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EFFECT OF CORPORATE EARNINGS ON STOCK PRICE OF SELECTED OIL AND GAS COMPANIES IN THE NIGERIAN STOCK MARKET (2004-2013)

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ABSTRACT: *The study was set out to examine the effect of corporate earnings on share price of selected oil and gas firms in the Nigerian Stock market from 2004-2013. The study adopted Ex-post facto research design. The data for this study were collected from Nigerian stock exchange fact book and published annual reports of the various companies through manual and online retrieval method. The data was analyzed individually and as a pool using multiple regression technique. The findings from the study showed that there is positive correlation and significant relationship between Earnings per share, Price earnings ratios, Dividend per share and Shares price of the selected oil and gas companies in Nigeria. It was recommended that investors should always engage experts when making investment decision to scrutinize the financial statements in order to help mitigate risks. Also, regulatory bodies should be more proactive in monitoring the activities of companies especially when quarterly earnings are announced as their effort will drastically improve the quality of the financial information disclose by management.*

KEYWORDS: Corporate Earnings, Stock Prices, Oil and Gas Companies

INTRODUCTION

In every organization, accounting variables are indispensable to all stakeholders based on their needs. In order to ameliorate the quality of information that are disclosed by quoted companies, several efforts have been made by regulatory bodies to ensure that public quoted companies and those seeking to be public quoted companies prepare their accounts following the framework that underpin financial reporting to improve the relevance of accounting information.

To enhance transparency and accountability in the capital markets, it is required by law for quoted companies and those that want to be quoted in the Nigerian stock market to disclose all relevant information to both existing shareholders and potential investors to enable them make rational investing decision to buy, sell or hold their investments. This requirement is imperative because quoted firms use accounting information as a means to convey the state of their affairs to their stakeholders such as: accounting standards setters and market regulators to continue to strive for quality financial reporting through information transparency (Khanagha, 2011). Also, accounting figures are required to be disclosed to the public in order to help the investing public

make rational decisions and to aid financial analysts estimate future cash flow and strategize how to mitigate relative investment risks (Germon & Meek, 2001).

From shareholders perspective, management actions and operations are profitable when dividends are declared and the impacts are also reflected on the prices of the financial instruments of the company. Share prices are driven by the performance indices of the companies and how investors perceived the stock market will operate. This is because the movement of shares in the capital market is one critical issue that preoccupied investors daily, because most times investors purchase shares due to the faith they have in the company. However, there are several variables that propel the share prices of equity shares and a careful study of the factors that affect and the degree at which they impact on the price of equity shares will help investors to make rational decision (Chandra, 1981). Some researchers considered the factors from the macro and micro economic perspective which include: general economic condition, government regulations, politics, etc. Also, accounting data like; price earning ratios, dividend payout ratio, net asset book value etc. has been proven by researchers to be another strong determinant of share prices movement.

Deciding whether a corporation financial statements show a true picture of its operations is becoming a complex issue surrounded with uncertainty. This is because management of some firms adopts "big bath provisions'' or "rainy day reserves" to smoothing income if the earnings generated are not enough to cover expenditures in future years. This implies that such ploy is used to accelerate income in order to meet earnings threshold to delude shareholders that rely on the contents of such financial statements to make investment verdicts (Roychowdbury, 2006). Accounting figures are widely used by investors and as such, they influence their decision. The decision to buy the shares of any firm in the equity market depends on how investors view the performance of an entity through its performance indices.

The curiosity by investors on returns proved that investors are value maximizing personalities. As such, they seek for companies with great potentials and disdain companies that they perceive will not add value to their wealth. But the diverse means of information available to potential shareholders and discretionary reporting system by management through flexible accounting principles and policies to boost profits curtail investors' verdicts. (Davison 111, Jiraporn, Kim & Nwmec, 2004).

It is very obvious that some companies adopt all kinds' of ploys such as income fiddling, window dressing and creative reporting to ensure that they report good earnings for their shares to continue to soar in the market. Also, evidences from both academic literatures and recent unethical practices by some companies have shown that the capital market is full of unethical activities such as; fraud and collusion in the sales of securities. Some vivid evidence in Nigeria is the case of Cadbury Nigeria PLC in 2006 and African Petroleum (AP) PLC, in 2000 and the case of World Com in 2002 now (Mcl Inc.), Enron 2001 in the United States, Tyco scandals in 2002 in New Jersey etc. Therefore are few cases of how unscrupulous companies smoothing incomes in bad period to present good financial reports which will in turn enable them to report high fictitious earnings that will eventually boost their share prices. Hence, the poser that this study sought to provide answer is: what relationship exists between corporate earnings and stock price. To this end, the purpose of this research is to determine the effect of corporate earnings on stock price of selected oil and gas firms that are listed on the Nigerian stock market. To guide the researchers to achieve the objective of this study, the following hypotheses are formulated to direct the work:

H_{01}: There is no significant relationship between earnings per share and share prices of selected oil and gas firms in Nigeria.
H_{02}: There is no significant relationship between price earnings ratios and share prices of selected oil and gas firms in Nigeria.
H_{03}: There is no significant relationship between dividend per share and share prices of selected oil and gas firms in Nigeria.

