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Asset Valuation and Firm Capitalization of Consumer Goods Manufacturing Companies Quoted in Nigeria

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ABSTRACT: *Capitalization enables firms from around the world to be able to evaluate how effective the investments of any company are thus making it an important variable to be considered when making an investment decision. To ascertain a firm's market value or capitalization, assets need to be valued among other measures that need to be undertaken. Thus necessitating this research work on Asset Valuation and Firm Capitalization of Consumer Goods Manufacturing Companies Quoted in Nigeria. For this study, the adopted research design was Ex-post facto. The study's main objective was to investigate asset valuation's effect on Consumer Goods Manufacturing Companies' capitalization. The study's population is 52 manufacturing companies as quoted on the Nigeria Stock Exchange as of 31st December 2020 out of which 12 were purposively selected. Audited annual reports of the companies that were sampled formed the source of Data collected for this study for a period of 10 years (2011 – 2020). Data for this study were analyzed with the aid of descriptive and inferential statistics and the outcome showed that asset valuation significantly affects firm capitalization. This is seen in the Adj.R2 = 0.312126 and F-Statistics = 26.41023 and P-value of 0.000000 values. The conclusion of this study thus is that asset valuation has a significant effect on firm capitalization Consumer Goods Manufacturing Companies Quoted in Nigeria. The study recommended that firm Managers should give due attention to asset management and valuation to ensure a positive and significant impact on firm capitalization while investors are advised to ensure that the assets of a firm are properly valued to ensure fair firm capitalization before embarking on investment commitment*.

KEYWORDS: asset valuation, consumer goods, firm capitalization, investment decision, market value.

INTRODUCTION

Globally, capitalization enables managers and investors from around the world to be able to evaluate how effective the investments of any company are. An important variable to consider in investment decision-making is the comparison of the presumable future value of a firm or the

investment and the amount to be released by the investor into the firm as an investment (Chytis, 2019). A company's main objective is to maximize the wealth of shareholders and this can be achieved through the maximization of a firm's market share prices (Firm Capitalization) (Husna & Satria, 2019). Firm Capitalization (FCAP) is also seen as the value attached to a firm (FV). It is the business/asset valuation (AVN) determination process employed by firms and other stakeholders.

There is a growing discussion among researchers on the chosen factors that can likely influence the capitalization of firms and the approaches to be adopted in choosing and grouping these factors such as macro and micro economic, sectoral and regional, market and technical, political and psychological factors (Bahraini, Endri, Santoso, Hartati & Pramudena, 2021). Filimonova, Komarova, and Mishenin, (2020) opined that these factors can be generally grouped into three which are internal, external, and industry-related factors. Firms are often taken unaware of the market value of their entity when faced with situations such as acquisition thereby not knowing the right price to offer or accept to and from acquirers respectively, buying or selling company stock, calculating taxation, and applying for loans or insure assets. Chen and Zhang (2012) opined that the market valuation of a firm's assets is a function of the quantity of information conveyed by assets about the firm's future earnings-generating ability. This thus highlights the need for the assets of a firm to be valued.

Mcneil (2000) opined that an asset's value mostly depends on the interests of the users which could be financial or economic and that data availability as well as the objective of the asset valuation are some of the critical factors to be considered in choosing an asset valuation method. If a firm's capitalization is good, it will likely reflect in the firm's market value but, if there is no such information, the application of asset valuation might enable them to have a better insight into the future value of the firm that may lead to the increase of the share price of the company in the nearest future. Also, net profit (i.e. control variables – CVs) among others will also affect the firm's capitalization (Anam, Fatima & Majdi 2011). Having a handy knowledge of a firm's value per time becomes very paramount to the competitiveness of such firms. Over the years, firms have faced the challenge of how best to value assets to achieve the optimum firm capitalization. Husna and Satria (2019) opined that a higher FV leads to a higher return to be obtained with a higher stock return which leads to more prosperity for the shareholders.

Asset valuation is seen to be an easily understandable measure of performance as well as an asset management integration method for the analysis of trade-offs existing between competing firms and their capitalization (Cowe-Falls, Haas & Tighe, 2004). Despite these, there is still a level of uncertainty as to what extent asset valuation affects firm capitalization thus necessitating this research. The study is therefore set to examine whether asset valuation is a crucial component used to determine the firm's Capitalization or market value. Thus the objective of this study is to

examine the extent to which asset valuation impacts a firm's Capitalization while the hypothesis assumes that there is no significant effect of asset valuation on firm capitalization.

