“The impact of dividends, cash flow, and earnings on equity valuation of listed firms in Nigeria”

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THE IMPACT OF DIVIDENDS, CASH FLOW, AND EARNINGS ON EQUITY VALUATION OF LISTED FIRMS IN NIGERIA

Abstract

This study investigates the influence of dividends, cash flow, and earnings on equity valuation within publicly traded companies in Nigeria from 2019 to 2023, a timeframe characterized by macroeconomic volatility, currency devaluation, and regulatory changes. Utilising panel data from 22 enterprises across various industries and employing fixed effects regression models, this study aims to determine which financial determinants have the most substantial impact on equity valuation. The research results provide evidence of earnings having a significant positive relationship with equity valuation and a strong correlational figure (coefficient = 3.52, $p < 0.01$). This proves that they are one of the major factors affecting valuation. On the other hand, free cash flow and dividend payments had a negative but statistically finite impact ($p > 0.05$), indicating that the impact on the investor's valuation decision is weakened during times of economic uncertainty. Moreover, equity value also positively depends on firm size. Additionally, the value of R-squared, 0.98 in the fixed effects model, shows a high level of dependability of the analysis conducted. Based on these findings, the study suggests that to improve market valuation, Nigerian firms should focus on long-term, sustainable earnings growth and strategic reinvestment, rather than dividend payments. These results provide important insight for policymakers, business leaders, and investors who struggle with emerging market valuation in countries like Nigeria.

Keywords dividend, cashflow, earnings, equity valuations, Nigeria

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INTRODUCTION

In the context of Nigeria's dynamic and progressively transforming financial environment, the assessment of equity is an indispensable instrument for both institutional and individual investors, influencing investment methodologies and informing corporate governance. In light of persistent macroeconomic volatility, inflationary dynamics, currency fluctuations, and regulatory changes, the understanding of the fundamental financial metrics that affect stock valuations has become increasingly important. Among these metrics, dividend policy, cash flow, and earnings emerge as critical factors in determining corporate value. Both scholars and practitioners recognize that decisions regarding dividends have a substantial effect on investor perceptions and market valuations, wherein increased dividends typically correlate with elevated stock prices, whereas reductions may provoke negative market responses (Nianty et al., 2023; Puspa et al., 2023; Ontorael et al., 2024). In this context, stock price functions as an indicator of corporate financial vitality and strategic efficacy (Tran, 2024; Uwuigbe, 2013). Furthermore, in this milieu, liquidity and immediate financial indicators are increasingly favored over static book values, as they furnish more prompt and pertinent insights for valuation determinations (Fang et al., 2009).

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Equity valuation functions as a fundamental component of academic finance through asset evaluation and pricing strategies, while demonstrating essential relevance to Nigeria's capital market, which faces challenges from market volatility and investor doubts about standard valuation methods. Investor decisions remain heavily influenced by the longstanding debate over dividend policy. Dividend policy remains hotly debated in corporate finance because some researchers (Uwuigbe et al., 2012) see dividends as vital for share price stability, while Brealey et al. (2005) question their lasting benefits. The economic challenges Nigeria currently faces have intensified the need for quick profit through dividends, which makes studying their effects on stock prices more important now.

Similarly, the analysis of cash flow, particularly free cash flow, holds paramount significance in comprehending a firm's operational resilience and investment potential. As articulated by Schweser (2008), enterprises operate as "cash processors," wherein the proficient generation and distribution of cash may act as a more dependable performance metric than earnings considered in isolation. Empirical investigations highlight the increasing importance of free cash flow in influencing investor anticipations and propelling market valuation (Lang et al., 1991; Al Zararee & Al-Azzaw, 2014; Ontorael et al., 2024). Nonetheless, in emerging economies such as Nigeria, where valuation frameworks are rendered complex due to frail institutional structures, political volatility, and erratic investor behavior, the influence of dividends, cash flow, and earnings on equity pricing remains ambiguous and insufficiently examined.

The financial landscape of Nigeria, defined by the irregularity of commodity prices, fluctuations in exchange rates, and the highly sensitive nature of investor behavior, poses considerable obstacles to the proficient application of traditional equity valuation frameworks (Habib, 2004). In times of economic downturn, the projected future value of dividends tends to be significantly diminished, resulting in a stark disparity between the intrinsic value of firms and their current market valuations. These discrepancies are exacerbated by political instability and sudden policy shifts, which intensify investor unpredictability and often lead to a misalignment between market responses and the fundamental performance metrics of firms. Given these circumstances, the current study examines the influence of dividends, cash flow, and earnings on the equity valuation of publicly traded companies in Nigeria. By contextualising conventional valuation approaches within Nigeria's unstable and intricate economic milieu, this research aspires to produce actionable, empirically grounded insights that enhance valuation precision, inform investment choices, and guide policy formulation in developing and transitional financial markets.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This section explores Dividend Irrelevance Theory, Agency Costs Theory of Dividend Policy, Bird-In-The-Hand Theory, and Signaling Theory, providing insights into stock valuation dynamics and their impact on corporate finance. Also, a comprehensive examination of the scholarly literature is conducted concerning the significance of dividends, cash flow, and earnings in assessing equity valuation and investment decision-making within the context of developing economies.