THEORETICAL FRAMEWORK

The efficient market hypothesis (EMH)

Fama (1970) postulate that the capital market is steadily making correction to changes in stock prices. The assumption of full information is the crux of Efficient Market Hypothesis (EMH); an idea that presupposes that all essential information are included into the share prices. The ability of investors to devote time and resources to gather the necessary information and disseminating the available information to all traders is very crucial to enable the market to be efficient.

The changes in share prices emanate as the result of emergence of new information pertaining to the stock in the market. Adelegan (2009) posits that in an efficient market there are no unusual gains that can be made in the market because the prices of the stock has incorporated all information and even when there is speculation of information such information will not be used to the detriment of the market participants by any group because both public and un-public news has been included into the share prices. The EMH holds that the capital market has the ability to precisely predict the prices of security on a timely manner with the aid of available information in the capital market. Irrespective of size of the market and the kind of security that are traded in the market, an efficient market occurs when investors can access the required information on time and utilizes the information to compete rationally.

The capital market efficiency is the ability of the financial instruments to reflect and incorporate all essential information concerning the market prices of security. However, the efficiency of security prices occurs due to the prompt adjustment of prices in the market to incorporate current information (Pandey, 1999). He further posits that if the capital market is efficient, then the current price of a company equity shares is “fair”. Mbat (2001) stated that efficient market is a matter for the theoretical realm. The concepts of an efficient market merely represent an ideal against which real market can be compared. Ideally, in an efficient market, any devices intended to counter the operation of the market not to be efficient will be rendered worthless. It is believed that in such markets no scheme device by any individual will result in consistently higher returns that are in excess of the average market returns (Khoury, 1983). Fama (1970) revealed that the three sub theories that support the EMH are: weak form, semi-strong form and strong form efficient market hypothesis.

The weak form efficient market hypothesis

According to French (1989), in this type of market, prices of security are fully reflected on the security prices at all times with the aid of the information available to the market regarding all historic market data including the historic sequence of share prices, because the current stock prices reflects all past public available information.
Pandey (1999) stated that in this kind of market, the stock prices incorporate all previous information concerning share prices movement. Because of the correlation between market

forces and stock prices, it is difficult for any investor to carry out accurate prognosis of security prices by analyzing past data concerning the prices of security and expect to recoup gains that are above the stock market index.

The semi-strong form of efficient market hypothesis

The theory claims that the prices of stock instantly incorporate public available information and that prices of security alter immediately to incorporate new public information about any security. The rationale is that any analysis based on information that had already been made public cannot earn higher trading profit because the information made available will be utilized by all investors. This public information includes; audited published financial reports, government publications, newspapers reports and financial analyst's reports. To test the efficacy of the semi-strong efficiency will involve studies on the adjustment of stock prices, new issues introduced in the market, dividend announcement, accounting changes, bonus issue and splitting of par value of stock (Khoury, 1989), (Olowe, 1997) and (Fama,1970).

The strong form of efficient market hypothesis

The proponents that support this theory stated that share prices incorporate all information including private and public information, and there is no individual that can impede the operations of the markets with the information available and expect to make gains above the market average. (Olowe, 1997) opines that in a strong efficient market, no individual or group can out-perform the market using any available information within their disposal. This assertion implies that even top management of company's staff that might have access into insider information cannot use the information to out-perform the market in their favour because the stock prices reflect even hidden or insider information.

The empirical evidence in favour of the Semi Efficient Market Hypothesis (SMEH) has inconsistent evidence supporting this claim. (Jenson, 1969) provided supporting evidence in favour of SMEH, while (Rafeez & Zaman, 1985) provided evidence against the SMEH

The fundamental theory

The fundamental theory propounded by Graham & Dodd (1962) surmises that, an individual security has an intrinsic value and this intrinsic value can be determined through careful scrutiny of the company's financial statements, taking into consideration the various accounting variables. Also, the intrinsic value of the equity shares is a function of some fundamental variables impacting on the firm and the economy in general. The difference in the intrinsic value and the market price create room for profit. One crucial variable the fundamentalist takes into consideration is earnings, because earnings depends on the relationship between expected sales and cost which are mainly determined by several factors affecting the company both internal and external factors.

