors: (Constant), SO, PP, RI, IPO, OFS

b. Dependent Variable: ASI

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1415340677.287	5	283068135.457	2.912	.049[b]
	Residual	1457893503.696	15	97192900.246		
	Total	2873234180.982	20			

a. Dependent Variable: ASI
b. Predictors: (Constant), SO, PP, RI, IPO, OFS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19862.906	3383.698		5.870	.000
	IPO	.026	.107	.076	.243	.811
	OFS	-.019	.027	-.304	-.694	.498
	PP	-.005	.011	-.081	-.430	.673
	RI	.065	.030	.432	2.177	.046
	SO	.068	.052	.679	1.315	.208

a. Dependent Variable: ASI
Source: SPSS version 23

From Table 2, IPO, OFS, PP, RI and SO are the independent variables where as the ASI is the dependent variable. The result of the analysis showed that only right issue (RI) had positive and significant effect on ASI. IPO, OFS, PP and SO had no significant effect on ASI at 5 percent level of significance during the period of the study. The reason could be that, the existing shareholders did not want the dilution of the equity base of the firm and therefore decided to subscribe for the shares of the firm so as to block outsiders from intruding into the firms. The IPO, RI and SO had positive coefficient such as 0.026, 0.065 and 0.068 respectively. This showed that they are likely drivers of capital market performance in Nigeria. 1% increase in IPO, RI and SO will increase ASI to N0.026, N0.065 and N0.068 respectively. OFS and PP had negative coefficient such as -0.019 and -0.005. This means that 1% increase in OFS and PP decreases the ASI by N0.019 and N0.005 respectively. The r^2 0.493 implies that variation in all the explanatory variables account for 49.3% of the variation in all share index. F – Statistic measures the overall significance of the model. The F-statistic is 2.912 and the probability of F-statistic 0.049 is less than 0.05 power of test. This means that equity fund had positive and significant effect on capital market performance in Nigeria. This performance is attributable to right issue that triggered the overall performance in the Nigeria capital market.

Conclusion and Recommendations

From the findings, it is very clear that equity funds had positive and significant effect on the performance of Nigeria’s capital market. The positive significant is attributed to right issue so as to avoid the dilusion of the equity base of the firms. The other variables did not have any significant impact because their patronages were not consistent as seen from the table1 above. Therefore, the researchers recommend that the shareholders should sustain the tempo of the right issue so as to maintain the performance of the Nigeria’s capital market.

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