Dividend Irrelevance Theory: Under this theory, Miller and Modigliani (1961) opine that a company's dividend policy does not impact its stock value in a perfect market without taxes, transaction costs, or information loopholes. The theory suggests that value is determined by profitability and asset risk, with investors establishing their dividends through share sales (Penman & Sougiannis, 1997; Puspitaningtyas, 2019). However, this theory is often criticised for its impracticality. Furthermore, it neglects the integrated roles of dividends, cash flow, and earnings in valuation, cutting its pertinence in modern financial markets (Raed, 2020).

Agency Costs Theory of Dividend Policy: Miller and Modigliani (1961) contend that dividends tend to cut managerial mismanagement of free cash flow, helping align management with shareholder interests, especially in firms with separated ownership (Raed, 2020; Rimintsiwa, 2022; Hunjra, 2018). Elevated payouts imply sturdy governance and investor conviction (Shimko, 2024; Santosa et al., 2022; Hand, 2005). However, the theory overlooks the broader impact of dividends on cash flow, earnings, and equity valuation, limiting its real-world applicability amidst alternative governance mechanisms.

Bird-In-The-Hand Theory: According to Gordon (1959, 1963), Lintner (1962), Lintner (1964), and Shaban (2023), the theory posits that investors desire the certainty of dividends over uncertain future gains, believing higher dividends moderate investment risk and develop firm value. This perspective proposes that firms with substantial dividend payouts are further desirable to investors, implying higher valuations (Penman & Sougiannis, 1998). However, the theory is criticized for generalizing investor behavior, as it does not fully explain information asymmetry, the signaling effect of dividend announcements, or the multifaceted connections between profits, cash flow, and stock value in modern financial markets.

Signaling Theory: The theory of Dividends indicates that dividend alterations suggest information about a company's financial strength, especially in cases of information irregularity (Penman, 1998; Rees, 2005). Higher dividends indicate deep future performance, while cuts may signify financial disruption (Khan, 2013; Fernandes, 2013; Raed, 2020). This impacts investor judgment and stock valuation (Tran, 2024), though its effectiveness depends on market conditions and other financial disclosures. This theory finds relevance in the Nigerian capital market as a consequence of the existing information asymmetry. The deficiency of prompt and dependable information accessible to investors compels them to depend on dividends as indicators of corporate performance. An escalation in dividend disbursement denotes the management's positive outlook regarding the firm's prospective earnings and cash flow, whereas a reduction signifies financial distress. In contexts characterized by inadequate governance, these financial metrics, including dividends, earnings, and cash flows, function as strategic communication mechanisms rather than as mere outcomes. Signaling theory aligns with the perspective that actions exert influence on investor perceptions. Empirical research indicates that these signals significantly affect equity valuations. This substantiates the theory's applicability in elucidating the dynamics of the stock market in Nigeria. Moreover, it underscores the critical role of financial policies in mitigating uncertainty. Consequently, signaling theory serves as an appropriate framework for examining corporate behavior in emerging markets.

This section examines the scholarly literature concerning the significance of dividends, cash flow, and earnings in the assessment of equity valuation and investment decision-making in developing economies. It systematically analyzes previous empirical studies that utilize these fundamental financial metrics to evaluate corporate performance, while placing particular emphasis on the critical function of cash flow in maintaining financial sustainability and the influence of earnings quality on stock valuation (Fama & French, 1988; Smith & Watts, 1992; Rozeff, 1982). Furthermore, it elucidates how these financial indicators are indispensable in assisting investors in appraising firms' stability, profitability, and potential for long-term growth. Additionally, it identifies the existing gaps in the literature regarding the impact of these financial indicators on investment strategies and corporate governance in the context of emerging economies. Ultimately, the review elucidates variability-based triggers, such as earnings volatility, and examines how alterations in regulatory frameworks and economic recessions affect equity valuation in the Nigerian capital market. In light of the inherent volatility characteristic of developing economies, this study underscores the necessity for a novel model for equity valuation within Nigeria. By synthesizing recent empirical findings, this review not only consolidates the current body of literature but also accentuates the imperative for further research aimed at enhancing valuation models and investment decision processes. From the analysis, it can be deduced that dividends, cash flow, and earnings are pivotal in the valuation of equities; however, their implications differ within the developing economy, thereby necessitating customized financial analysis methodologies in Nigeria.

The intricate link between dividends, cash flow, earnings, and equity valuation has been scrutinized primarily in developed markets where the analytical focus centers around earnings, sup-

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ported by models like the Dividend Discount Model (DDM) or Discounted Cash Flow (DCF). Smith (2010) and Jones (2015) highlight the importance of earnings and DCF implementation in the U.K., while Lee and Shin (2018) note that traditional metrics continue to hold value in stronger market ecosystems. However, these studies focus on the differences within mature economies, using frameworks that do not account for emerging economies, such as their unique conditions. Specifically, many of these studies ignore the volatility, gaps in institutions and regulations, along with assuming market efficiency and steady state investor behavior. Equally important, but often missed, is the absence of context that includes sector volatility, frameworks of governance, domestic understanding, and institutional weakness of countries like Nigeria.