One of the challenges facing Firm capitalization is the flexibility in choosing the method of valuation. The standard gives the Accountants the needed flexibility to choose suitable methods to be applied in evaluating the capitalization of any firm that they deem to best reflect the economic situation and also maximize the firm's profit though some of these methods can be biased and/or misleading (Nuryani, Heng & Julieta, 2015 and Yamaguchi, 2014). A further challenge noticed with capitalization is that the valuation of private entities is not easy as they are neither traded on recognized financial markets nor are they mandated to publish their annual reports (Issar, 2017). This, therefore, makes it difficult to access the necessary data needed for evaluating a firm's capitalization. Asset valuation is very important and useful to stakeholders, creditors, and investors because some of the assets such as the intangible assets are not recorded in the face of the Position Statement and thus asset valuation will provide the needful and timely information (Yamaguchi, 2014).

LITERATURE REVIEW

Conceptual Review

Capitalization is a major indicator of how attractive investment in a firm can be as well as the shares' value in the market. An appreciation of the capitalization value reveals a dynamic development of the firm which makes its shares to be highly demanded by investors who are expected to receive good returns from it in the nearest future and increasing a firm's value will likely lead to the owners' increased welfare (Filimonova, Komarova & Mishenin, 2020 and Pratiwi & Pamungkas, 2020). Firm capitalization is a measurement of the success of the management of emerging firms and it holds the ability to raise the credibility of a firm before its equity holders as a good impact is made on the value of a firm when the shareholders' needs are met. Meeting shareholders' needs will very likely impact positively the value of the firm and it is also a good indicator for the investor that the firm has a good prospect for investment (Setiadharma & Machali 2017).

"FV is an economic concept that reflects the value of a business. It is the value that a business is worthy of at a particular date. FV is a phenomenon that describes a firm's ability to manage its assets and it is a piece of important information to all stakeholders of the firm (Bukit, Haryanto & Ginting, 2018). Theoretically, it is an amount that one needs to pay to buy/take over a business entity. Financial performance reflects the company's ability to manage and allocate its resources" (Jihadi, Vilantika, Hashemi, Arifin, Bachtiar & Sholichah, 2021). Capitalization will be valued using Book Value Basis (BVB) and it's calculated as ((TA – GW) –TL)/NoOS
Where:

TA = Total Asset (Book Value)
GW = Goodwill
TL = Total Liabilities

NoOS = Number of Ordinary Shares. BVB was adopted to be used in assessing the firm's asset worth that is owned by the shareholders. It was adopted because of the data availability.Asset Valuation Methods are approaches employed to value assets by firms in their statement of position by estimating the asset worth. Marston (1970) defined asset valuation in Cowe-Falls, et al, 2004), as "the art of estimating the fair monetary measure of the desirability of ownership of specific properties for a specific purpose" Thus, it is an estimation of the monetary (current and future) value of an asset that its desirability is required to showcase the capitalization status of a firm. Value then can be seen as the increase in productivity and prosperity of the firm. Fair value (current market price), historical cost (acquisition cost), net realizable value (the historical cost minus accumulated depreciation), and replacement cost (current cost required to replace the asset) are some available and popular asset valuation methods (Aliyu, 2020). IAS 16 recognizes a historical cost valuation and depreciation methods of asset valuation with an in-built option for revaluation if the asset appreciates and the increase is reliably measurable.

Furthermore, Munteanu and Zucca (2015), stated that the most important matter is not whether to use fair value or historical cost asset valuation methods but more important is if the valuation method employed can attend to the information need of users. For this paper, the historical cost method is used as information on the fair value of the assets of the various firms is not readily available coupled with the fact that fair value is subjective and can be abused (Aliyu, 2020). It is defined as "the value of an asset based upon historical costs less any allowance for depreciation." Using the historical Cost method (Asset Book Value) values a firm's asset based on how much was spent originally to acquire and develop the asset. Rationally, the cost is assumed to approximate the asset's value at the time it was acquired (Moody & Walsh, 1999). It is calculated as:

AHC – AD
Where:
AHC = Asset Historical Cost
AD = Accumulated Depreciation

It is assumed that a company in its rational behavior will mainly spend to acquire an asset that it believes will yield as a basic minimum, an amount equivalent to the money spent in acquiring the asset or the economic benefits or the future service potential. This assumption is applied in the traditional costing method in the valuation of assets, and it is still the method mostly used by accountants in practice. Even though it has been criticized a great deal, it still stands to be the model that has gained the most support with none other with as much support to displace it. The historical cost method has the advantage of the fact that its data can be collected and happens to

be reliable and objective the most. Asset valuation's outcome is an important part of a firm's capitalization which should determine, which assets are necessary to improve the firm's processes and market price (Breier, 2014). The significance of asset valuation in business accounting and planning includes but is not limited to insurance, legal compliance, budgeting, planning for the future, records management, the criticality of assignment, information classification, and the assessment of the firm's market value (Loloei, Shahriari & Sadeghi, 2012).

Capitalization is seen as the entire value of a firm and it often fluctuates and changes with time. Investors generally agree that firm capitalization is an appropriate determinant of a firm's value as it reflects the current market situation and the firm's future. Firm capitalization does not measure the firm's worth alone but also the prospects of the firm's future. Furthermore, firms are categorized following the firm's capitalization: small, medium, or large capitalization (Mba, Ezeh & Nwekwo, 2018). Firm capitalization in this study is the dependent variable and it is measured by Tobin's Q its index is used to measure the perception of the firm by investors and it can be used to compare the MV of the entire asset of a firm to the BV of the firm's total assets (Al-Matari, Al-Swidi & Fadzil, 2014 and Imhanzenobe, 2019). The firm Capitalization (FCAP) of a company is calculated as:

((TA – GW) –TL)/NoOS
Where:
TA = Total Asset (Book Value)
GW = Goodwill
TL = Total Liabilities
NoOS = Number of Ordinary Shares.

A firm's ability to make a profit is a glimpse into how well the firm can generate income from the operating activities of the firm for the continuity of the firm and the higher the profits generated, the likelihood that the creditor's confidence in the firm to provide loans and investment capital as well (Manoppo & Arie, 2016 and Reschuwati, Syahdina & Handayani, 2020). The profitability of a firm can be measured using Net Profit Margin (NPM), Gross Profit Margin (GPM), Return on Equity (ROE), and Return on Asset (ROA) (Salim & Susilowati, 2019). Net profit represents the performance of an entity and its ability to utilize the assets to earn income (Akintoye, Adegbie & Onyeka-Iheme, 2020). Thus, for this study, net profit was employed. Net profit (i.e. CVs) among others will also affect the firm's capitalization (Anam, Fatima & Majdi 2011). Net profit (NP) is measured by the profit for the year.

Theoretical Review

Signaling theory shows that a firm has to make available good information to its stakeholders and users of financial reports and the effort targets to reduce information asymmetry occurrence between firm managers and parties outside the company, especially on the capitalization of the

firm (Pratiwi & Pamungkas, 2020). The theory is being interpreted to be a company's action taken to serve as a guide to investors as to how the management sees the prospect of the company. This is because, it is not only the managers that should have information about the firm's profitability and prospects, but the investors as well should have it because communication and openness to investors are quite relevant in building the value of a firm (Brigham & Houston, 2011 and Reschuwati, et al, 2020).

Anam, Fatima, and Majdi (2011) opined that the signaling theory can as well be used in explaining the existing relationship between firm capitalization and asset valuation. This is because, a firm's management with good capitalization will attempt to send a signal of this fact by deliberately disclosing it in the annual reports to its shareholders and other stakeholders (Sammut, 2019).

Empirical Review

A study on "Asset Valuation Impact of Investor Sentiment: A Revised Fama–French Five-factor Model" produced a result that confirmed that asset valuation can help predict the expected returns and market value of a firm as decision makers are rational and work with the behavior of asset value (Dhaoui & Bensalah, 2016). Ebrahim and Hussain (2010) conducted a study on "Financial Development and Asset Valuation: The Special Case of Real Estate" and found that Pareto-efficiency is on the increase, while financial architecture is advancing from banks to capital markets and debt to an innovative one with the participation clauses which then helps to reduce the agency costs, cross-sectional risk-sharing and an increase in the market value of the asset (property).