The fundamentalist predict the share prices of companies' based on; the industry, company accounting ratios and economic condition (Prateen, 1993). The Fundamentalist tries to identify factors that are likely to affect share prices and use such information to determine the intrinsic worth or its fair price. The approach is also used to identify shares with potentials to increase in value over time due to enhance or increase in earnings per share (Graham & Dodd, 2009).

The random walk theory

The proponents of this philosophy opine that share prices do not follow predictable order; rather future price is independent of past price (Kendall, 1988). This assertion has been buttressed by others studies that has been conducted by scholars on share prices behaviour. Foley (1991) and Fama (1997) provide vivid evidence in support of the theory. According to

Mbat (2001) stated that there is a statistical relationship between the future share prices and their previous market value. Critics of this philosophy anchored their argument on "technological advancement" because the world is rapidly becoming a global village where all investors have access to all information and can utilize the information to make fast profit than relying on random walk to evaluate the prices of security.

The technical theory

According to Foley (1991), the technical theory is also called Chartism. This model states that share prices can be determined by studying trends and the patterns of past share prices to predict the future price in order to recognize the signals of sell or buy. These patterns and trends can be utilized to make gain if one takes notice of it on time. The technician's holds that the use of chart is sufficient enough to predict stock prices movement than relying on the intrinsic value of the industry the company operates. This method is merely used for forecasting the prices of stock by carefully examining the charts of the previous market event taking into consideration the relevant accounting data such as: the prices of security, total volume of security sold and the prevailing interest rate of the security at that period of transaction.

Price earnings model

The price earnings valuation model guides companies with unstable growth prospect and inconsistent dividend pay-out ratios. The Price Earnings Ratios (PER) guide and signal companies about the amount that a prospective investor will pay to obtain part of inflow of earnings that will be paid as dividends or retained to enhance capital growth. To ascertain the price earnings ratio, it required calculating out the price in a manner that it can be easily be compare with other companies within the same industry. (Howells & Bain, 2002).

The main crux of the price earnings ratios is to help analysts make a relative comparative among firms functioning in the same sector. Higher PER indicates that such security is overpriced when compared with other firms within the same sector. It is a better indicator of selling or buying stock, as the price is expected to be likely the equivalent price with other companies within the same industry. This implies that with proper valuation of this accounting variable, one can ascertain if the firm earnings would increase in the long-run, so earnings would increase or P/E ratio will decline and to know how less risky a firm is (Bodie, Kane & Marlus, 2008). The price earnings ratio shows the expected price of share based on its earnings. That is, share prices is a function of earnings

Empirical review

Accounting earnings are part of the profits available for the ordinary shareholders after satisfying the claims of debt holders, tax and other related expenses incurred during the accounting period. Corporate earnings are calculated using two methods: "Net basis and nil basis" with the help of various items in the profit or loss account such as; tax and other related expenses. The different methods of treatment pave way for organizations to have different accounting earnings (Meigs & Meigs, 1989). Part of the earnings (earnings per share) which are distributed to the shareholders based on the numbers of outstanding shares is called "dividend'' and is subject to board of directors resolution because part of it might be distributed and part of it will be retained for re-investment.

Earnings forecasting has been viewed traditionally in two perspectives: The first approach is the technical or accounting approach that utilizes time series based. This method posits that future earnings are a function of current earnings, while the Second approach depends on the analysis of financial analysts. The second approach is not based on any well-defined models,

but is based on how financial analysts look at the trends of activities within the market. However, empirical evidence does not seem to prove the efficacy of one model to another (Brown, 1993). Bamber, Christensen & Gaver (2000) stated that annual earnings announcement play significant impacts on share prices in the subsequent year, because it shows how well an organization utilized its resources (both financial and non-financial resources) within an accounting period.