To fill this gap, this study proposes a valuation model tailored to Nigeria's capital market environment. The study tries to merge traditionally defined finance with the more peculiar features of the economy and the institutions to enhance the accuracy and relevance of equity valuation in emerging markets. This model has important implications for investors, policymakers, and scholars seeking to understand and engage with the challenges of firm valuation in developing countries. This approach builds on the work of earlier studies that recognized the importance of dividends, earnings, and other characteristics of the firms doing the valuation, but were too narrow in their focus or methodological approach. As an example, in a related research paper, Saomi et al. (2025) investigate the impact of financial performance metrics, encompassing liquidity, solvency, and profitability, on corporate valuation. Dividend policy acts as a mediating variable, utilizing manufacturing firms in Indonesia as the empirical sample for the period 2017–2022. A quantitative research methodology, incorporating regression analysis and path analysis, is employed in the study. The findings indicate that all financial performance metrics have a positive influence on both dividend policy and corporate valuation. Furthermore, dividend policy is also found to have a positive impact on corporate valuation. Nevertheless, the influence of financial performance on corporate valuation is not mediated by dividend policy. This suggests that the relationship between financial performance and corporate valuation is direct. A significant limitation of this study lies in the exclusion of external or non-financial factors, such as governance or market conditions, which may also play a role in the mediation of dividend policy.

Osaretin and Abiodun (2025) investigate how dividend policy affects firm value in Nigeria's manufacturing sector, using data from 2010 to 2018. Their analysis shows that higher dividend payouts and dividends per share are linked to increased firm value. They also find that leverage has mixed effects: debt-to-equity improves firm value, while debt-to-asset reduces it. The authors conclude that although dividends can enhance value, financing them through excessive debt may reduce this benefit, so firms must strike a balance. However, the study is limited by its small sample size, traditional methodology, and lack of consideration for modern valuation factors like market volatility and non-financial performance. Despite these gaps, the study adds useful insight into dividend policy in emerging markets

Simanjuntak et al. (2025) conducted an empirical investigation into the influence of operational efficiency, dividend policy, and corporate sustainability on the financial performance of 63 firms that report on Environmental, Social, and Governance (ESG) criteria and are listed on the Indonesia Stock Exchange in 2023. The study employed a quantitative correlational research design and utilized the Statistical Package for the Social Sciences (SPSS) for data analysis. The findings revealed that only the dividend policy exhibited a positive and statistically significant influence on financial performance, whereas operational efficiency and corporate sustainability did not demonstrate a significant impact on financial performance when considered independently. Nonetheless, the collective effect of all three variables was found to have a significant influence on financial performance when analyzed simultaneously. A notable limitation of the study is its focus on a singular year and exclusively on ESG-compliant firms, which constrains the broader applicability of the findings and may overlook variations in performance outcomes over the long term or across different sectors.

Wambura and Kimanzi (2025) conducted an empirical investigation to ascertain whether the influence of capital structure on financial performance, as measured by Return on Equity (ROE), is moderated by dividend policy among six agricultural firms listed on the Nairobi Securities Exchange from 2013 to 2022. Employing stepwise regression analysis alongside Baron and Kenny's framework for moderation, the authors determined that capital structure accounted for 21% of the variance in ROE, which increased to 23% upon the incorporation of dividend policy. The authors observed that while debt exhibited a negative correlation that was not statistically significant, share capital demonstrated a statistically significant negative relationship, and retained earnings indicated a statistically significant positive relationship. The moderating effect of dividend policy was found to be negatively correlated yet not statistically significant. The constraints of the limited sample size and the sector-specific nature of the findings restrict the broader applicability of the results.

A substantial body of literature recognizes the importance of dividends, cash flows, and earnings in equity valuation, particularly through models like the Dividend Discount Model (DDM), Discounted Cash Flow (DCF), and earnings-based valuation frameworks. These financial indicators are foundational in assessing a firm's health and forecasting future performance, forming the theoretical backbone of equity valuation in global financial markets. Studies such as those by Lang et al. (1991) and Berkman et al. (2002) emphasize their relevance, particularly in environments with strong reporting standards and institutional efficiency.

Gabriel (2022), in related research, investigated the influence of dividend policy on the financial performance of six publicly traded oil and gas enterprises in Nigeria during the period from 2009 to 2021. Employing panel regression analysis, the study revealed that leverage, earnings per share, and risk exert a positive and statistically significant effect on performance (assessed through ROA and ROE), whereas dividend per share and liquidity demonstrate a negative and significant effect. The research concludes that dividend distributions may adversely affect financial performance within the sector and advocates for the retention of earnings to augment firm value. Nevertheless, the restricted sample size and specific sector focus limit the applicability of the results. Mollah et al. (2021) and Chen et al. (2019) emphasize the importance of cash flow and earnings in setting dividend policies and company valuation. Mollah et al. (2021) argue that corporations with higher cash flow levels are better positioned to maintain continuous dividend payouts, as robust cash flows signal sustainable operational performance. Rising earnings enhances dividend payouts, leading to increased stock prices, as investors view such corporations as financially solid and capable of long-term growth. Chen et al. (2019) also support this, highlighting the role of earnings stability in driving dividend increases. Both studies highlight the direct influence of financial performance criteria on investor sentiment and stock market results, but larger market comparisons are needed for a more comprehensive worldwide perspective.