Sucuahi and Cabarihan (2016) studied the "influence of profitability on the firm value of diversified companies in the Philippines" and found that only profitability among the variables measured using Tobin's Q has a positively significant influence on FV. A study on the effect of asset structure and firm size on FV where the intervening variable is capital structure was conducted and the result revealed that asset structure directly affects FV but with the intervention of capital structure, asset structure will have no direct effect on FV while firm size with or with capital structure intervention has no direct effect on FV (Setiadharma & Machali 2017). A study on whether "growth indicators affect market capitalization of firms in the brewery industry in Nigeria" was conducted with the research design being ex-post facto and the result revealed that EPS and DPS have a positively and significantly effect on market firms in Nigeria (Mba, Ezeh & Nwekwo, 2018).

Al-Slehat (2020) carried out a study on the impact of financial leverage, size, and asset structure on FV with a piece of evidence from the industrial sector in Jordan and found that asset structure and firm size have an impact on FV while firm leverage, on the other hand, does not affect FV. A study on the "effect of liquidity, profitability, and size of companies on firm value" was conducted and the findings revealed that liquidity, profitability, and firm size significantly influence FV

(Reschuwati, et al, 2020). Results from the study on the determinants of FV: a case study of the food and beverage sector of Indonesia revealed that the increase in the total assets turnover, current ratio, and firm size will result in a decrease in firm value but on the contrary, return on asset and debt to equity ratio leads to an increase in firm value and are all factors of firm value (Bahraini, et al, 2021).

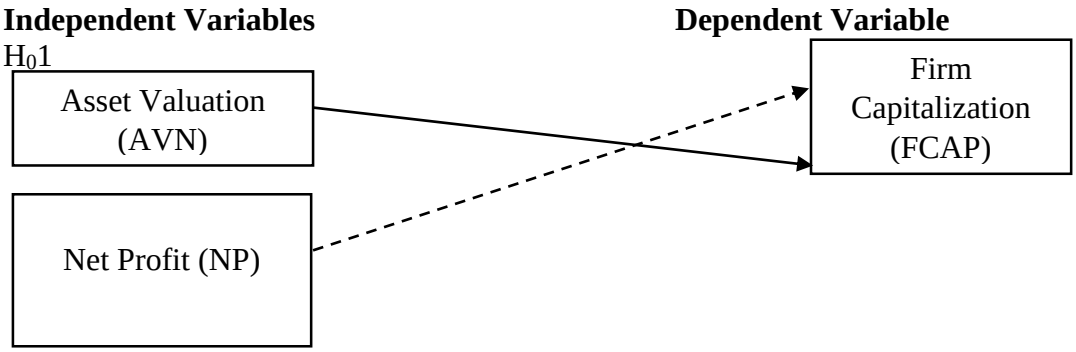
From empirics review, it has been revealed that there are various results or outcomes of asset valuation on firm capitalization (value) ranging from the fact that valuation can help predict the expected returns and market value of a firm thereby assisting investors in making informed decisions to the various variables that either negatively or positively impact a firm's capitalization but none addressed the place of asset valuation and its impact on the capitalization of consumer goods sector of the manufacturing companies quoted on the Nigerian stock exchange of which this study was designed to fulfill this gap found.

METHODOLOGY

Field research design was adopted for this study and both descriptive and analytical approach was also followed. The population of this study was 52 manufacturing companies as quoted on the Nigeria Stock Exchange as of 31st December 2020 out of which 12 were purposively selected due to availability and completeness of data and it is for ten years (2011-2020). The statistical tool employed for this research work Simple Regression Model through the use of the E-views 9 statistical package which was employed in predicting the value of the employed variables in this study. The measure of the explanatory power of the variables used in this is adjusted R^2 and it is the fraction of the total variation as seen in the dependent variable. It was explained by the changes in the independent variable. The data was panel data and the simple regression formula was:

$FCAP_{jt} = \alpha + \beta_1 AVN_{jt} + \beta_2 NP_{jt} + e_{jt}$
To evaluate $Y = f(X + Z)$
Y = Dependent variable (Firm Capitalization) (FCAP)
X = Independent variable (Asset Valuation) (AVN)
Z = Control Variable (Net Profit) (NP)
X and Y are broken down as follows:
$Y = (y_1)$
$X = (x_1)$
$Z = (z_1)$
Where:
y_1 = Firm Capitalization (FCAP),
x_1 = (Asset Valuation) (AVN)
z_1 = (Net Profit) (NP)
The expanded functional model is as follows:

FCAP = f(AVN, NP) ----------Function 1
Which is expressed as: $FCAP_{jt} = \alpha + \beta_1 AVN_{jt} + \beta_2 NP_{jt} + e_{jt}$



Source: Candidate's Concept (2021)
Figure 1. Conceptual Model Summary.