Ball & Brown (1968) opined that earnings growth may be modeled either through price changes because such relationship is necessary and it shows how efficient the financial market is. The assumption is that earnings will also increase as investors rely on share prices either to buy, sell or hold their shares. Wilcox, (1984), Reppoport (1986) and Downs (1991) surmise that share prices changes occurred as a result of anticipated changes in earnings. Arif & Khaw (2000) stated that changes in share prices is as a result of changes in fundamental variables such as; anticipated earnings, capital structure through stock splits and dividends. Beaver, Clarke & Wright (1979) stated that earnings growth is very crucial in analysis of share prices and price to earnings based forecast are substantial predictors than random walk model. Elgers & Murray (1992) conducted a study which they used a regression of future earnings growth model by present abnormal returns and price earnings ratio, and discovered that their predicted model performed better than random walk in predicting accounting earnings. Benston (1996) and Ball & Brown (1968) in their studies discovered a positive relationship between share prices changes and EPS. Beaver *at al,* (1979) stated that there is substantial correlation between the rate of the change in earnings and share prices. The correlation between these two variables is not only the positive relationship and significant impact, but the magnitude of the difference in security changes is fairly considerable. The findings are also in line with the contention among scholars that investors behave as if perceived prices are substantial enough to predict future earnings and future dividend paying capacity of a firm. Hence, prices act as if current earnings changes possess a permanent component (Foster, 1984). Share prices are the most essential variable that is readily available for investors to make decision to invest in any firm's shares or not to invest. Prices at any point in time can be viewed as if they are a function of future expected earnings, because price reflects investors' expectations about future earnings.

Share prices increase occur as a result of positive changes in some essential variables that are necessary for the valuation of shares such as: dividend payout ratio, earnings per share, growth rate, capital structure, price earnings ratio, dividend per share, dividend yield etc (Wilcox, 1984), (Reppoport, 1986) and (Downs, 1991). These fundamental variables are important to ascertain the true value of equity prices. Remi (2005) stated that the success and failure of any firm can be determined through its earnings which also play a crucial role on the price investors we pay to acquire its shares. Shiller (2000) asserts that there is enough evidence why the random walk behaviour should work. This is based on the fact that investors are driven by the numbers attached to the accounting variables reported by firms. Porterba & Summers (2000) stated that there is little theoretical evidence that buttressed the random walk theory.

Earnings manipulation

Corporate earnings manipulation most times do not occur because of deliberate fraud, but through application of unsuitable accounting concepts or adoption of wrong accounting standards or aggressive interpretations of the accounting terms which most times constitute one major way by which earnings are altered unintentionally. The outcome has been misstatement of the financial statements carried out by people that were previously considered honest.

Unnecessary pressure on the Chief Financial Officer (CFO) to meet up estimated numbers through creative reporting has led many to be involved in unethical activities.

Earnings manipulation begin from innocent acts to little manipulation of financial statements to the extent of criminal acts which is done deliberately to boost revenue and under estimate expenses, aimed at deceiving users of financial statement (Hall, 2001). Earnings manipulation can also occur when companies internationally inflate their revenue to show good profit or appealing earnings per share figure. They achieve this by adopting vague accounting policies (Hall, 2001). Different motives motivate managers to adopt accounting methods that will favour them to manipulate earnings (Guan, Lin, & Fang, 2008) and (Huang & Lin, 2007).

Factors that motivate earnings manipulation

There are three fundamental factors that motivate management to change financial reports to favour their motives. Firstly; in some situations the additional benefit or bonus of corporate executive depends on how well management is able to manage the firm finances. Due to this, they have direct incentives by adopting creative accounting reporting system to enable them present rosy financial statements in order to meet expected performance or target. Secondly, it is very easy for management to alter financial statements by adopting deliberate accounting policy, because the General Accepted Accounting Principles (GAAP) provides enough opportunities for management to adopt different kinds of accounting rules and due to the vagueness of some accounting principles that are available for corporate management to manipulate earnings. The GAAP standards provides ample opportunity for management to adopt accounting policy that will aid its intention, thereby presenting financial statements in their favour using different interpretations. Thirdly, it is not easy for investors to detect earnings manipulation because of the relationship between the auditors and management. Some lapses that will constitute great danger in the future are always confined within the auditors and management thereby presenting clean bill of health for the company.

RESEARCH METHODOLOGY

The researchers adopted Ex-post facto research design because direct control of the variables were not possible. The research merely studied the independent variables in retrospect to establish relationship and the influence on the dependent variable. The population of the research comprised of ten (10) quoted oil and gas firms that are continuously quoted on the Nigerian Stock Exchange from 2004-2013. The sampling technique that was adopted for this study is the convenience sampling technique and the sample size for the study comprised of six (6) quoted oil and gas firms that are continuously listed in the Nigerian Stock Exchange from 2004-2013. This sampling technique and sample size were adopted because of the sample sizes which were limited to six companies because of availability of up-to-date data.