Launtu (2021) examined the relationship between cash flow and dividend policy on manufacturing firms listed on the Indonesia Stock Exchange. The study utilized a purposive sampling method to analyze data from 10 manufacturing firms in the period 2009–2013 using multiple linear regression. The study showed that both cash flow and dividend policy have a positive and significant effect on firm value. The research concluded that positive cash flows and consistent dividends improve investors' perception and equity valuation. However, the study is limited to the manufacturing sector and does not consider external variables such as market conditions or governance. Abu-Abbas (2021) investigates the predictive role of dividends on equity valuation by analyzing their impact on net earnings, cash flows, and abnormal earnings using regression and Diebold-Mariano tests across 216 GCC firms from 2006–2016. The study finds that dividends significantly predict these financial indicators, with net earnings showing the strongest informational value, particularly over short-term horizons. However, it overlooks the influence of retained earnings and internal reinvestments, presenting a gap for future research on comprehensive valuation drivers.

Bhatt and Jkashok (2012) found that EPS significantly impacts equity market value in India, with a high association between EPS and stock prices. However, the study's small sample size and timing limit its application, and a larger dataset and more recent data could better understand its impact in dynamic and emerging markets. In Nigeria, Uwuigbe et al. (2012) evaluated the finan-

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cial performance and dividend payment relationship of 50 publicly listed companies and found a positive correlation. However, they acknowledged other limitations, such as a smaller sample size, which diminishes the generalizability of their results. Similarly, Uwuigbe et al. (2015) found that in Nigeria, larger and fast-growing firms are more likely to manage earnings. Firm size and growth increase discretionary accruals, while leverage has no significant effect. The study shows that earnings management drivers differ by context and that regulators should focus more on big, growth-oriented firms in emerging markets. Likewise, Clout et al. (2015) noted a persistent drop in the relevance of earnings due to earnings manipulation within U.S. companies, while Honarbakhsh et al. (2013) determined that market value was influenced by dividend policy in Iran, with firm size acting as a moderating factor. Nonetheless, these studies tend to overlook more general context variables such as macroeconomic factors, governance systems, and their market activity. They ignore the fact that Nigeria's capital market is characterized by volatility coupled with institutional weaknesses. A more traditional approach that relies on the concept of market efficiency fails to adequately explain the situation. A context-sensitive approach is, therefore, necessary. This study aims to fill the gap by using both financial-centric approaches and nuanced contextual approaches to improve equity valuation models for policymakers and researchers in emerging markets.

Smith (2010) emphasizes American leadership regarding earnings valuation, while Jones (2015) attributes the United Kingdom's late adoption of these practices to deep-rooted market conservatism. Both noted marked resistance towards the dividend discount and discounted cash flow (DCF) model because of difficulties with cash flow forecasting. Lee and Shin (2018) argue that older methods, such as dividend yield, are still pertinent in conservative markets. However, their research does not address the impact of specific legal frameworks and the state of the economy on these valuation models. Further exploration into the inadequacies of the DCF in turbulent markets, paired with examining differences between developed and developing countries, may shed light on why certain traditional methodologies continue to be valued. Vélez-Pareja (2009) asserted that dividends represent robust equity valuation metrics, contributing both short-term and long-term value. The research underscores that current net earnings are more apt for safeguarding dividend policy than cash flows or atypical earnings. While the study emphasizes the significance of dividends in forecasting stock prices, its concentration on the Gulf Cooperation Council (GCC) region may restrict broader relevance. In a similar vein, Cheng et al. (2007) investigated the impact of SFAS 106 on earnings and firm valuation, highlighting that transitional obligations influence earnings but do not affect value relevance. Investors appear to gravitate towards book value over one-time charges, indicating a convergence in perceptions of financial stability. Although SFAS 106 enhances the relevance of earnings, the limited scope of the study necessitates further exploration of financial reporting standards. Hand and Landsman (2005) noted that dividends serve as indicators of management's private information regarding potential profitability, retaining their value even within firms that exhibit deficient signaling incentives. Employing cross-sectional sampling and regression analysis, they argue that dividends primarily mitigate agency costs. However, the expectations articulated in the study may not be universally applicable across diverse markets and firms. Aivazian et al. (2003) argue that in emerging markets, profitable firms with high cash flows but low investment opportunities use dividends to signal financial strength. This claim is supported by Uwuigbe et al. (2012), who argue that in Nigeria, the dividend policy has a noticeable impact on share prices. However, both studies focus on the profitability-dividend link, overlooking other crucial factors such as market risk, economic volatility, and overall investor confidence, which are particularly pertinent in developing economies like Nigeria.

Penman (1998) and Sloan (1996) highlight earnings as a key indicator of equity value, but overgeneralization and reliance on analysts' forecasts raise concerns in high-growth sectors. Mehta and Bhattacharya (2018) averred that earnings, specifically earnings per Share (EPS), play a crucial role in equity estimation. Studies have shown that firms with practical earnings have higher valuations (Onsongo et al., 2020). However, the focus on positive earnings may overlook the limited effect of negative or neutral earnings, limiting their pertinence. This highlights the importance of earnings in stock valuation, particularly in emerging markets.