RESULTS, ANALYSIS, AND DISCUSSION OF FINDINGS

In this section, the analysis gives an overview of the data set as it attempts to describe the major characteristics of the data used for this study. Numerical representation was employed to give a descriptive analysis of the panel data obtained for this study as shown in Table 1 below. The numerical representation shows the mean, maximum, minimum, and standard deviation of Firm Capitalization (FCAP), Log of Asset Valuation (LAVN), and Log of Net Profit (LNP).

	FCAP	**C**	**LAVN**	**LNP**
Mean	14.11383	1.000000	17.54879	15.04876
Median	10.19500	1.000000	17.46700	14.94038
Maximum	63.36000	1.000000	19.91232	17.63724
Minimum	0.270000	1.000000	14.25550	10.52029
Std. Dev.	14.87457	0.000000	1.171589	1.586295
Observations	120	120	120	113

Source: Researcher's Study, 2021

Table 1 reveals in summary form, the statistics of each of the variables employed for this study. The maximum value of Firm Capitalization (FCAP), is 63.36000 indicating a positive value and showing that firm capitalization will be positive even in the foreseeable future. Its mean and standard deviation (SD) values are 14.11383 and 14.87457 respectively. The level of dispersion as seen from the mean result is measured by the SD and it reveals how volatile the series used for this study is. The volatility level as seen present in FCAP is to the tune of 14.87457 indicating that it

is a bit high and it is highlighted by the distance existing between the minimum and maximum values at 0.270000 and 63.36000 respectively. This further indicates that FCAP within the reviewed period varied from one entity to the other and from period to period as well. Furthermore, the data revealed that no company within the sampled period had a negative capitalization since both the minimum and maximum figures are all positive and no value lower than zero (0) but all are higher than one (1).

LAVN and LNP revealed mean values of 17.54879 and 15.04876 respectively, and SD values of 1.171589 and 1.586295 respectively indicating a medium dispersion among asset valuation and net profit values from their mean values. This indicates an averagely low level of variation and volatility in the independent variables. This is confirmed further by the difference and distance between their minimum values (14.25550 and 10.52029 respectively) and maximum values (19.91232 and 17.63724 respectively) as shown in table 1 indicating a variation within the sampled period. But the direction and the extent of the relationship existing among the variables cannot be determined from the numerical representation. As such, the regression analysis in the next section shows the extent and direction of this relationship in line with the stipulated objectives of the study.

Table 2. Regression Analysis for Model One.

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-51.65207	19.52850	-2.644959	0.0094
LAVN	-1.810459	1.943507	-0.931542	0.3536
LNP	6.518051	1.424122	4.576892	0.0000
R-squared	0.324409	Mean dependent var		14.61673
Adjusted R-squared	0.312126	S.D. dependent var		15.13346
S.E. of regression	12.55142	Akaike info criterion		7.923734
Sum squared resid	17329.19	Schwarz criterion		7.996143
Log-likelihood	-444.6910	Hannan-Quinn criteria.		7.953117
F-statistic	26.41023	Durbin-Watson stat		0.278214
Prob(F-statistic)	0.000000			

Dependent Variable: Firm Capitalization (FCAP); Obs.: 120. C = Constant, LAVN = Log of Asset Valuation and LNP = Log of Net Profit.
*significant at 5%
Source: Researcher's Study, 2021

Model 1
FCAP = f (AVN, NP)
$FCAP_{jt} = \alpha + \beta_1 AVN_{jt} + \beta_2 NP_{jt} + e_{jt}$
$FCAP = -51.65207 - 1.810459\ AVN_{jt} + 6.518051\ NP_{jt} + e_{jt}$
$ROA = 0.650171 - 0.049514TCNit - 2.172188CIYit + 0.002013R\&Dit + u_{jt}$