The model built for this study relied on the fundamental theory of share prices valuation that was propounded by Graham and Dodd (1962). In line with previous studies that examined the control variables that affect shares prices, the regression model stated below was adopted for the study:

SP = f (EPS, PER, DPS)…… (1)

Where;

SP = Share Price

EPS = Earnings Per Share

PER = Price Earnings Ratio

DSP = Dividend Per Share

The Ordinary Least Square of the equation is stated thus:

$SP = b_o + b_1EPS + b_2PER + b_3DPS + e$…… (2)

Where;

SP = Dependent variable

EPS, PER and DPS = Independent variables

b_o = unknown constant to be estimated

b_1, b_2 and b_3 = unknown coefficient to be estimated

e = stochastic error

ANALYSIS OF RESULT

The empirical results of the OLS estimates is presented in appendices I-VII. From the regression result in Appendix I of Total Plc, it shows that the R^2 is 0.86 and the adjusted R^2 is 0.79. This shows that the independent variables: earnings per share, price earnings ratios and dividend per share jointly explained 86 percent of the variation in share price, while the remaining 14 percent was accounted for by other variables not captured in the model. The adjusted R^2 indicates goodness of fit of the parameter of estimate. It means that 78 percent of the difference in share price was accounted for by the variables that actually affect share price of Total Plc. The remaining 22 percent is accounted for by other variables not captured in the model but rather represented by the stochastic error term. The constant term of -106.093 is autonomous and it entered the model with negative sign. The independent variables; earnings per share and price earnings ratios were tested and found significant at 5 percent significance level at 8 degree of freedom because the calculated t-statistic value =4.013013 and 3.583127>1.860 the table value except dividend per share. All the independent variables as per the ANOVA on the F-statistic =12.18245> 4.76 the table value. This implies that the overall variables are significant. The Durbin-Watson statistic ranges from 0 to 4. The decision rule for non-autocorrelation in the residual is that: when the value is close 2 shows there is no autocorrelation; when it is close to 0 shows positive auto correlation and when it is close to 4 indicate negative auto correlation. Since K=4 variables, n=10 years at 5 percent level of significance. The calculated DW=1.998.741, dl=0.525 and du=2.016. Therefore, the model is free from autocorrelation.

Appendix II, Conoil Plc result shows that the R^2 is 0.98 and the adjusted R^2 is 0.97. This shows that the independent variables: earnings per share, price earnings ratios and dividend per share explained 98 percent of the variation in share price, while 2 percent was explained by some variables not included in the model. The adjusted R^2 indicates goodness of fit of the parameter of estimate. This means that 97 percent of the difference in share price was accounted for by the actual variables that affect share price of Conoil, while 3 percent is accounted for by some variables not captured in the model. The constant term of -67.65315 is autonomous and it entered the model with negative sign.

The independent variables; earnings per share and price earnings ratios were tested and found significant at 5 percent significance level with 8 degree of freedom because the calculated t-statistic value =5.705136 and 18.41409>1.860 the table value except dividend per share. All the independent variables as per the ANOVA on the F-statistic=114.1583>4.76 the table value. It means that the variables are significant. Durbin-Watson statistic, since K =4 variables, n=10 years at 5 percent significance level. The calculated DW =2.287360, dl = dl=0.525 and du=2.016, the model is free from autocorrelation.

Appendix III of Forte oil Plc shows that the R^2 is 0.69 and the adjusted R^2 is 0.38. This shows that the independent variables; earnings per share, price earnings ratio and dividend per share explained 69 percent of the variation in share price, while 41 percent was explained by some variables not included in the model. The adjusted R^2 is 0.38. This means that 38 percent of the difference in share price was accounted for by the variables that actually affect the share price of Forte oil Plc. The remaining 62 percent was captured by the stochastic error term. The constant term of-0.832356 is autonomous and it entered the model with negative sign.

The independent variables earnings per share, price earnings ratios and dividend per share entered the model with positive signs but were tested not significant at 5 percent significance level at 8 degree of freedom because the calculated value =1.278371, 1.537083 and 0.921856<1.860 the table value and the independent variables as per the ANOVA on the F-statistic is 2.203650 < 4.76 the table value. As such it indicates the explanatory variables are not significant. Durbin-Watson statistic, since K =4 variables, n = 10years at 5 percent significance level, the calculated DW=2.404164, dl=0.525 and du=2.016. Therefore, the model is free from autocorrelation.