Empirical studies emphasized the significance of dividends, cash flow, and earnings in equity valuation, especially in developing economies. Nonetheless, concerns about generalizability and the need for deeper analysis continue. This research provides solutions to this lacuna by examining their interplay using quantitative methods, providing insights for investors, policymakers, and scholars. The extant body of scholarly literature concerning equity valuation methodologies within the Nigerian economic context is currently beset by a multitude of constraints, which this academic paper aims to comprehensively address and rectify. To begin with, a significant proportion of the prior research efforts have been predicated upon the utilization of outdated datasets, limited sample sizes, and have inexplicably failed to take into account critical variables such as regulatory uncertainty, market volatility, economic instability, and the pervasive issue of information asymmetry. Furthermore, the existing models that are currently in use exhibit a pronounced lack of contextual flexibility and are generally ill-suited for application within the unique characteristics of the Nigerian market environment. The primary objective of this scholarly investigation is to systematically tackle the aforementioned challenges by formulating a more adaptive valuation model that is capable of accurately reflecting the influences of institutional dynamics, macroeconomic conditions, and behavioral factors that are pertinent to Nigeria's market when assessing the value of firms operating within the country. This endeavor is anticipated to yield significant theoretical and practical implications for a diverse array of stakeholders, including investors, policymakers, and fellow researchers engaged in this field of study. Moreover, it is noteworthy to mention that empirical evidence concerning the interrelations of dividends, cash flow, and earnings factors specifically within the Nigerian context has remained alarmingly sparse. Therefore, the distinctive contribution of this study lies in its intention to address this critical gap in the literature by employing quantitative methodologies to meticulously explore the impact of these pivotal factors on the Nigerian market landscape.

1.1. Hypothesis development

To achieve the objectives of this study, the hypotheses have been presented in their null forms, as derived from the literature.

H_{01}: *Firms' dividend payout ratio does not significantly affect equity valuation.*

H_{02}: *There is no significant relationship between free cash flows and equity valuation.*

H_{03}: *Profit after tax does not have any significant impact on equity valuation.*

2. MATERIAL METHODS

This study investigates the influence of dividends, cash flow, and earnings on the equity valuation of publicly listed companies in Nigeria, situated within the context of the nation's economic adversities from 2019 to 2023. Throughout this timeframe, various global disturbances adversely affected corporate finance and investor behavior. Such disturbances encompassed the COVID-19 pandemic, fluctuations in oil prices, inflationary pressures, and currency depreciation, which collectively exerted detrimental impacts on the corporate financial landscape. Furthermore, the prevailing macroeconomic instability prompted reforms within the Nigerian Exchange Group (NGX) aimed to foster enhanced transparency and bolster investor protection. In light of this context, the study investigates the influence of financial metrics, specifically dividends, cash flow, and earnings, on equity valuation within a fluctuating economic environment.

The study employs purposive sampling to select 22 publicly traded companies spanning 11 sectors of the NGX, thereby enhancing the validity and generalizability of the results. These sectors encompass banking, industrial goods, consumer goods, oil and gas, telecommunications, healthcare, insurance, agriculture, construction, services, and technology. The selection of two firms from each sector facilitated the study's capacity to capture a cross-sectional representation of Nigeria's corporate financial milieu and render its findings applicable across various sectors. A linear regression

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model was utilized to explore the relationship between the independent variables (dividends, cash flow, and earnings) and the dependent variable (equity valuation), with firm size incorporated as a control variable. The study is underpinned by the theoretical framework posited by Duke et al. (2015), which delineates the impact of dividend policy on share price. The mathematical regression model serves to illuminate the influence of financial constructs on equity valuation, thereby generating an empirical framework that elucidates how these constructs affect valuation outcomes. The model specification outlines the mathematical relationship between these constructs, as expressed in the equation.

$$EV = f\left(Dividend,\ Cash\ flow,\ Earnings\right). \quad (1)$$

The Econometric Model specification can be stated as follows:

$$EV_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 FCF_{it} + \beta_3 PAT_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it}, \quad (2)$$

where the dependent variable *EV* – Equity value (the variable that the model aims to explain), independent variables *DIV* – Dividend Payout Ratio, *FCF* – Free Cash Flow (metric that indicates the cash available for distribution among all security holders), *PAT* – Profit after tax (reflects the company's profitability), control Variable *FSIZE* – Firm Size (firm size is appropriate as it can influence both dependent and independent variables.), ε_{it} – Error Term, β_o – Represents the intercept, β_1, β_2, β_3, β_4 – Regression coefficients (also called beta coefficients) that represent the magnitude and direction of the relationship between each independent variable and the dependent variable, *i* – Firms (cross-section dimension), *t* – Years (time-series dimension).

3. RESULTS AND DISCUSSION OF FINDINGS

Table 2 elucidates essential insights into the financial and operational intricacies of corporations, presenting significant implications for both investors and regulatory authorities. The mean equity value of 8.8 indicates that numerous firms exhibit considerable market capitalization, implying a robust investor confidence and a relatively developed investment milieu. Nonetheless, the negative mean free cash flow of –7.8 signifies potential liquidity difficulties and inefficiencies in managing operational cash resources, raising apprehensions regarding firms' capacity to internally finance activities without dependence on external capital.

Table 1. Model specification

S/N	Variables	Measurements	A priori sign
1	EV	Equity value	
2	DIV	Dividend Payout Ratio	+
3	FCF	EBIT less capital expenditure, add Non-cash expenditure	+
4	EPS	Profit after taxes for the year has been deducted	+

Table 2. Descriptive statistics

Source: Researchers' computation (E-VIEWS 7) 2024.