Table 2 reveals the regression analysis which shows that The result of the regression analysis on Table 2 shows that asset valuation (AVN) has a significantly negative effect on firm capitalization (FCAP) while net profit (NP) which is the control variable has a positive significant effect on FCAP. This is revealed through the signs accompanying the coefficients, that is $\beta 1 = -1.810459$ and $\beta_2 = 6.518051$ respectively. The coefficients' size revealed that a 1% increase in AVN will lead to a -1.8105% (decrease) in FCAP and a 1% increase in NP will lead to a 6.518% (increase) in FCAP. AVN is inconsistent with the a priori expectation while NP is consistent with a priori expectation, as it was expected that asset valuation will have a positive effect on firm capitalization all things being equal while net profit happens to be consistent with the a priori expectation.

Furthermore, the individual t-statistics of AVN and NP stood at 0.3536 and 0.0000 respectively, which shows that AVN has an insignificant relationship with FCAP while NP on the other hand has a significant relationship with FCAP at a 5% level of significance acceptable in this study. Adjusted R^2 is the overall coefficient of determination which is the explanatory power of the model is 0.312126. This implies that within the model context, asset valuation and net profit are responsible for about 3% variations in firm capitalization while the remaining 97% is explained by other factors that can impact the dependent variable outside the model. The positive outcome of the adjusted R^2 is the reason for the positive coefficient. To further emphasize the outcome, the probability of the F-statistic of 0.000000 shows that the regression result is statistically significant because this is less than 5% is the level of significance adopted for this study.

In addition, at the level of significance of 0.05, F-statistics of 26.41023, the p-value of 0.000000, the null hypothesis that asset valuation has no significant effect on Firm Capitalization of Manufacturing Companies Quoted in Nigeria was not accepted. Therefore, the regression estimates show that there is a significant impact of Asset Valuation on Firm Capitalization of Manufacturing Companies Quoted in Nigeria. Thus the result aligns with the findings of (Al-Slehat, 2020, Dhaoui & Bensalah, 2016, Reschuwati, et al, 2020, Setiadharma & Machali 2017 and Sucuahi & Cabarihan, 2016).

CONCLUSION AND RECOMMENDATIONS

The implication of the findings of this study for the managers of firms especially those in the manufacturing sector is that assets that are expected earn future income for a firm can have a negatively significant impact on a firm's market capitalization when not properly handled thus sending poor signals to shareholders and other investors thereby aligning with the Signaling theory. Firm managers should ensure to employ the best asset management and evaluation strategies to bring about the best capitalization value for the firm. Again, profit on the other hand will positively influence a firm’s capitalization and managers should ensure to manage the firm's business efficiently to enable them to make enough profit s that will attract and keep good investors to the firm because a profitable firm with poor asset management can be made to incur losses at

the long run. For investors, the signals emanating from both asset valuations should not be overlooked even in taking investment decisions in a firm even when it appears profitable rather, investors are to ensure that firms are properly valued with the right valuation method that will reflect the best value for the firm.

Furthermore, the existence of huge asset possession or investment does not guarantee a good firm value or capitalization. The effect of asset valuation on the firm capitalization of consumer goods manufacturing companies was studied with the aid of regression estimates. The result revealed that firm capitalization is significantly but negatively affected by asset valuation thus indicating that assets that naturally should have been a source of income for the firm can also negatively affect its capitalization when inappropriately valued and poorly managed as well. It, therefore, means that management should ensure take proper precautions while measuring and managing the firms' assets to ensure the maximization of its contribution to the firm's market capitalization.

Contribution to Future Research

The outcome of this research has the following contribution to knowledge showing the concept of asset valuation and firm capitalization of the consumer sector of manufacturing companies quoted on the Nigerian stock exchange between 2011 to 2020 with a discovery that asset valuation can negatively affect a firm's capitalization due to poor asset management or improper asset valuation technique which is its contribution to empirics. The study further contributed to theory by aligning with the signaling theory through its outcome and finally, it contributed to the body of research by providing research work in this sector of study and created an opening for further research both on other sectors and with the use of other asset valuation methods.

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Appendix

S/NO.	COMPANY
1	Transnational
2	UACN
3	Livestock
4	Okomu Oil
5	Presco
6	Dangsugar
7	Nascon
8	NB
9	Nestle
10	Unilever
11	Fidson
12	GSK