Mobil oil Plc regression result as presented in Appendix IV indicates that the R^2 is 0.96 and adjusted R^2 is 0.93. This has proved that the independent variables jointly explained 96 percent of the variation in share price, while 4 percent was explained by some variables not captured in the model. The adjusted R^2 indicates goodness of fit of the parameter of estimate. This means that 93 percent of the difference in share price was accounted for by those variables that actually affect the share price of Mobil oil Plc, while 7 percent was explained for by some variables that are not included in the model. The constant term of -98.33649 is autonomous and it entered the model with negative sign.

The independent variables: earnings per share and price earnings ratios were tested and found significant at 5 percent significance level at 8 degree of freedom because the calculated t-statistic value =2.792385 and 8.961353>1.860 the table value exception of DPS that entered the model with positive sign but was tested not significant at 5 percent significance level at 8 degree of freedom. The independent variables as per the ANOVA on the F-statistic=42.91042>4.76 the table value. It implies that all the variables are significant. Durbin-Watson statistic, since K =4 variables, n = 10 years at 5 percent significance level, the calculated DW =1.896838, dl=0.525 and du=2.016. Therefore, the model is free from autocorrelation.

Appendix V of MRS oil Plc results shows that the R^2 is 0.96 percent and the adjusted R^2 is 0.93 percent. This shows that the explanatory variables: earnings per share, price earnings ratio and dividend per share accounted for 96 percent of the variation in share, while 4 percent was accounted by some variables that are not included in the model. The adjusted R^2 indicates goodness of fit of the parameter of estimate. This means that 93 percent of the difference in share price was accounted for by those variables that affect the share price of MRS oil. The remaining 7 percent is accounted for by some variables not captured in the model but rather captured by stochastic error term. The constant term of -69.50262 is autonomous and it entered the model with negative sign.

The independent variables; earnings per share and price earnings ratios and dividend per share were tested and found significant at 5 percent significance level with 8 degree of freedom because the calculated t-statistic value =2.752375, 4.303767 and 2.569257>1.860 the table

value. All the independent variables as per the ANOVA on the F-statistic =36.78281>4.76 the table value. It means all the variables are significant. Durbin-Watson statistic, since K =4 variables, n = 10 years at 5 percent significance level, the calculated DW=2.264950, dl=0.525 and du=2.016. Therefore, the model is free from autocorrelation.

Appendix VI presented the regression result of Oando oil Plc and it shows that the R^2 is 0.91and the adjusted R^2 is 0.85. This shows the explanatory variables explained 91 percent of the variation in share price, while the remaining 9 percent was accounted by other variables not captured in the model. The adjusted R^2 indicates goodness of fit of the parameter of estimate. This means that 85 percent of the difference in share price was accounted by the actual variables that affect the dependent variable, while the remaining 15 percent was accounted for by some variables not captured in the model but rather captured by the stochastic error term. The constant term of -16.67107 is autonomous and it entered the model with negative sign.

The independent variables; earnings per share and price earnings ratios were tested and found significant at 5 percent significance level with 8 degree of freedom because the calculated t-statistic value =5.823570 and 4.286201>1.860 the table value except dividend per share. All the independent variables as per the ANOVA on the F-statistic =16.52509>4.76 the table value indicates the overall variables are significant. Durbin-Watson statistic, since, K =4 variables, n=10 years at 5 significance level, the calculated DW=0.98640, dl=0.525 and du=2.016. Therefore the model is free from autocorrelation.

Appendix VII showed the pool result of the six firms. The R^2 is 0.71 and the adjusted R^2 is 0.56 respectively. This shows that the explanatory variables: earnings per share, price earnings ratios and dividend per share explained 71 percent of the variation in share price, while 29 percent was explained by other variables not included in the model. The adjusted R^2 is 0.56. This means that 56 percent of the difference in share prices was accounted for by the accounting variables that influence share prices of the six firms. The remaining 44 percent is accounted for by other variables not captured in the model but represented by the stochastic error term. The constant term of-639.0642 is autonomous and it also entered the model with negative sign.

The independent variables; price earnings ratios and dividend per share were tested significant at 5 percent significance level at 8 degree of freedom because the calculated t-statistic value =2.649027 and 1.861949>1.860 the table value exception of earnings per share that entered the model with positive signs but was tested not significant at 5 percent significance level at 8 percent degree of freedom. All the independent variables as per the ANOVA on the F-statistic =4.870544>4.76 the table value. This showed that there is significant relationship between the EPS, PER, DPS and share prices of the oil and gas companies. Durbin-Watson statistic, since K=4 variables, n =10 years at 5 percent level of significance, the calculated DW=2.308066, dl=0.525 and du=2.016. Therefore, the variables are free from autocorrelation.