Descriptive Measures	EQUITY	FCF	DIV	EARNINGS	FSIZE
Mean	8.76E+10	–7.78E+09	0.444541	1.85E+10	10.48498
Median	6.34E+09	97625000	0.319767	5.38E+08	10.22499
Maximum	7.97E+11	2.55E+11	4.705882	2.01E+11	12.67576
Minimum	–1.46E+08	–4.76E+11	–2.38806	–3.82E+09	8.717741
Std. Dev.	1.79E+11	7.36E+10	0.769698	4.32E+10	1.047537
Skewness	2.379053	–2.84454	2.616217	2.76036	0.412756
Kurtosis	7.586458	20.69247	18.08418	9.942119	2.13585
Jarque–Bera	194.7185	1539.86	1136.477	350.7431	6.367506
Probability	0.000000	0.000000	0.000000	0.000000	0.041430
Sum	9.37E+12	–8.33E+11	47.56586	1.98E+12	1121.893
Sum Sq. Dev.	3.38E+24	5.74E+23	62.79807	1.97E+23	116.3174
Observations	107	107	107	107	107

The average dividend payout ratio of 0.44 embodies a judicious strategy that balances shareholder returns with the retention of earnings, indicating prudent financial stewardship that can foster both investor contentment and opportunities for reinvestment. Concurrently, the mean earnings of 1.9 validate overall profitability, albeit likely accompanied by significant variability among firms, which accentuates the heterogeneous character of the market and the necessity for firm-specific examinations. Ultimately, the average firm size of 10.5 denotes a market landscape predominantly characterized by large enterprises, which may reap the benefits of economies of scale and stability but simultaneously underscore the imperative for inclusive policies that facilitate support for smaller entities. Collectively, these observations furnish a multidimensional perspective on firm vitality, steering more informed investment choices and assisting policymakers in confronting structural market challenges.

The empirical analysis delineated in Table 3 provides an exhaustive investigation into the complex interrelations among critical financial variables and their repercussions for stock valuation and corporate financial strategy. A statistically significant inverse correlation between equity and free cash flow (r = –0.226877, p = 0.0188) indicates that enterprises exhibiting elevated equity levels frequently confront liquidity constraints. These constraints may arise from capital-intensive operational frameworks, long-term reinvestment agendas, or suboptimal cash management methodologies that limit the availability of short-term cash. This scenario underscores the necessity of synchronizing equity growth with effective liquidity administration to preserve operational adaptability and bolster investor trust.

In contrast, a substantial positive correlation between equity and earnings (r = 0.952854, p = 0.0000) corroborates the assertion that enduring profitability substantially fortifies a firm's equity foundation and, consequently, its market valuation. This observation suggests that the augmentation of earnings is pivotal in strategic financial management and the enhancement of shareholder value. Nevertheless, the feeble and statistically non-significant association between free cash flow and dividends (r = 0.041486, p = 0.6714), as well as between free cash flow and earnings (r = –0.121624, p = 0.2120), indicates that dividend distributions and operational cash flows may be swayed by extraneous factors, such as strategic objectives or prevailing market sentiments.

Furthermore, the negative correlation between firm size and free cash flow (r = –0.228881, p = 0.0177) implies that larger enterprises, notwithstanding their magnitude, may encounter liquidity limitations attributable to heightened overhead and investment demands. Conversely, a strong positive correlation between earnings and firm size (r = 0.663341, p = 0.0000) reinforces the premise that larger firms generally exhibit superior rev-

Table 3. Correlation analysis

Source: Researchers' computation (E-VIEWS 7) 2024.

Correlation *t*-statistics probability	Equity	FCF	DIV	Earnings	FSIZE
Equity	1.000000				
	–				
	–				
FCF	–0.226877	1.000000			
	–2.387040	–			
	0.0188	–			
DIV	0.085509	0.041486	1.000000		
	0.879424	0.425473	–		
	0.3812	0.6714	–		
Earnings	0.952854	–0.121624	0.083632	1.000000	
	32.17842	–1.255597	0.859986	–	
	0.0000	0.2120	0.3918	–	
FSIZE	0.746998	–0.228881	0.158644	0.663341	1.000000
	11.51345	–2.409291	1.646465	9.083347	–
	0.0000	0.0177	0.1027	0.0000	–

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enue generation and sustained profitability. Lastly, the tenuous associations between dividends and both earnings (r = 0.083632, p = 0.3918) and firm size (r = 0.158644, p = 0.1027) illuminate the intricacies inherent in the formulation of dividend policy, which may be influenced more by strategic discretion than by immediate financial performance. Collectively, these findings accentuate the critical roles of earnings and firm size in value creation while simultaneously identifying the imperative for more effective cash flow management and a nuanced comprehension of the determinants of dividend policy.

Table 4 summarizes the results of a fixed-effect panel regression analysis, showing that around 98% of the variation in equity valuation is explained by the independent variables, as indicated by an R-squared value of 0.980268. Earnings have a strong positive relationship with equity valuation (t-statistics of 7.584850), suggesting that higher earnings significantly increase equity value. In contrast, cash flow (FCF) and dividends have negative relationships with equity valuation (t-statistics of –1.346907 and –0.166293), indicating they do not enhance equity value in this context. Firm size (FSIZE) also shows a positive relationship (t-

Table 4. Regression analysis: Panel OLS (fixed effect)

Source: E-views Output (2024).

Variable	Coefficient	Std. Error	t-Statistic	Probability
EARNINGS	3.515690	0.463515	7.584850	0.0000
FCF	–0.059957	0.044514	–1.346907	0.1818
DIV	–6.97E+08	4.19E+09	–0.166293	0.8683
FSIZE	1.49E+11	3.17E+10	4.707256	0.0000
C	–1.54E+12	3.30E+11	–4.675939	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.980268	Mean dependent variable	8.76E+10	
Adjusted R-squared	0.974178	S.D. dependent variable	1.79E+11	
S.E. of regression	2.87E+10	Akaike info criterion	51.20541	
Sum squared resid	6.67E+22	Schwarz criterion	51.85488	
Log likelihood	–2713.489	Hannan–Quinn criterion	51.46869	
F-statistic	160.9587	Durbin–Watson statistics	1.407528	
Prob (F-statistic)	0.000000			

Table 5. Regression analysis: Panel OLS (random effect)

Source: E-views Output (2024).

Variable	Coefficient	Std. Error	t-Statistic	Probability
EARNINGS	3.395195	0.195098	17.40249	0.0000
FCF	–0.088951	0.042884	–2.074203	0.0406
DIV	–2.54E+08	4.08E+09	–0.062322	0.9504
FSIZE	3.74E+10	8.39E+09	4.461276	0.0000
C	–3.69E+11	8.59E+10	–4.294703	0.0000
Effects Specification				
Rho SD				
Cross-section random			2.88E+10	0.5026
Idiosyncratic random			2.87E+10	0.4974
Weighted Statistics				
R-squared	0.852412	Mean dependent var	3.57E+10	
Adjusted R-squared	0.846624	S.D. dependent var	8.06E+10	
S.E. of regression	3.16E+10	Sum squared resid	1.02E+23	
F-statistic	147.2777	Durbin–Watson statistics	0.919138	
Prob (F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.935543	Mean dependent var	8.76E+10	
Sum of squared residuals	2.18E+23	Durbin–Watson statistics	0.430728	

statistics of 4.707256), indicating larger firms tend to have higher market valuations. The model is statistically significant, with a Prob(F-statistic) of 0.000000, confirming the overall impact of the independent variables on equity valuation.

Leveraging the fixed effect panel estimation findings, as depicted in Table 5, shows a strong explanatory power, with an R-squared of 0.852, indicating that the predictors explain 85% of the variability in equity valuation. The result reveals that earnings (EARNINGS) and firm size (FSIZE) significantly and positively impact equity valuation, emphasizing their critical role in determining market value (*p = 0.0000* for both variables). In contrast, free cash flow (FCF) exhibits a small but significant adverse effect on equity valuation (*p = 0.0406*), suggesting potential concerns about cash flow management. The dividend payout ratio (DIV) is statistically insignificant (*p = 0.9504*), indicating minimal direct influence on equity valuation.

To test whether the unique errors (individual effects) are correlated with the regressors. As seen in the random and fixed effects, the Hausman test was conducted. As depicted in Table 6, the Hausman test shows a Chi-Square statistic of 26.253388 and a p-value of 0.0000, indicating a statistically significant outcome, leading to the rejection of the random effects model. This confirms that the fixed effects model is more suitable, as it accounts for unobserved heterogeneity correlated with the independent variables, ensuring more reliable context-specific results for the analysis.

The findings delineated in Table 7 provide an exhaustive examination of the correlation between essential financial metrics and equity valuation. The adjusted R-squared statistics, approximating 0.9742, suggest that nearly 97% of the fluctuations in equity valuation can be elucidated by the independent variables incorporated within the analytical framework. This extraordinarily elevated explanatory capability signifies a robust model fit, implying that the selected financial indicators proficiently encapsulate the principal determinants affecting equity value. Nonetheless, despite the model's apparent resilience, it is imperative to recognise that additional external factors not integrated into the model may still exert influence over firm valuation.

Concerning the specific hypotheses, the initial hypothesis (H_{01}), which contends that the dividend payout ratio does not exert a significant impact on

Table 6. Hausman test (correlated random effects – Hausman test)

Source: E-views Output (2024).

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Probability
Cross-sectional random effects	26.253388	4	0.0000

Table 7. Hypotheses testing

Source: E-views Output (2024).

Variable	Coefficient	Std. Error	t-Statistic	Probability
EARNINGS	3.515690	0.463515	7.584850	0.0000
FCF	–0.059957	0.044514	–1.346907	0.1818
DIV	–6.97E+08	4.19E+09	–0.166293	0.8683
FSIZE	1.49E+11	3.17E+10	4.707256	0.0000
C	–1.54E+12	3.30E+11	–4.675939	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.980268	Mean dependent var	8.76E+10	
Adjusted R-squared	0.974178	S.D. dependent var	1.79E+11	
S.E. of regression	2.87E+10	Akaike info criterion	51.20541	
Sum squared resid	6.67E+22	Schwarz criterion	51.85488	
Log likelihood	–2713.489	Hannan–Quinn criterion	51.46869	
F-statistic	160.9587	Durbin–Watson statistics	1.407528	
Prob (F-statistic)	0.000000			

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equity valuation, is substantiated by the findings. The coefficient for the dividend payout variable is recorded at −6.97, associated with a t-statistic of −0.1663 and a p-value of 0.868, thereby leading to the endorsement of the null hypothesis. This indicates that dividend policy lacks a statistically significant effect on equity valuation, corroborating conclusions drawn from previous scholarship (Tran, 2024; Uwuigbe et al., 2012). These findings suggest that investors may not consider dividends as a pivotal element in assessing firm value, instead prioritising alternative financial metrics.