In testing the hypotheses, the pool result of the six firms was used. All the hypotheses were tested at 5 percent significance level.

H_{01}: There is no significant relationship between earnings per share and share prices of selected oil and gas companies in Nigeria.

Ha_1: There is a significant relationship between earnings per share and share prices of selected oil and gas companies in Nigeria.

With reference to Appendix VII of the pool result and using the t-statistic to test the significance of the estimated coefficient; the calculated t–statistic is 0.901858 and table value is 1.860 at 95

percent confidence level. The calculated value =0.901858<1.860 the table value, using 8 degree of freedom at one tail,5 percent significance level, the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, there is no significant relationship between earnings per share and share price of selected oil and gas companies in Nigeria as per the pool result.

H_{02}: There is no significant relationship between price earnings ratios and share prices of selected oil and gas companies in Nigeria.

H_{12}: There is a significant relationship between price earnings ratios and share prices of selected oil and gas companies in Nigeria.

With reference to Appendix VII of the pool result and using the t-statistic to test the significant of the estimated coefficient; the calculated t–statistic is 2.649027 and table value is 1.860 at 95 percent confidence level. From the result the calculated value =2.649027>1.860 the table value, using 8 degree of freedom at one tail, 5 percent significance level, the null hypothesis is rejected and the alternative hypothesis of significant relationship is accepted. Therefore, there is significant relationship between price earnings ratios and share prices of selected oil and gas companies in Nigeria as per the pool result.

H_{03}: There is no significant relationship between dividend per share and share prices of selected oil and gas companies in Nigeria.

H_{13}: There is a significant relationship between dividends per share and share prices of selected oil and gas companies in Nigeria.

Also still on Appendix VII of the pool result and using the t-statistic to test the significant of the estimated coefficient; the calculated t–statistic is 1.851949 and table value is 1.860. The calculated value =1.861949>1.860 the table value, using 8 degree of freedom at one tail 5 percent significance level, the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant relationship between price earnings ratios and share prices of selected oil and gas companies in Nigeria as per the pool result.

In addition to the t-statistic of the pooled result, the F-statistic was also used to test the significant of the explanatory variables on the dependent variable.

Decision rule:

If the calculated F-value < tabulated table value, accept H_0

If the calculated F- value > tabulated table value accept H_I.

Since V_1=K-1 and V_2=n-K degree of freedom. From table 4.8, the calculated value of the F-statistic is 4.870544 and table value is 4.76, since the calculated value =4.870544>4.76 the table value, it implies that the overall variables are significant. Therefore, the alternative hypothesis of significant relationship is accepted and the null hypothesis is rejected. This indicates that there is significant relationship between earnings per share, price earnings ratios, dividend per share and share prices of the selected oil and gas companies in Nigeria.

DISCUSSION OF FINDINGS

Based on the data that were analyzed and tested using the t - statistic, it was discovered that from the individual companies, five companies regression results has proven that there is significant relationship between earnings per share and share prices of the selected oil and gas companies in Nigeria and the price earnings ratios of five companies also indicates significant relationship. But it was only the dividends per share of MRS Oil Plc that showed significant relationship while others companies' dividend entered the model with positive signs but were tested not significant. The F–statistic results of five companies out of the six samples used

indicates high significant relationship. Also, the pool regression result of the six companies revealed significant relationship between the accounting variables as per the F- statistic.

The findings from this study are in conformity with the results of the study carried out by Muyoki (2011) in Nairobi stock exchange which involved individual regression analysis of the various companies used in his study. Also, these findings are in conformity with study carried out by Muhammand et al. (2014) in Pakistan Stock Exchange which also involved regression analysis of individual companies. The pool result of this work which indicates significant relationship between EPS and share prices is in contrast with findings of Muhammand & Tijjani (2011) on the study they conducted using quoted companies.

CONCLUSION

In a nut shell, the findings from this study revealed that earnings per share, price earnings ratios and dividend are crucial factors that propel the movement of share prices of oil and gas companies in Nigeria. The findings are conformity with some studies that have been conducted by other researchers in some emerging markets like ours. But the GAAP provided enough latitude for companies' management to adopt different kinds of accounting treatments which has resulted to companies within the same industry having different earnings. The results has proven that the correlation between corporate earnings and equity shares does not depend only on the positive and significant relationship, but it is economically important to be taken into consideration with due care by investors when making investment decision. Therefore, it is crystal clear to conclude based on the literature reviews and the results of this study that investors follow the trend of earnings when making investment decision.