In a similar vein, the second hypothesis (H_{02}), which posits that free cash flows (FCF) do not significantly influence equity valuation, is likewise upheld. The FCF variable presents a coefficient of -0.05996 along with a p-value of 0.1818, thus warranting the acceptance of the null hypothesis. This result agrees with Simons (1994), although it stands in contrast to the findings of Tehrani and Hesarzade (2009) and Mehrani and Bagheri (2009), who identified FCF as a significant factor. Conversely, the third hypothesis (H_{03}), which asserts that profit after tax does not significantly sway equity valuation, is emphatically repudiated. The variable earnings yield a coefficient of 3.5157, accompanied by a t-statistic of 7.5848 and a p-value of 0.0000, thereby affirming that earnings exert a robust and statistically significant influence on equity value. This observation aligns with the findings of Estridge and Lougee (2007) and accentuates the essential role of profitability in shaping firm valuation. Ultimately, the results accentuate the significance of earnings and firm size as pivotal determinants of equity value, in stark contrast to the limited impact of dividend payout and free cash flow.

CONCLUSION

This study investigates the determinants of firm value within Nigeria's capital market, analyzing panel data from 22 listed firms from 2019 to 2023. Employing a fixed-effects panel regression model, the analysis reveals that earnings, specifically profit after tax, constitute the most potent and statistically significant driver of firm valuation. The strong positive relationship indicates that investors in this emerging market primarily anchor their valuation decisions on earnings performance, interpreting it as a credible signal of operational strength and long-term financial sustainability. This finding underscores a fundamental shift towards earnings-based appraisal among market participants.

Contrary to traditional finance theory, the study finds that dividends and free cash flow exhibit negative, albeit statistically insignificant, effects on firm value. This result suggests a behavioral shift where investors discount short-term liquidity metrics and payout commitments in favor of the quality and persistence of earnings. This preference is likely shaped by the volatile macroeconomic context, characterized by inflationary pressures and foreign exchange instability, which elevates the perceived reliability of sustainable profitability over transient cash flows or distribution policies. The collective findings point to an evolution in the Nigerian market towards a more fundamentals-driven valuation framework.

The implications of these findings are significant for corporate strategy and market regulation. Firms should prioritize sustainable earnings generation through operational efficiency and value-creating investments over liquidity-focused management. For regulators, such as the SEC and NGX, this underscores the urgency of reinforcing earnings quality standards and corporate governance to ensure transparency and align managerial actions with long-term value creation. Investors, in turn, must recalibrate their valuation models to emphasize earnings sustainability. This study thus advocates for a sustainability-oriented valuation paradigm in Nigeria, centered on earnings quality, robust governance, and long-term financial viability.

POLICY IMPLICATIONS OF THE STUDY

This study highlights that earnings, rather than dividends or free cash flows, are the primary drivers of equity valuation among listed firms in Nigeria, suggesting a critical policy shift for regulators and stakeholders. Policymakers such as the SEC and NGX should prioritize frameworks that enhance earnings quality, transparency, and sustainable profitability through improved corporate governance, financial reporting standards, and incentives for strategic reinvestment. By focusing less on dividend mandates and more on promoting long-term earnings growth, these policies can strengthen investor confidence, improve market efficiency, and foster a more resilient Nigerian capital market.

FUTURE RESEARCH

This study is limited in scope as it only focuses on listed firms in the stock market, excluding non-listed firms. Future research could explore dividend policies' impact on non-listed companies and global trends, providing valuable insights into equity valuation.

AUTHOR CONTRIBUTIONS

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Writing – review & editing: Uwalomwa Uwuigbe, Uwuigbe Olubukunola, Damilola Eluyela, Osman Issah, Alex Adegboye, Saidu Musa.

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APPENDIX A

Table A1. Summary of selected samples of companies

S/N	Sectors	Number	Sample Listed Companies
1	Financial Sector	2	Zenith Bank and Access Bank
2	Oil and Gas	2	Total Nigeria and Forte Oil Plc
3	Consumer Goods	2	Nigerian Breweries Plc and Guinness Nigeria Plc
4	Service	2	Transcorp Hotels Plc and Nigerian Aviation Handling Company Plc
5	Natural resources	2	Thomas Wyatt Nig. Plc and Multiverse Mining and Exploration Plc
6	Industrial Goods	2	Berger Paints PLC and Dangote Cement
7	Conglomerates	2	Chellarams Plc and AG Leventis Nigeria Plc
8	Construction and Real Estate	2	Julius Berger Nig Plc and Skye Shelter fund Plc
9	Information Communication Technology (ICT)	2	Chams Plc and Couterville Business Solutions Plc
10	Health Care	2	Pharma Deko Plc and Neimeth International Pharmaceuticals Plc
11	Agriculture	2	Presco Plc and Livestock Feeds Ltd.

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