Recommendations

Based on the outcome of the research and considering that corporate earning is one cardinal variable that is widely used by investors, the following recommendations were made:

1. Since earnings per share, price earnings ratios and dividend per share have been proven to be strong determinant of share prices movement, investors should always seek for the services of experts to help determine the intrinsic value of any company share before investing their funds;
2. Companies operating in the oil and gas sector should critically examine their dividend policies because of the weak relationship based on the t-statistic results;
3. From the relevant literatures that has been documented concerning share prices movement other variables such as; size of the firm, interest rate, net book value etc should always be taking into consideration despite these accounting variables has proven strong relationship;
4. Past trend of firms' earnings and its share prices should be taking into consideration to enable investors discover when accounting gimmicks are applied to boost earnings;
5. Regulatory bodies should engage in rigorous monitoring and scrutiny of companies' financial statements especially when quarterly earnings are announced.

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APPENDIX I

Total Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-106.0931	128.4994	0.825631	0.4406
EPS	14.48861	3.610406	4.01303	0.0070
PER	9.301775	2.595994	3.583127	0.0116
DPS	-4.067930	6.635395	-0.613065	0.5623

R^2=0.858981;
R^2 – Adjusted =0.788471
F-Statistic =12.18245 P.V. = 0.005800
SER=13.91653
Durbin-Watson=1.998741
Source: see regression result

APPENDIX II

Conoil Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-67.65315	9.406756	7.191974	0.0004
EPS	18.32006	3.211153	5.705136	0.0013
PER	3.474562	0.18860	18.41409	0.0000
DPS	0.047111	3.448000	0.013663	0.9895

R^2=0.982782
R^2- Adjusted=0.974173
F – Statistic=114.1583 P.V. 0.000011
SER=5.830424
Durbin-Watson Stat. = 2.287360
Source: see regression result

APPENDIX III
Conoil Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-67.65315	9.406756	7.191974	0.0004
EPS	18.32006	3.211153	5.705136	0.0013
PER	3.474562	0.18860	18.41409	0.0000
DPS	0.047111	3.448000	0.013663	0.9895

R^2=0.982782
R^2- Adjusted=0.974173
F – Statistic=114.1583 P.V. 0.000011
SER=5.830424
Durbin-Watson Stat. = 2.287360
Source: see regression result

APPENDIX IV
Forte oil Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-0.832356	83.80183	-0.009932	0.9927
EPS	10.60269	8.293912	1.278371	0.2911
PER	1.978886	1.287429	1.537083	0.2219
DPS	15.55992	16.87890	0.921856	0.4246

R^2 =0.687856
R^2 – Adjusted=0.375712
F-Statistic=2.203650; P=0.266567
SER=98.20106
Durbin-Watson stat. =2.404164
Source: see regression result

APPENDIX V
Mobil oil Nigeria Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-98.33649	42.27033	-2.326371	0.0589
EPS	11.03573	3.952082	2.792385	0.0315
PER	6.001743	0.669736	8.961353	0.0001
DPS	5.493204	4.050842	1.356065	0.2239

R^2=0.955467
R^2Adjusted=0.933200
F-Statistic =42.91042P. =0.000190
SER =17.20642
Durbin-Watson stat. =1.896838
Source: see regression result

APPENDIX VI
MRS oil Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-69.50262	23.58692	-2.946659	0.0320
EPS	14.15676	3.752375	3.772746	0.0130
PER	3.198500	0.743186	4.303767	0.0077
DPS	8.609973	3.351154	2.569257	0.0501

R^2=0.956653
R^2=0.930645
F-Statistic=36.78281 P. = 0.000784
SER =13.82601
Durbin-Watson stat. =2.464950
Source: see regression result

APPENDIX VII
Oando oil Plc. Regression result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-16.76107	15.75032	-1.058459	0.3383
EPS	8.425632	1.446816	5.823570	0.0021
PER	2.181550	0.508971	4.286201	0.0078
DPS	0.634856	4.102534	0.154747	0.8831

R^2=0.908383
R^2 Adjusted=0.853413
F-Statistic=16.52509 P. 0.005003
SER=10.75761
Durbin-Watson stat. =0.98460
Source: see regression result

APPENDIX VIII
Pooled regression result of the six companies

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-639.0642	424.0702	-1.506977	0.1825
EPS	6.155147	6.824961	0.901858	0.4019
PER	2.486796	0.938758	2.649027	0.0381
DPS	33.25782	17.95828	1.851949	0.1135

R^2 =0.708902R^2
Adjusted= 0.563353
F-Statistic=4.870544 P=0.047676
SER=175.3157
Durbin-Watson stat. =2.308066
Source: see regression result